

**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 September 28, 2019
- 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 American 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 .

Based on the closing price of the registrant's common stock of \$22.22 as quoted by the NYSE American on March 29, 2019, which is the last business day of the registrant's most recently completed second quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$137.0 million. Solely for purposes of this disclosure, shares of common stock held by executive officers and directors of the registrant as of such date have been excluded because such persons may be deemed to be affiliates.

The number of outstanding shares of the registrant's common stock was 6,921,417 as of November 14, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's Annual Meeting of Shareholders is currently scheduled for February 6, 2020. Portions of the registrant's Proxy Statement for its annual meeting are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission ("SEC") within 120 days of the registrant's fiscal year ended September 28, 2019.

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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 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 “plan”, “estimate”, “project”, “forecast”, “anticipate”, “expect”, “intend”, “seek”, “believe”, “may”, “should” and similar expressions, and discussions of strategy or intentions, are intended to identify forward-looking statements.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current 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 subject to a number of business risks and inherent uncertainties, any of which could cause actual results to differ materially from those set forth in or implied by the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in forward-looking statements include, among others, the following:

- the volatility and uncertainty of cotton and other raw material prices and availability;
- 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;
- 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 and trends;
- our ability to successfully open and operate new retail stores in a timely and cost-effective manner;
- changes in economic, political, social or climatic stability at our offshore locations;
- significant interruptions or disruptions within our manufacturing or distribution facilities or other operations;
- our ability to attract and retain key management;
- 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, fuel and related costs;
- material disruptions in our information systems related to our business operations;
- compromises of our data security;
- significant litigation in either domestic or international jurisdictions;
- recalls, claims and negative publicity associated with product liability issues;
- the ability to protect our trademarks and other intellectual property;
- the impairment of acquired intangible assets;
- changes in international trade regulations;
- our ability to comply with trade regulations;
- changes in employment laws or regulations or our relationship with employees;
- foreign currency exchange rate fluctuations;
- negative publicity resulting from violations of manufacturing standards or labor laws or unethical business practices by our suppliers and independent contractors;
- the illiquidity of our shares; and
- price volatility in our shares and the general volatility of the stock market.

A detailed discussion of significant risk factors that have the potential to cause actual results to differ materially from our expectations is set forth in Part 1 under the subheading "Risk Factors." Any forward-looking statements in this Annual Report on Form 10-K 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 on Form 10-K, and we do not undertake to publicly update or revise the forward-looking statements, except as required by the federal securities laws.

Part I

Item 1. Business

Overview

Delta Apparel, Inc. (collectively with DTG2Go, LLC, Salt Life, LLC, M.J. Soffe, LLC, and other subsidiaries, "Delta Apparel," "we," "us," "our," or the "Company") is a vertically-integrated, international apparel company. With approximately 8,500 employees worldwide, we design, manufacture, source, and market a diverse portfolio of core activewear and lifestyle apparel products under our primary brands of Salt Life®, COAST®, Soffe®, and Delta. We are a market leader in the direct-to-garment digital print and fulfillment industry, bringing DTG2Go technology and innovation to the supply chain of our customers. We specialize in selling casual and athletic products through a variety of distribution channels and tiers, including outdoor and sporting goods retailers, independent and specialty stores, better department stores and mid-tier retailers, mass merchants and e-retailers, the U.S. military, and through our business-to-business ecommerce sites. Our products are also made available direct-to-consumer on our websites and in our branded retail stores. This diversified distribution allows us to capitalize on our strengths to provide our activewear and lifestyle apparel products to a broad and evolving customer base whose shopping preferences may span multiple retail channels.

We design and internally manufacture the majority of our products. More than 90% of the apparel units that we sell are sewn in our owned or leased facilities. This allows us to offer a high degree of consistency and quality, leverage scale efficiencies, and react quickly to changes in trends within the marketplace. We have manufacturing operations located in the United States, El Salvador, Honduras, and Mexico, and we 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.

Through several acquisitions, we became a diversified branded apparel company with well-recognized brands in our portfolio, expanded product offerings, broadened distribution channels and customer reach, and increased leverage of our vertical manufacturing platform. We continue to monitor and evaluate our portfolio, making strategic acquisitions or exiting markets as needed to support our long-term growth and profitability goals.

We were incorporated in Georgia in 1999, and our headquarters is located in Greenville, South Carolina. We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. All references to "2019" and "2018" relate to the 52 week fiscal years ended on September 28, 2019, and September 29, 2018, respectively. Our common stock trades on the NYSE American under the symbol "DLA." We are filing as a smaller reporting company for our 2019 fiscal year end as our public float was less than the \$250 million threshold on the last day of our second quarter.

We make available copies of materials we file with, or furnish to, the SEC free of charge at <https://ir.deltaapparelinc.com>. 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, or via email at investor.relations@deltaapparel.com.

Segments, Products, Brands, and Customers

Our operations are managed and reported in two segments, Delta Group and Salt Life Group, which reflect the manner in which the business is managed and results are reviewed by the Chief Executive Officer, who is our chief operating decision maker.

Delta Group

The Delta Group is comprised of the following business units primarily focused on core activewear styles: Delta Activewear (encompassing our core Delta Catalog business and FunTees private label business), DTG2Go, and Soffe.

Delta Activewear

Delta Activewear has been a preferred supplier to the market for core basic tee shirts for many years. Our Delta Pro Weight® and Magnum Weight® products are a huge part of our heritage. These lines offer a diverse selection of mid-weight and heavier-weight, 100% cotton fabrications. We also provide innovative products like our Delta Soft, Delta Dri performance, Ringspun, and Fleece lines. After decades of being a key source for casual and sport basics done right, three years ago we decided to expand our industry-leading brand and raised the bar even higher with the introduction of the Delta Platinum line. Our 'cut above the rest' collection provides a fresh, fashionable edge to Delta's product assortment. More luxurious in look and feel, Platinum silhouettes take their refined attitude uptown, downtown, to brunch, to the office and anywhere in between. Service is a key component of Delta Activewear. We provide superior service to our customers by shipping the same day of order receipt down to a piece level, allowing customers to purchase exactly what they need when they need it. We are also excited to be offering a seamless solution for small-run decoration needs with our on-demand digital print services, powered by DTG2Go. Through our FunTees business, we serve our customers as their supply chain partner, from product development to shipment of their branded products, with the majority of products being sold with value-added services including embellishment, hangers, hangtags and ticketing, so that they are ready for retail sale to the end consumers. We assist our customers in managing their production and inventory needs and provide technology tools to help them manage and grow their business. We sell our products to a diversified audience, including sporting goods retailers, large licensed screen printers, specialty and resort stores, and ad-specialty and promotional products businesses. We also service major branded sportswear companies, trendy regional brands, retailers, and sports-licensed apparel marketers.

DTG2Go

We are a market leader in the direct-to-garment digital print and fulfillment industry, bringing technology and innovation to the supply chain of our many customers. We use highly-automated factory processes and our proprietary software to deliver on-demand, digitally printed apparel direct to consumers on behalf of our customers. Utilizing its seven fulfillment facilities throughout the United States, DTG2Go offers a robust digital supply chain to ship custom graphic products within 24 to 48 hours to consumers in the United States and to over 100 countries worldwide. DTG2Go services the fast-growing e-retailer channels, as well as the ad-specialty, promotional products, screen print, traditional retail, social media, and licensed apparel marketplaces, among others.

Soffe

Founded in 1946, Soffe is an iconic, heritage brand that designs and produces high quality activewear for spirit makers and record breakers. Soffe sells a wide range of activewear products for women, men, juniors and children with appealing graphics anchored in today's trends. Widely known for the original "cheer short" with the signature roll-down waistband, Soffe also offers spirit wear and team wear that outfits cheerleaders, dancers, and gymnasts around the world. Intensity by Soffe leads the way in female fit, fashion-forward team uniforms and features the first female-fit fast pitch pant, in addition to practice gear and accessories. Layered with Soffe's female presentation are styles that seamlessly transition from studio to street-wear for all day comfort. Soffe's heritage is anchored in the military, and we continue to be a proud supplier to both active duty and veteran United States military personnel worldwide. The men's assortment features the tagline "anchored in the military, grounded in training" and offers everything from physical training gear certified by the respective branches of the military, classic base layers that include the favored 3-pack tees, and the iconic "ranger panty." We apply graphics to Soffe activewear using screen print and digital print technology in our North Carolina facility. Soffe has diverse distribution channels which include all military branches, as well as big box and independent sporting goods retailers, department stores, team dealers, school uniform suppliers, and specialty stores. We also offer our Soffe products direct to consumers at www.soffe.com and at our branded retail stores.

Salt Life Group

The Salt Life Group is comprised of our lifestyle brands focused on a broad range of apparel garments, headwear and related accessories to meet consumer preferences and fashion trends, and includes our Salt Life and Coast business units.

Salt Life

Salt Life is an authentic, aspirational lifestyle brand that embraces those who love the ocean and all it offers, from surfing, fishing, and diving to beach fun and sun-soaked relaxation. The Salt Life brand combines function and fashion with a tailored fit for the active lifestyles of those that "live the Salt Life." With increased worldwide appeal, Salt Life continues to expand its product assortment outside of apparel, now offering swimwear, sunglasses, bags, and accessories as well as its own craft beer, Salt Life Lager. From its first merchandise offerings in 2006, Salt Life has grown distribution to include surf shops, specialty stores, department stores, and outdoor retailers to complement our own network of branded retail stores. In 2019, we upgraded the Salt Life ecommerce site at www.saltlife.com to a new technology platform, providing our customers a seamless, omni-channel experience with the Salt Life brand.

Coast

Offering a full line of premium casual apparel, Coast is as much a testament to good times and carefree afternoons as it is to superior quality, custom fit, and maximum comfort. The Coast collection is designed to bring the coastal experience of weekends and summers at the beach to everyday life, keeping those that celebrate the relaxed, yet sophisticated coastal lifestyle fully connected, year-round. Coast Apparel is available direct to consumer through our branded retail locations and our ecommerce site at www.coastapparel.com.

See Note 13 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operation" for additional information regarding reportable segments.

Manufacturing, Sourcing, and Distribution

The vast majority of our products are manufactured or sewn in facilities that we own or lease and operate to support both the Delta Group and Salt Life Group. To a lesser extent, we also use third-party contractors and suppliers to supplement our requirements. Our vertically integrated manufacturing operations include a textile facility and sew and decoration facilities.

Our manufacturing operations begin with the purchase of yarn and other raw materials from third-party suppliers. We have operated with a supply agreement with Parkdale Mills, Inc. and Parkdale America, LLC (collectively "Parkdale") to supply our yarn requirements since 2005, with our existing agreement running through December 31, 2021. Under the supply agreement, we purchase all of our yarn requirements for use in our manufacturing operations from Parkdale, 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, as reported by the New York Cotton Exchange, plus a fixed conversion cost. We set future cotton prices with purchase commitments as a component of the purchase price in advance of the shipment of finished yarn from Parkdale.

We manufacture fabrics in our leased textile facility located near San Pedro Sula, Honduras. 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. In fiscal years 2019 and 2018, we manufactured over 80% of fabrics used in our internally-produced garments. The manufacturing process continues at one of our six apparel manufacturing facilities where fabric is cut and sewn into finished garments. These owned or leased facilities are located domestically (two in North Carolina) and internationally (two in Honduras, one in El Salvador and one in Mexico). In fiscal years 2019 and 2018, approximately 90% or more of our manufactured products were sewn in our owned or leased manufacturing facilities. The remaining products were sewn by third-party contractors located primarily in the Caribbean Basin. To supplement our internal manufacturing platform, we purchase products from third-party global suppliers. In fiscal years 2019 and 2018, we sourced less than 20% of our total products from third parties.

Many of the garments will be decorated using a screen printing or digital printing technology as well as retail-packaged, including ticketing, hang tags, and hangers. These services can be performed domestically for quick-turn service or internationally in our facilities in El Salvador and Mexico. We offer digital fulfillment services, powered by DTG2Go, at seven domestic facilities, including three such facilities that are integrated with Delta Group distribution centers. These facilities support our strategy of establishing integrated fulfillment locations that combine our DTG2Go state-of-the-art digital platform with our Delta Activewear business's supply of fashion and core basic garments. Furthermore, these facilities create a seamless nationwide footprint allowing us to reach over half of all U.S. consumers with one-day shipping.

At fiscal 2019 year end, we operated ninedistribution 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, and we aggressively leverage our strengths and efficiencies to meet the quick-turn needs of our customers. Because a significant portion of our business consists of at-once replenishment, we believe that backlog order levels do not provide a general indication of future sales.

See Item 2. Properties for more information about each of our primary manufacturing and distribution facilities.

Sales & Marketing

Our sales and marketing functions consist of both employed and independent sales representatives and agencies located throughout the country. Our sales teams service specialty and boutique shops, upscale and traditional department stores, mid-tier retailers, sporting goods stores, e-retailers and the U.S. military. Our brands leverage both in-house and outsourced marketing communication professionals to amplify their lifestyle statements.

The majority of our apparel products are produced based on forecasts to permit quick shipments to our customers; however, our private label programs are generally made only to order. During fiscal year 2019, we shipped our products to approximately 9,000 customers, many of whom have numerous retail "doors." No single customer accounted for more than 10% of our sales in fiscal years 2019 or 2018, 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 1% in both fiscal years 2019 and 2018.

Trademarks and License Agreements

We own several well-recognized trademarks that are important to our business. Salt Life® is an authentic, aspirational lifestyle 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. 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. While our strategy is to own the intellectual property we use within our business, the Soffe business unit is an official licensee for branches of the United States military. We believe these license agreements are important given the military heritage of Soffe.

Competition

As a vertically-integrated apparel company, we have numerous competitors with respect to the manufacturing and sale of apparel products in both domestic and international markets, many of which are larger and have more brand recognition and greater marketing budgets. Some of these competitors may benefit from lower production costs that can result from greater operational scale, a differing supply chain footprint, or trade-related agreements and other macroeconomic factors that may enable them to compete more effectively.

Competition in our Delta Group segment is generally based upon price, service, delivery time, and quality with the relative importance of each factor dependent upon the needs of the particular customer 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. We believe our Western Hemisphere-centered manufacturing platform enables us to compete with our competitors by providing an outlet for customers to diversify their sourcing footprints and reduce time to market. Furthermore, as an integrated entity with design, manufacturing, sourcing, and marketing capabilities, we believe the interdependencies within our portfolio provide cost, quality, and speed to market advantages that enable us to be more competitive.

We believe that competition within our Salt Life Group segment is based primarily upon brand recognition, design, and consumer preference. We focus on sustaining the strong reputation of our lifestyle 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.

Seasonality

Although our various product lines are sold on a year-round basis, the demand for specific products or styles reflects some seasonality. By diversifying our product lines over the years, we have reduced the overall seasonality of our business. Sales in our third fiscal quarter (quarter ended in June) are typically the highest and represented 27% of fiscal year 2019 net sales. Our first fiscal quarter (quarter ended in December) typically is the lowest and represented 24% of fiscal year 2019 net sales. 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 2019 may not be indicative of the distribution in future years.

Employees and Social Responsibility

As of September 28, 2019, we employed approximately 8,500 full time employees, of whom approximately 1,150 were employed in the United States. A total of approximately 3,150 employees at two of our facilities in San Pedro Sula, Honduras, are party to multi-year collective bargaining agreements. 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 to have the working conditions in all of our facilities meet or exceed the standards imposed by governing laws and regulations. All of our manufacturing facilities in Honduras, El Salvador and Mexico are Worldwide Responsible Accredited Production (WRAP) certified. We are a Category C affiliate with the Fair Labor Association (FLA), which 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/or charitable organizations in 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 very small quantities of hazardous waste, which are either recycled or disposed of off-site.

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.

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.

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 “Business—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. In the past, the Company, and the apparel industry as a whole, has experienced increases in cotton prices and price volatility that we were unable to pass through to our customers, with the higher cost of cotton negatively impacting the gross margins in our Activewear and other businesses by significant amounts.

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.

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 business and results of operations.

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 the related accessory and other items we provide 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. Many of our competitors have larger sales forces, stronger brand recognition among consumers, bigger advertising budgets, and greater economies of scale. We compete with these companies primarily on the basis of price, quality, service and brand recognition, all of which are important competitive factors in the apparel industry. Our ability to maintain our competitive edge depends upon these factors, as well as our ability to deliver new products at the best value for the customer, maintain positive brand recognition, and obtain sufficient retail floor space and effective product presentation at retail. 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 repurchases under our share 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 September 28, 2019, 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.

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, disruption in the apparel retail environment, or the inability 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 consolidations, restructurings, bankruptcies and liquidations. The inability of retailers and other customers to overcome these difficulties may continue or even increase due to the current economic and retail market conditions. We maintain an allowance for doubtful accounts for potential credit losses based upon current conditions, historical trends, estimates and other available information, which involves judgments and uncertainties, 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, merchandising and/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 the related accessory and other items we provide. We believe that our brands are recognized by consumers across many demographics and geographies. The popularity, supply and demand for particular products can change significantly from year-to-year based on prevailing fashion trends (particularly in our lifestyle businesses) 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 strategy to grow our direct-to-consumer business depends upon our ability to successfully open and operate new stores in a timely and cost-effective manner. Our strategy to grow our “brick and mortar” retail footprint depends on many factors including, among others, our ability to: identify desirable store locations; negotiate acceptable lease terms; hire, train and retain a growing workforce of store managers, sales associates and other personnel; successfully integrate new stores into our existing control structure and operations, including our information technology systems; and coordinate well with our ecommerce platforms and wholesale customers to minimize the competition within our sales channels.

If we expand into new geographic areas, we will need to successfully identify and satisfy the consumer preferences in these areas. In addition, we will need to address competitive, merchandising, marketing, distribution and other challenges encountered in connection with any expansion. Finally, we cannot ensure that any newly-opened stores will be received as well as, or achieve net sales or profitability levels comparable to those of, our existing stores in our estimated time periods, or at all. If our stores fail to achieve, or are unable to sustain, acceptable net sales and profitability levels, our business overall may be materially harmed and we may incur significant costs associated with closing or relocating stores.

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 concentrations in Honduras and El Salvador. 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. Governments have changed, and may continue to change, and employment, wage and other laws and regulations may change, thereby increasing our costs to operate in those countries. 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. For example, in fiscal year 2018, our operations in and around San Pedro Sula, Honduras, were partially disrupted by the protests, unrest and government action associated with the November 2017 presidential elections in Honduras. These disruptions temporarily restricted the ability of our employees and suppliers to access our manufacturing facilities as well as our ability to ship products from our facilities, and negatively impacted our operations from a cost standpoint. In fiscal year 2019, our Honduran operations experienced disruptions of a similar nature that were smaller in scope than those occurring in fiscal year 2018.

If we experience disruptions or interruptions within any of our facilities, operations, or distribution networks, we may be unable to deliver our products to the market and may lose sales and customers. 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 certain third-party locations. Any casualty or other circumstance that damages or destroys any of these material facilities or significantly limits their ability to function could have a material adverse effect on our business. 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. Moreover, in the event of a regional disruption where we manufacture our products, we may not be able to shift our operations to a different geographic region, and we may have to cease or curtail our operations in a selected area. This may cause us to lose sales and customers. The types of disruptions that may occur include foreign trade disruptions, import restrictions, labor disruptions, embargoes, government intervention, natural disasters, regional pandemics and political disruptions such as those referenced in the immediately-preceding risk section. 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.

The talents and continued contributions of our key management are important to our success.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 and to execute our business strategy. Our inability to accomplish any of these goals could have a material adverse effect on our results of operations.

Changes in U.S. or other tax laws or regulations may cause us to incur additional tax liability.We are subject to income tax in the United States and in certain foreign jurisdictions where 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 jurisdictions or foreign jurisdictions with tax rates that are lower than those in the United States. 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 are considered permanently reinvested. Our effective tax rate could be adversely affected by changes in the mix of earnings between the U.S. and tax-free or lower-tax foreign jurisdictions.

In addition, further changes to U.S. tax laws impacting how U.S. multinational corporations are taxed on foreign earnings could also have a material adverse effect on our tax expense and cash flow. The December 22, 2017 Tax Cuts and Jobs Act of 2017 (the "New Tax Legislation") significantly revised the U.S. corporate income tax code by, among other things, lowering federal corporate income tax rates, implementing a modified territorial tax system and imposing a repatriation tax ("transition tax") on deemed repatriated cumulative earnings of foreign subsidiaries. In addition, new taxes were imposed related to foreign income, including a tax on global intangible low-taxed income ("GILTI") as well as a limitation on the deduction for business interest expense ("Section 163(j)"). GILTI is the excess of the shareholder's net controlled foreign corporations ("CFCs") net tested income over the deemed tangible income. The Section 163(j) limitation does not allow the amount of deductible interest to exceed the sum of the taxpayer's business interest income, 30% of the taxpayer's adjusted taxable income, and the taxpayer's floor plan financing interest expense for the year. The future impact of the New Tax Legislation may differ from historical amounts, possibly materially, due to, among other things, changes in interpretations and assumptions made regarding the New Tax Legislation, guidance that may be issued, and actions we may take as a result of the New Tax Legislation.

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. In addition, certain of the variable rate indebtedness extended to us uses the London Interbank Offered Rate (LIBOR) as a benchmark for establishing the interest rate. Recent regulatory reform efforts may cause LIBOR to cease to exist, new methods of calculating LIBOR to be established, or the use of an alternative reference rate(s). These consequences are not entirely predictable and could have an adverse impact on our financing costs, returns on investments, valuation of derivative contracts and our financial results.

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.

Energy, fuel and related 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, reputational harm, or loss of revenue.We depend on information systems to, among other things, manage our inventory, process transactions, operate our websites, respond to customer inquiries, purchase, sell and ship goods on a timely basis, and maintain cost-effective operations. Management uses information systems to support decision-making and to monitor business performance. If we experience any disruptions or slowdowns with our information systems, we may fail to generate accurate and complete financial and operational reports essential for making decisions at various levels of management, which could lead to decisions being made that have adverse results. We have invested significant capital and expect future capital expenditures associated with the implementation and 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 implement or convert our operations to the new systems could cause delays in product fulfillment and reduced efficiency in our operations. Further, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose customers. We are also subject to risks and uncertainties associated with the internet, including changes in required technology interfaces, website downtime and other technical failures. Our failure to successfully respond to these risks and uncertainties could reduce sales, increase costs and damage the reputation of our brands. In addition, we interact with many of our customers through our websites. Customers increasingly utilize our online platforms to purchase our merchandise. If we are unable to continue to provide consumers a user-friendly experience and evolve our platforms to satisfy consumer preferences, the growth of our ecommerce and other businesses and our sales may be negatively impacted. If our websites contain errors or other vulnerabilities which impede or halt service, it could result in damage to our brands' images and a loss of revenue. In addition, we may experience operational problems with our information systems as a result of system failures, "cyber-attacks," computer viruses, security breaches, disasters or other causes. Any material disruption or slowdown of our information systems could cause operational delays and increased costs that could have a material adverse effect on our business and results of operations.

Compromises of our data security could lead to liability and reputational damage. In the ordinary course of our business, we often collect, retain, transmit, and use sensitive and confidential information regarding customers and employees and we process customer payment card and check information. There can be no assurance that we will not suffer a data compromise, that unauthorized parties will not gain access to personal information, or that any such data compromise or access will be discovered in a timely manner. Further, the systems currently used for transmission and approval of payment card transactions, and the technology utilized in payment cards themselves, all of which can put payment card data at risk, are determined and controlled by the payment card industry, not by us. Our computer systems, software and networks may be vulnerable to breaches (including via computer hackings), unauthorized access, misuse, computer viruses or other failures or disruptions that could result in disruption to our business or the loss or theft of confidential information, including customer information. Any failure, interruption, or breach in security of these systems, could result in the misappropriation of personal information, payment card or check information or confidential business information of our company. In addition, there may be non-technical issues, such as our employees, contractors or third parties with whom we do business or to whom we outsource business operations may attempt to circumvent our security measures in order to misappropriate such information, and may purposefully or inadvertently cause a breach involving such information.

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 other malicious software code, or human error or malfeasance, could occur. Actual or anticipated attacks may cause us to incur significant costs to rectify the consequences of the security breach or cyber-attack, including costs to deploy additional personnel and protection technologies, repair damage to our systems, train employees and engage third-party experts and consultants. The collection, retention, transmission, and use of personal information is subject to contractual requirements and is highly regulated by a multitude of state, federal, and foreign laws. 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. Any compromise of our customer, employee or company data, failure to prevent or mitigate the loss of personal or business information, or delay in detecting or providing prompt notice of any such compromise could attract media attention, damage our customer or other business relationships and reputation, result in lost sales, fines, liability for stolen assets or information, costs of incentives we may be required to offer to our customers or business partners to retain their business, significant litigation 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.

As disclosed in our Quarterly Report on Form 10-Q filed May 6, 2019, we previously confirmed that unauthorized malware intrusions of our system may have exposed customer payment information as it was being entered to make a purchase at one of our consumer ecommerce websites. We removed the malware associated with the intrusions from our system and took actions to secure our website by working with recognized data security experts to conduct a thorough investigation of the incident and implement additional measures designed to build stronger protections against future incidents of this nature. This, or any compromise of security or cyber-attack, could deter consumers from entering into transactions that require them to provide confidential information to us in the future. In addition, if confidential customer information was misappropriated from our computer systems, we could be sued by those who assert that we did not take adequate precautions to safeguard our systems and confidential data belonging to our customers or business partners, which could subject us to liability and result in significant legal fees and expenses in defending these claims. While we do not currently believe that we experienced any material losses related to this incident, there can be no assurance that this or any other incident will not have a material adverse effect on our business, prospects, financial condition 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 or enforcement matters. 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.

Product liability issues could lead to recalls, claims and negative publicity, and adversely affect our results of operations. Our operations are subject to certain product liability risks common to most brands and manufacturers and our ability to maintain consumer confidence in the safety and quality of our products is vital to our success. We have implemented product safety and quality programs and standards that we follow and we expect our supplier partners to strictly adhere to applicable requirements and best practices. In addition to selling apparel and accessory products, we participate in a joint venture involving the sale of a branded alcoholic beverage, and we also license one of our brands for use in connection with restaurant, food and beverage services. Selling products intended for human consumption carries inherent risks and uncertainties. If we or our supplier or license partners fail to comply with applicable product safety and quality standards and our products or those otherwise associated with our brands are, or become, unsafe, non-compliant, contaminated or adulterated, we may be required to recall our products and encounter product liability claims and negative publicity. Any of these events could adversely affect our reputation, business or results of operations.

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®, Softe®, 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. Intellectual property litigation may be costly and may divert management's attention from the operation of our business. Adverse determinations in any litigation may result in the loss of our proprietary rights, subject us to significant liabilities or require us to seek licenses from third parties, which may not be available on commercially reasonable terms, if at all. Any of these outcomes may have a material adverse effect on our financial condition, results of operations or cash flows.

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 September 28, 2019, and September 29, 2018, our goodwill and other intangible assets were approximately \$59.5 million and \$53.7 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 complete our annual impairment test of goodwill on the first day of our third fiscal quarter. For fiscal year 2019, we concluded based on the valuation estimates that there was no indication of 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.

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 its anticipated successor agreement, the U.S.-Mexico-Canada Agreement ("USMCA"), as well as the Central America Free Trade Agreement ("CAFTA"). Our claims for duty free or reduced duty treatment under CAFTA, NAFTA/USMCA 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. Fairly recent changes in the United States federal government have caused uncertainty about the future of trade partnerships and treaties, as the current administration has expressed its desire to specifically modify existing trade agreements and has imposed increased tariffs on goods imported into the United States and raised the possibility of imposing further increases to such tariffs. These tariffs have increased our costs to source certain products imported from other countries. Subsequent repeal or further modification of NAFTA/USMCA or CAFTA, further increases to tariffs on goods imported into the United States, 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.

Our failure to comply with trade and other regulations could lead to investigations or actions by government regulators and negative publicity. The labeling, distribution, importation, marketing, and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Consumer Product Safety Commission and state attorneys general in the United States. Any failure to comply with such regulations could cause us to become subject to investigation and enforcement actions resulting in significant penalties or claims or in our inability to conduct business, adversely affecting our results of operations.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act (the "FCPA") and other anti-bribery laws applicable to our operations. In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other U.S. and foreign laws and regulations applicable to us. Although we have implemented procedures designed to ensure compliance with the FCPA and similar laws, some of our agents or other channel partners, as well as those companies to which we outsource certain of our business operations, could take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.

Changes in domestic or foreign employment regulations or changes in our relationship with our employees could adversely affect our results of operations. As of September 28, 2019, we employed approximately 8,500 employees worldwide, with approximately 7,350 of these employees located 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. Increases in wage rates in the countries in which we operate have occurred, and any further significant increases in wage rates in those countries could have a material adverse impact on our operating results. A total of approximately 3,150 employees at two of our facilities in San Pedro Sula, Honduras, are party to multi-year collective bargaining agreements. We have historically conducted our operations without significant labor disruptions and believe that our relations with our employees are generally good. However, a change in labor relations could adversely affect the productivity and ultimate cost of our manufacturing operations.

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. 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 has led and could continue to lead to our shares trading at prices that are significantly lower than our estimate of their inherent value.

As of November 14, 2019, we had 6,921,417 shares of common stock outstanding. We believe that approximately 48% 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 48% are institutional investors that beneficially own more than 5% of the outstanding shares. These institutional investors own approximately 33% 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.

Item 1B. Unresolved Staff Comment

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 manufacturing, distribution, direct retail, and administrative activities. The majority of our products are manufactured through a combination of facilities that we either own or lease and operate. The following listing summarizes the significant categories as of September 28, 2019:

	Owned	Leased	Other	Total
Manufacturing	2	6	—	8
Distribution ¹	2	3	2	7
Decoration/distribution ²	1	4	—	5
Retail stores/showroom	—	12	—	12
Administrative	—	5	—	5
Total	5	30	2	37

¹ At September 28, 2019, we operated within a third party logistics distribution center in Dallas, TX. In October 2019, operations were moved to a company-leased facility in the surrounding area. In addition, we began operations in a new company-leased facility in October 2019 in Columbus, OH.

² In our first quarter of fiscal year 2020, we began operations in two additional digital decoration and distribution facilities in Cranberry, NJ and Lewisville, TX. This results in three DTG2Go facilities that are integrated with Delta Activewear distribution centers.

Our primary manufacturing as of September 28, 2019, are as follows:

Name	Location	Utilization	Segment
Ceiba Textiles	Naco, Quimistan, Santa Barbara Honduras	Knit/dye/finish/cut	Delta Group
Honduras Plant	San Pedro Sula, Honduras	Sew	Delta Group
Cortes Plant	San Pedro Sula, Honduras	Sew	Delta Group
Campeche Plant	Seybaplaya, Campeche Mexico	Cut/sew	Delta Group/Salt Life Group
Campeche Sportswear	Campeche, Mexico	Decoration	Delta Group/Salt Life Group
Textiles LaPaz	La Paz, El Salvador	Cut/sew/decoration	Delta Group
Fayetteville Plant	Fayetteville, North Carolina	Cut/sew/decoration	Delta Group/Salt Life Group
Rowland Plant	Rowland, North Carolina	Sew	Delta Group

At our 2019 and 2018 fiscal year-ends, our long-lived assets in Honduras, El Salvador and Mexico collectively comprised approximately 32% and 41%, respectively, of our consolidated net property, plant and equipment. Our long-lived assets in Honduras comprised approximately 25% and 32%, respectively, of consolidated net property, plant and equipment. See Item 1A. Risk Factors for a description of risks associated with our operations located outside of the United States.

Our primary distribution centers, including those integrated with decoration operations, as of September 28, 2019, are as follows:

Location	Utilization	Segment
Clinton, TN	Distribution	Delta Group
Cranbury, NJ	Distribution	Delta Group
Dallas, TX	Distribution	Delta Group
Fayetteville, NC	Distribution	Salt Life Group
Fayetteville, NC, Annex	Distribution	Delta Group
Opelika, AL	Distribution	Delta Group
Santa Fe Springs, CA	Distribution	Delta Group
Clearwater, FL	Decoration/distribution	Delta Group
Sparks, NV	Decoration/distribution	Delta Group
Storm Lake, IA	Decoration/distribution	Delta Group
Fayetteville, NC	Decoration/distribution	Delta Group
Miami, FL	Decoration/distribution	Delta Group

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

At times, we are party to various legal claims, actions and complaints. There are currently no material pending legal proceedings to which we are a party or of which any of our property is subject, and we are not aware of any such proceedings that are contemplated by any governmental authority.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Shareholder 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 American under the symbol "DLA." As of November 14, 2019, there were approximately 807 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 American.

	High Sale Price	Low Sale Price
Fiscal Year 2019:		
September Quarter	\$24.30	\$18.48
June Quarter	\$24.47	\$21.00
March Quarter	\$24.99	\$17.06
December Quarter	\$19.98	\$16.11
Fiscal Year 2018:		
September Quarter	\$19.49	\$16.30
June Quarter	\$20.30	\$16.90
March Quarter	\$22.10	\$17.04
December Quarter	\$22.00	\$19.60

Dividends: Our Board of Directors did not declare, nor were any dividends paid, during fiscal years 2019 and 2018. 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 September 28, 2019, and September 29, 2018, there was \$16.1 million and \$14.7 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 14— Repurchase of Common Stock - 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.

Item 6. Selected Financial Data

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Outlook

We are pleased to deliver strong sales growth for the year, including growth in both our Delta Group and Salt Life Group segments. Our gross margins expanded sequentially through the year, and we leveraged our growth to deliver solid profitability for our shareholders. Our investments in new manufacturing technologies, speed-to-market distribution strategies, and additional sales channels continue to generate growth opportunities across our businesses and differentiate us from competitors. We see a variety of strategic growth opportunities across our business, and our team remains focused on the initiatives we have in place to take advantage of them. In addition to the accelerating momentum in our DTG2Go and Salt Life businesses, we will launch a full-service, vertical distributor model in our Activewear business in 2020. This will include a broad offering of nationally recognized branded products comprised of polos, outerwear, headwear and accessories. We believe this additional go-to-market strategy can become a game-changer for us and for our shareholders as it grows over time.

Through meaningful investments in manufacturing capacity, proprietary fulfillment systems, and new facilities, along with two strategic acquisitions, DTG2Go has risen as the industry leader in the digital print space. DTG2Go is the only digital print supplier in the world providing customers a seamless fulfillment solution integrated with a vertical manufacturing platform offering a reliable supply of high quality fashion and core basic garments. We continued to expand our unique positioning with the addition of two new facilities, strategically integrating DTG2Go's state-of-the-art digital print and fulfillment platform with Delta Apparel's blank garment distribution network. This model has significantly improved our speed-to-market and elevated our customer service levels with one-day shipping to over half of all U.S. consumers, including the key New York City and Dallas metropolitan markets. These facilities are now operating and accepting orders in time for the important holiday selling season. With six fewer days of holiday selling between Thanksgiving and Christmas, DTG2Go's key tenet of speed combined with our multi-facility distribution strategy should further differentiate our positioning in the marketplace. We are happy with the new polyester printing technology and see a tremendous opportunity to capitalize on demand for personalized decorated polyester garments, adding another layer of growth for our fully integrated direct-to-garment apparel printing solution. Entering fiscal year 2020 with strong business momentum, coupled with the significant increase in our capacity and value added positioning, we see a clear path to reach our goals of 20% compounded sales growth with healthy double-digit operating margins in our DTG2Go business.

Market conditions in our core Activewear business are solid, with demand for our higher-margin fashion basics products and with our Western Hemisphere manufacturing platform continuing to accelerate. We have experienced rapid expansion of our fashion basics line, particularly Delta Platinum, over the last several years with growth expected to continue in 2020 across multiple sales channels. We remain focused on building internal manufacturing capacity to satisfy the Activewear demand and better service customers with speed of delivery. The vast majority of our new product development continues to be focused on fashion basics, adding product diversification and expanding offerings across color and silhouettes. In January 2020, we will launch a full-service, vertical distributor model in our Activewear business, which will provide our customers with a broader range of product offerings of nationally recognized branded products. Our diversified sales channels coupled with cross-selling opportunities involving the DTG2Go and Soffe decoration platforms, should continue to drive new business along with valuable customer diversification. Our FunTees business recently began shipping to several new direct-to-retail customers and expects that business to continue to grow. We have been growing and diversifying our customer base at FunTees with brands and retailers who are interested in full-service supply chain management and technology, along with our manufacturing platform, which is compliant, flexible in the products and retail-ready services it can provide and, importantly, close to the United States market with nationwide distribution coverage. Overall, we anticipate more growth at Activewear as we further leverage our internal manufacturing capacity and broad distribution network.

We were pleased to see two consecutive quarters of year-over-year top and bottom-line improvement from our Soffe brand. We have continuously refined the core Soffe product line to meet customer demand, while strategically developing new products such as channel-specific graphic tee programs. Soffe's business-to-business ("B2B") and business-to-consumer ("B2C") ecommerce performance has been strong with double-digit net sales growth. This, coupled with the increased integration with our Activewear sales platform, has created momentum in this business to grow in the future.

Across our national and regional customer footprint, Salt Life has enjoyed strong growth in fiscal year 2019, and we enter the new fiscal year with solid momentum as Salt Life grows geographically with our larger accounts. Following the conversion of our www.saltlife.com ecommerce site to a new platform in the third quarter of fiscal year 2019, we have experienced strong site traffic and conversion with notable strength in mobile. We are very pleased with the site enhancements ahead of the holiday selling season, which includes improved speed, site navigation and frictionless check out, all features we expect will drive continued strong performance. Additional product categories remain an important pillar of growth for Salt Life for our wholesale partners, as well as our branded direct-to-consumer channels. The higher priced performance line continues to be well received across channels. The expansion of additional product lines, such as women shoes and accessories, are facilitating more opportunities to drive incremental floor space including point-of-sale displays and shop-in-shops. This product expansion, as well as the success of brand extensions with the ladies' swim line and Salt Life Lager, continue to broaden the brand's audience and lifestyle positioning.

We remain uniquely positioned to compete and grow profitably in today's dynamic retail environment. We are continuously focused on building our foundational capabilities and expertise to best serve our existing customers, while also attracting new customers. The diversification of our customer base and expansion of our sales channels, including the launch of our full service, vertically-integrated distributor model, remain key pillars of our success and fuels the growth we see ahead for our DTG2Go and Activewear businesses. We also enter the next fiscal year with strong momentum in our Salt Life lifestyle and brand with refreshed ecommerce and direct-to-consumer platforms.

Results of Operations

Our financial results have been presented on a generally accepted accounting principles ("GAAP") basis and, 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 sections entitled "Non-GAAP Financial Measures."

Net sales for fiscal year 2019 were \$431.7 million, up 9.2% from \$395.5 million in the prior year. Net sales growth was achieved in both the Delta Group and Salt Life Group segments. Our direct-to-consumer and business-to-business ecommerce and retail sales continued to represent a larger portion of consolidated revenue, constituting 8.1% of total net sales for the 2019 fiscal year compared to 7.6% of net sales in the prior year.

Delta Group segment net sales of \$389.1 million in fiscal year 2019 increased 9.3% over prior year results of \$356.0 million. This sales growth was primarily driven by organic sales growth in our DTG2Go digital print and fulfillment business in addition to its acquisition of Silk Screen Ink, Ltd. d/b/a Digital Print Service ("SSI") in October 2018. The segment also experienced sales growth in Delta Activewear due to continued product expansions offered to catalog customers as well as growth in new sales channels, such as direct-to-retail customers.

Salt Life Group segment net sales of \$42.7 million in fiscal year 2019 increased 8.1% over prior year results of \$39.4 million in the prior year. This sales growth was attributable to growth across multiple sales channels, including wholesale, national retailers, direct-to-consumer channels, and Salt Life Lager beer sales.

Overall gross margin for fiscal year 2019 was 19.7%, down from prior year margin of 20.7%, driven by the impact in the first half of the year of higher raw material prices and other inflationary cost increases, costs associated with product changes in the FunTees business, and the impact of acquisition and integration activities. These headwinds were partially offset by improved selling prices and favorable product mix. Note that our gross margins may not be comparable to those of other companies because some companies include costs related to their distribution network in cost of goods sold, and we exclude these costs from gross profit and instead include them in selling, general and administrative expenses.

Delta Group segment gross margins were 16.8% compared to the 17.9% in the prior year and were impacted by the items noted above in the first half of fiscal year 2019. During the second half of fiscal year 2019, Delta Group gross margins improved to 18.4%.

Salt Life Group segment gross margins remained relatively flat at 46.7% in fiscal year 2019 as the result of higher margins associated with the growth in direct-to-consumer sales channels, offset by lower margins associated with the growth of Salt Life Lager.

Fiscal year 2019 selling, general and administrative expenses were \$70.2 million, or 16.3% of sales, compared to \$67.0 million, or 16.9% of sales, in fiscal year 2018. The 60 basis point decrease in selling, general and administrative expenses is due to leveraging fixed costs with higher sales volumes, partially offset by higher distribution costs related to investments to expand facilities and improve service to our customers.

Other income includes profits related to our Honduran equity method investment, valuation changes in our contingent consideration related to the previously acquired Salt Life and DTG2Go businesses, and other matters such as litigation-related settlements. In fiscal year 2019, we recognized a discrete gain of \$1.3 million from the settlement of a commercial litigation matter. This matter related to a claim Salt Life previously filed with BP Deepwater Horizon claims fund administration that was established in connection with the 2010 oil spill off the Gulf Coast seeking damages for the impacts of the spill on the Salt Life business. In fiscal year 2019, we also recognized a discrete expense of \$2.5 million associated with the resolution of litigation stemming from The Sports Authority's March 2016 bankruptcy (see Note 15 - Commitments and Contingencies in the Consolidated Financial Statements for additional information concerning this matter). In fiscal year 2019, we recorded other income of \$0.8 million due to a net reduction in the estimate of the contingent consideration liabilities. In fiscal 2018, we recorded other expense of \$0.2 million due to a net increase in the estimate of the contingent consideration liabilities. The remainder of other income in fiscal years 2019 and 2018 is principally related to profits from our Honduran equity method investment.

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Operating income was \$15.9 million compared to \$17.4 million in the prior year. Operating income decreased by \$4.6 million in the first half of fiscal year 2019, primarily due to acquisition integration expenses, costs associated with product changes in the FunTees business, and investments in new and expanded distribution facilities. We experienced operating income expansion of \$3.1 million in the second half of the year due to net sales growth and gross margin expansion with increased sales volume and improved selling price and mix.

Delta Group operating income decreased in fiscal year 2019 by \$2.3 million to \$23.8 million, or 6.1% of net sales, compared to \$26.1 million, or 7.3% of net sales in the prior year primarily due to acquisition integration costs, FunTees product cost changes, and distribution facility investments.

Salt Life Group operating income improved by \$1.5 million in fiscal year 2019 to \$6.2 million from the prior year operating income of \$4.7 million, primarily due to growth across multiple sales channels, including the higher margin direct-to-consumer channels.

Interest expense for fiscal year 2019 increased approximately \$1.9 million to \$7.6 million, compared to \$5.7 million in fiscal year 2018. The increase is due primarily to higher average debt levels due to recent acquisitions coupled with higher interest rates in fiscal year 2019 compared to the prior year.

Our fiscal year 2019 effective income tax rate is a 5.5% compared to a rate of 89.5% in the prior year. Excluding the additional \$10.7 million of expense related to the New Tax Legislation, the adjusted effective tax rate is a benefit of 1.7% in fiscal year 2018. See Note 9—Income Taxes for more information. We benefit from having income in foreign jurisdictions that are either exempt from income taxes or have tax rates that are lower than those in the United States.

Net earnings attributable to shareholders in fiscal year 2019 was \$8.2 million, or \$1.17 per diluted share, compared with net earnings in the prior year of \$1.3 million, or \$0.18 per diluted share. Adjusting for the \$2.2 million expense, net of tax, in fiscal year 2019 associated with the resolution of The Sports Authority bankruptcy litigation as well as \$0.7 million of income, net of tax, associated with a favorable settlement of a commercial litigation matter, our adjusted net earnings for fiscal year 2019 were approximately \$9.7 million and \$1.38 per diluted share. In fiscal year 2018, after adjusting for the \$10.7 million expense due to the New Tax Legislation, our adjusted net earnings were approximately \$12.0 million and \$1.62 per diluted share.

Non-GAAP Financial Measures

We provide all information required in accordance with 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, we also provide non-GAAP information that management believes is useful to investors. We discuss adjusted net earnings attributable to shareholders and earning per share as performance measures because management uses these measures in evaluating the Company's underlying performance on a consistent basis across periods. We also believe 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 tables below reconcile net income and earnings per diluted share to adjusted net income and adjusted earnings per diluted share, (in thousands except per share data):

	Year Ended	
	September 28, 2019	September 29, 2018
Net earnings attributable to shareholders	\$ 8,242	\$ 1,337
Adjustment for tax legislation impact	—	10,664
Adjustment for commercial litigation settlement, net of tax	(698)	—
Adjustment for The Sports Authority litigation settlement, net of tax	2,168	—
Adjusted earnings attributable to shareholders	<u>\$ 9,712</u>	<u>\$ 12,001</u>
Reported diluted earnings per share	\$ 1.17	\$ 0.18
Adjustment for tax legislation impact	—	1.44
Adjustment for commercial litigation settlement, net of tax	(0.10)	—
Adjustment for The Sports Authority litigation settlement, net of tax	0.31	—
Adjusted diluted earnings per share	<u>\$ 1.38</u>	<u>\$ 1.62</u>

Liquidity and Capital Resources

Operating Cash Flows

Cash provided by operating activities in fiscal year 2019 was \$9.4 million compared to \$21.2 million for fiscal year 2018. The decrease from the prior year is due to an increase in accounts receivable from the sales growth and timing of those sales occurring during the fourth quarter of fiscal year 2019 as well as increasing our inventory positions in order to better service our customers with a broad offering of products.

Investing Cash Flows

Cash used in investing activities in fiscal year 2019 and 2018 was \$11.5 million and \$14.9 million, respectively. Cash outflows for capital expenditures during fiscal year 2019 and 2018 were \$6.1 and \$5.8 million, respectively. Capital expenditures in both periods primarily related machinery and equipment, including investments in our digital print business. There were \$8.4 million in expenditures financed under capital lease arrangements and \$3.1 million in unpaid expenditures as of September 28, 2019. In addition, property, plant, and equipment of \$3.4 million was acquired as part of the SSI acquisition during fiscal year 2019.

Investing activities for fiscal year 2018 included \$5.8 million of proceeds from the sale of fixed assets. Equipment of \$5.0 million was acquired as part of the DTG2Go acquisition. Subsequently, a capital lease arrangement was entered into to finance the purchase of the equipment. During fiscal year 2018, investing cash flows included \$1.9 million in proceeds received from the sale of a business.

We expect to spend approximately \$25 million to \$28 million in capital expenditures in fiscal year 2020, primarily on distribution expansion, manufacturing equipment, information technology, and direct-to-consumer investments including additional Salt Life retail store openings. We anticipate that approximately \$12 million of planned fiscal year 2020 capital expenditures will be invested in the expansion of our Clinton, Tennessee distribution center to support the growth within the Delta Group segment business.

Financing Activities

Cash provided by financing activities was \$2.2 million in fiscal year 2019 compared to cash used by financing activities of \$6.4 million in fiscal year 2018. We utilized the cash proceeds from our credit facility in both fiscal years to fund our investments in property, plant, and equipment as well as our operations. In fiscal year 2019, we repurchased \$2.7 million of our common stock compared to \$9.0 million in the prior year.

Future Liquidity and Capital Resources

See Note 8 – Long-Term Debt to the Consolidated Financial Statements for discussion of our various financing arrangements, including the terms of our revolving U.S. credit facility.

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 loss of the ability to borrow under our revolving credit facility and to issue letters of credit to suppliers, or may cause the borrowing availability under our facility to be insufficient for our needs. Availability under our credit facility is primarily a function of the levels of our accounts receivable and inventory, as well as the uses of cash in our operations. A significant deterioration in our accounts receivable or inventory levels could restrict our ability to borrow additional funds or service our indebtedness. Moreover, our credit facility includes a financial covenant that if the availability under our credit facility falls below the amounts specified in our credit agreement, our 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 September 28, 2019, 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 September 28, 2019, our FCCR was above the minimum threshold specified in our credit agreement.

Derivative Instruments

From time to time, we may purchase cotton option contracts to economically hedge the risk related to market fluctuations in the cost of cotton used in our operations. We do not receive hedge accounting treatment for these derivatives. As such, the realized gains and losses associated with them were recorded within cost of goods sold on the Consolidated Statement of Operations. There were no material option agreements that were outstanding at September 28, 2019.

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. There were no raw material option agreements outstanding at September 28, 2019 or September 29, 2018.

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 AOCI loss, net of taxes, of \$1.1 million for fiscal year 2019, and an AOCI gain, net of taxes, of \$0.2 million for fiscal year 2018.

Off-Balance Sheet Arrangements

As of September 28, 2019, 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. We have disclosed operating lease commitments in Note 10—Leases, and letters of credit and purchase obligations in Note 15—Commitments and Contingencies.

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 September 28, 2019, and September 29, 2018, there was \$16.1 million and \$14.7 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 2019 and 2018. Any future cash dividend payments will depend upon our earnings, financial condition, capital requirements, compliance with loan covenants and other relevant factors.

As of September 28, 2019, our Board of Directors had authorized management to use up to \$60.0 million to repurchase stock in open market transactions under our Stock Repurchase Program. During fiscal years 2019 and 2018, we purchased 141,501 shares and 463,974 shares, respectively, of our common stock for a total cost of \$2.7 million and \$9.0 million, respectively. As of September 28, 2019, we have purchased 3,498,562 shares of common stock for an aggregate of \$50.5 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 September 28, 2019, \$9.5 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. 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. We have no reason to believe that our past estimates have not been appropriate. 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

Revenue is recognized when performance obligations under the terms of the contracts are satisfied. Our performance obligation primarily consists of delivering products to our customers. Control is transferred upon providing the products to customers in our retail stores, upon shipment of our products to the consumers from our ecommerce sites, and upon shipment from our distribution centers to our customers in our wholesale operations. Once control is transferred to the customer, we have completed our performance obligation.

In certain areas of our wholesale business, we offer discounts and allowances to support our customers. Some of these arrangements are written agreements, while others may be implied by customary practices in the industry. Wholesale sales are recorded net of discounts, allowances, and operational chargebacks. As certain allowances and other deductions are not finalized until the end of a season, program or other event which may not have occurred, we estimate such discounts, allowances, and returns that we expect to provide.

We record reductions to revenue for estimated customer returns, allowances, markdowns and discounts. We estimate these reductions based on historical rates of customer returns and allowances as well as the specific identification of outstanding returns, markdowns and allowances that have not yet been received by us. The actual amount of customer returns and allowances, which is inherently uncertain, may differ from our estimates. If we determine that actual or expected returns or allowances are significantly higher or lower than the reserves we established, we would record a reduction or increase, as appropriate, to net sales in the period in which we make such a determination. Reserves for returns, allowances, markdowns and discounts are included within accrued expenses as refund liabilities, and the value of inventory associated with reserves for sales returns are included within prepaid expenses and other current assets on the Consolidated Balance Sheet. As of September 28, 2019, there was \$1.0 million in refund liabilities for customer returns, allowances, markdowns and discounts included within accrued expenses.

Accounts Receivable and Related Reserves

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 doubtful accounts.

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, we assess the need for a specific reserve for bad debts. 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. Bad debt expense was less than 1% of net sales in each of fiscal years 2019 and 2018.

Inventories and Related Reserves

We state inventories at the lower of cost and net realizable value 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, DTG2Go, and SSI, and an insignificant amount of definite-lived intangibles were recorded with our acquisition of Coast. 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 acquired and liabilities assumed. 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 goodwill 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 projected sales, gross margins, selling, general and administrative expenses, capital expenditures and 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. 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, we follow the Accounting Standards Codification 740, *Income Taxes* ("ASC 740"), and look 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.

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. As of September 28, 2019, we had state NOLs of approximately \$46.6 million, with deferred tax assets of \$2.2 million related to these state NOLs, and related valuation allowances against them of approximately \$0.5 million. These state net loss carryforwards expire at various intervals from 2020 through 2037.

Recent Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements for each of our fiscal years ended September 28, 2019, and September 29, 2018, 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 September 28, 2019, 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 September 28, 2019. 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 2019 included all of our operations. Based on our evaluation, our management has concluded that, as of September 28, 2019, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of September 28, 2019, 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 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Delta Apparel, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited Delta Apparel, Inc. and Subsidiaries' internal control over financial reporting as of September 28, 2019, 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). In our opinion, Delta Apparel, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of September 28, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of September 28, 2019, and September 29, 2018, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended September 28, 2019, and the related notes and our report dated November 21, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's 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 Annual 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Atlanta, Georgia
November 21, 2019

Item 9B. Other Information

Fourth Amendment to Fifth Amended and Restated Credit Agreement

On November 19, 2019, Delta Apparel, and its Subsidiaries M.J. Soffe, LLC, Culver City Clothing Company, Salt Life, LLC, and DTG2Go, LLC (collectively, the "Borrowers") entered into a Fourth Amendment to Fifth Amended and Restated Credit Agreement with Wells Fargo Bank, National Association ("Wells Fargo") and the other lenders set forth therein (the "Fourth Amendment").

The Fifth Amended and Restated Credit Agreement, dated as of May 10, 2016 (the "Amended Credit Agreement"), was filed as Exhibit 10.1 to Delta Apparel's Quarterly Report on Form 10-Q filed with the SEC on May 12, 2016. The First Amendment to the Amended Credit Agreement was filed as Exhibit 10.2.5 to Delta Apparel's Annual Report on Form 10-K filed with the SEC on November 28, 2017. The Consent and Second Amendment to the Amended Credit Agreement was filed as Exhibit 10.1 to Delta Apparel's Form 8-K filed with the SEC on March 13, 2018. The Consent and Third Amendment to the Amended Credit Agreement was filed as Exhibit 10.1 to Delta Apparel's Form 8-K filed with the SEC on October 9, 2018.

The Fourth Amendment increases the borrowing capacity from \$145.0 million to \$170.0 million (subject to borrowing base limitations), extends the maturity date from May 10, 2021 to November 19, 2024, reduces pricing on the revolver and first-in last-out "FILO" borrowing components, adds 25% of the fair market value of eligible intellectual property into the borrowing base, and makes certain other structural changes. In addition, the Fourth Amendment amends the definition of Fixed Charge Coverage Ratio to exclude up to \$10 million of capital expenditures incurred by the Borrowers in connection with the expansion of the distribution facility located within the Town of Clinton, Anderson County, Tennessee.

The foregoing summary of the Fourth Amendment and the transactions contemplated thereby does not purport to be complete and is qualified in its entirety by reference to the text of the Fourth Amendment, which is filed herewith as Exhibit 10.2.8 to this Annual Report on Form 10-K and which is incorporated herein by reference.

Separate from the relationship related to the Amended Credit Agreement, as amended, certain lenders thereunder have engaged in, or may in the future engage in, transactions with, and perform services for, Delta Apparel and/or its subsidiaries in the ordinary course of business.

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 2019 fiscal year under the headings "Proposal No. 1: Election of Directors", "Corporate Governance", "Executive Officers" and "Delinquent Section 16(a) Reports."

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 2019 fiscal year under the headings "Executive Compensation" and "Compensation Tables."

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 2019 fiscal year under the heading "Equity Compensation Plan Information."

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, enabled us to continue to grant equity incentive compensation awards structured in a manner intended to qualify as tax deductible, performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as applicable. 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 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 September 28, 2019.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	283,500	\$ 19.78	538,464
Equity compensation plans not approved by security holders	—	\$ —	—
Total	283,500	\$ 19.78	538,464

For additional information on our stock-based compensation plans, see Note 12 - 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 2019 fiscal year under the heading "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 2019 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:

Report of Independent Registered Public Accounting Firms.

Consolidated Balance Sheets as of September 28, 2019, and September 29, 2018.

Consolidated Statements of Operations for the years ended September 28, 2019, and September 29, 2018.

Consolidated Statements of Comprehensive Income for the years ended September 28, 2019, and September 29, 2018.

Consolidated Statements of Shareholders' Equity for the years ended September 28, 2019, and September 29, 2018.

Consolidated Statements of Cash Flows for the years ended September 28, 2019, and September 29, 2018.

Notes to Consolidated Financial Statements.

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](#) [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 of the Company 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 of the Company 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.](#)
- [4.3](#) [Description of Securities](#)
- [10.1](#) [See Exhibit 2.1.](#)
- [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.](#)
- [10.2.5 First Amendment to Fifth Amended and Restated Credit Agreement, dated November 27, 2017, among Delta Apparel, Inc., M.J. Soffe, LLC, Junkfood Clothing Company, Salt Life, 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 10.2.5 to the Company's Annual Report on Form 10-K filed on November 28, 2017.](#)
- [10.2.6 Consent and Second Amendment to Fifth Amended and Restated Credit Agreement, dated March 9, 2018, among Delta Apparel, Inc., M.J. Soffe, LLC, Culver City Clothing Company, Salt Life, 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 Current Report on Form 8-K filed on March 13, 2018.](#)
- [10.2.7 Consent and Third Amendment to Fifth Amended and Restated Credit Agreement, dated October 8, 2018, among Delta Apparel, Inc., M.J. Soffe, LLC, Culver City Clothing Company, Salt Life, LLC, and DTG2Go, 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 Current Report on Form 8-K filed on October 9, 2018.](#)
- [10.2.8 Fourth Amendment to Fifth Amended and Restated Credit Agreement, dated November 19, 2019, among Delta Apparel, Inc., M.J. Soffe, LLC, Culver City Clothing Company, Salt Life, LLC, and DTG2Go, LLC, the financial institutions named therein as Lenders, and Wells Fargo Bank, National Association, as agent for Lenders.](#)
- [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 Quarterly Report on 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 Annual Report on 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 Current Report on 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 Current Report on 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.**](#)
- [10.6.5 Fifth Amendment to Yarn Supply Agreement dated as of December 27, 2018, between Delta Apparel, Inc. and Parkdale Mills, LLC, and Parkdale America, LLC: Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2018.**](#)
- [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 Current Report on Form 8-K filed on January 7, 2016.***](#)
- [10.8 Employment Agreement between Delta Apparel, Inc. and Deborah H. Merrill dated January 1, 2019: Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 2, 2019.***](#)
- [10.9 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 Annual Report on Form 10-K filed on August 28, 2009.***](#)

- [10.9.1](#) [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 Current Report on Form 8-K filed on August 19, 2011.***](#)
- [10.9.2](#) [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 Current Report on Form 8-K filed on June 8, 2012.***](#)
- [10.9.3](#) [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 Current Report on Form 8-K filed on December 8, 2014.***](#)
- [10.9.4](#) [Fourth Amendment to Employment Agreement between Delta Apparel, Inc. and Robert W. Humphreys dated April 27, 2017; Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on April 28, 2017.***](#)
- [10.10](#) [Employment Agreement between Delta Apparel, Inc. and Justin M. Grow dated December 31, 2015; Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed on November 29, 2016.***](#)
- [10.11](#) [Employment Agreement between Delta Apparel, Inc. and Justin M. Grow dated January 1, 2019; Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 2, 2019.***](#)
- [10.12](#) [Employment Agreement between Delta Apparel, Inc. and Jeffery N. Stillwell dated December 31, 2015; Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on November 19, 2018.***](#)
- [10.13](#) [Employment Agreement between Delta Apparel, Inc. and Jeffery N. Stillwell dated January 1, 2019; Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 2, 2019.***](#)
- [10.14](#) [Employment Agreement between Delta Apparel, Inc. and John T. Tester dated October 28, 2019; Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on October 28, 2019.***](#)
- [10.15](#) [Delta Apparel, Inc. Short-Term Incentive Compensation Plan, Effective June 1, 2000, Amended and Restated Effective November 19, 2019; 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](#) [Agreement between Delta Apparel, Inc. and IMG Worldwide, Inc. dated December 6, 2013; Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 6, 2013.](#)
- [10.17](#) [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.***](#)
- [10.18](#) [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.***](#)
- [10.19](#) [Form of Performance Unit Award Agreement; Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2017.***](#)
- [10.20](#) [Form of Restricted Stock Unit and Performance Unit Award Agreement; Incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on November 28, 2017.***](#)
- [10.21](#) [Form of Restricted Stock Unit Award Agreement; Incorporated by reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q filed on May 7, 2018.***](#)
- [10.22](#) [Form of Restricted Stock Unit and Performance Unit Award Agreement.***](#)
- [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.](#)
- [31.1](#) [Certification of the Chief Executive Officer pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.2](#) [Certification of the Chief Financial Officer pursuant to Rule 13a-14\(a\) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [32.1](#) [Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- [32.2](#) [Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS XBRL Instance Document
101.SCHXBRL Taxonomy Extension Schema
101.CALXBRL Taxonomy Extension Calculation Linkbase
101.DEF XBRL Taxonomy Extension Definition Linkbase
101.LABXBRL Taxonomy Extension Label Linkbase
101.PRE XBRL Taxonomy Extension Presentation Linkbase

- * 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.

Item 16. Form 10-K Summary

None

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 21, 2019
Date

By: Deborah H. Merrill
Deborah H. Merrill
Chief Financial Officer and
President, Delta Group
(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/ Anita D. Britt 11/21/2019
Anita D. Britt Date
Director

/s/ J. Bradley Campbell 11/21/2019
J. Bradley Campbell Date
Director

/s/ G. Jay Gogue 11/21/2019
G. Jay Gogue Date
Director

/s/ Glenda E. Hood 11/21/2019
Glenda E. Hood Date
Director

/s/ Robert W. Humphreys 11/21/2019
Robert W. Humphreys Date
Chairman and Chief Executive Officer

/s/ Deborah H. Merrill 11/21/2019
Deborah H. Merrill Date
Chief Financial Officer and President, Delta Group
(principal financial and accounting officer)

/s/ Robert E. Staton, Sr. 11/21/2019
Robert E. Staton, Sr. Date
Director

/s/ A. Alexander Taylor, II 11/21/2019
A. Alexander Taylor, II Date
Director

/s/ David G. Whalen 11/21/2019
David G. Whalen Date
Director

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Delta Apparel, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Delta Apparel, Inc. and Subsidiaries (the Company) as of September 28, 2019 and September 29, 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the two years in the period ended September 28, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 28, 2019 and September 29, 2018, and the results of its operations and its cash flows for each of the two years in the period ended September 28, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 28, 2019, 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 21, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2016.

Atlanta, Georgia
November 21, 2019

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

	September 28, 2019	September 29, 2018
Assets		
Cash and cash equivalents	\$ 605	\$ 460
Accounts receivable, less allowances of \$327 and \$1,475, respectively	59,337	45,605
Other receivables	1,550	1,274
Inventories, net	179,107	174,983
Note receivable	—	100
Prepaid expenses and other current assets	2,999	3,000
Total current assets	243,598	225,422
Property, plant and equipment, net	61,404	52,114
Goodwill	37,897	33,217
Intangible assets, net	21,607	20,498
Deferred income taxes	1,514	1,374
Equity method investment	10,388	8,980
Other assets	1,580	2,004
Total assets	\$ 377,988	\$ 343,609
Liabilities and Equity		
Liabilities:		
Accounts payable	\$ 52,320	\$ 48,008
Accrued expenses	20,791	16,742
Current portion of contingent consideration	2,790	638
Current portion of capital lease financing	6,434	3,846
Current portion of long-term debt	6,540	6,577
Total current liabilities	88,875	75,811
Long-term income taxes payable	3,977	4,259
Long-term capital lease financing, less current maturities	12,836	9,302
Long-term debt, less current maturities	109,296	92,083
Deferred income taxes	1,519	2,132
Long-term contingent consideration	6,304	9,904
Other liabilities	1,293	—
Total liabilities	\$ 224,100	\$ 193,491
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 6,921,417 and 6,909,446 shares outstanding as of September 28, 2019, and September 29, 2018, respectively	96	96
Additional paid-in capital	59,855	61,979
Retained earnings	136,937	128,695
Accumulated other comprehensive (loss) income	(969)	136
Treasury stock—2,725,555 and 2,737,526 shares as of September 28, 2019, and September 29, 2018, respectively	(41,750)	(40,881)
Equity attributable to Delta Apparel, Inc.	154,169	150,025
Equity attributable to non-controlling interest	(281)	93
Total equity	153,888	150,118
Total liabilities and equity	\$ 377,988	\$ 343,609

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	
	September 28, 2019	September 29, 2018
Net sales	\$ 431,730	\$ 395,450
Cost of goods sold	346,578	313,429
Gross profit	85,152	82,021
Selling, general and administrative expenses	70,220	66,969
Other income, net	(963)	(2,351)
Operating income	15,895	17,403
Interest expense	7,550	5,713
Earnings before provision for income taxes	8,345	11,690
Provision for income taxes	477	10,460
Consolidated net earnings	\$ 7,868	\$ 1,230
Net loss attributable to non-controlling interest	(374)	(107)
Net earnings attributable to shareholders	8,242	1,337
Basic earnings per share	\$ 1.19	\$ 0.19
Diluted earnings per share	\$ 1.17	\$ 0.18
Weighted average number of shares outstanding	6,929	7,149
Dilutive effect of stock options and awards	135	276
Weighted average number of shares assuming dilution	7,064	7,425

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended	
	September 28, 2019	September 29, 2018
Net earnings attributable to shareholders	\$ 8,242	\$ 1,337
Other comprehensive (loss) income related to unrealized (loss) gain on derivatives, net of income tax	(1,105)	171
Consolidated comprehensive income	<u>\$ 7,137</u>	<u>\$ 1,508</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 Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non- Controlling Interest	Total
	Shares	Amount				Shares	Amount		
Balance at September 30, 2017	9,646,972	\$ 96	\$ 61,065	\$ 127,358	\$ (35)	2,346,675	\$(32,597)	—	\$155,887
Net earnings	—	—	—	1,337	—	—	—	—	1,337
Other comprehensive loss	—	—	—	—	171	—	—	—	171
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(107)	(107)
Vested stock awards	—	—	(1,661)	—	—	(73,123)	716	—	(945)
Purchase of common stock	—	—	—	—	—	463,974	(9,000)	—	(9,000)
Stock based compensation	—	—	2,575	—	—	—	—	—	2,575
Capital contributions by non-controlling interest	—	—	—	—	—	—	—	200	200
Balance at September 29, 2018	9,646,972	96	61,979	128,695	136	2,737,526	(40,881)	93	150,118
Net earnings	—	—	—	8,242	—	—	—	—	8,242
Other comprehensive loss	—	—	—	—	(1,105)	—	—	—	(1,105)
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(374)	(374)
Vested stock awards	—	—	(3,980)	—	—	(153,472)	1,867	—	(2,113)
Purchase of common stock	—	—	—	—	—	141,501	(2,736)	—	(2,736)
Stock based compensation	—	—	1,856	—	—	—	—	—	1,856
Balance at September 28, 2019	<u>9,646,972</u>	<u>\$ 96</u>	<u>\$ 59,855</u>	<u>\$ 136,937</u>	<u>\$ (969)</u>	<u>2,725,555</u>	<u>\$(41,750)</u>	<u>\$ (281)</u>	<u>\$153,888</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended	
	September 28, 2019	September 29, 2018
Operating activities:		
Consolidated net earnings	\$ 7,868	\$ 1,230
Adjustments to consolidated net earnings attributable to net cash provided by operating activities:		
Depreciation	9,953	8,736
Amortization of intangibles	1,811	1,253
Amortization of deferred financing fees	312	306
(Benefit from) provision for deferred income taxes	(384)	5,760
Non-cash stock compensation	1,856	2,575
Loss on disposal of equipment	289	130
Other, net	(2,292)	(2,398)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(12,824)	1,466
Inventories, net	(2,997)	715
Prepaid expenses and other current assets	878	(208)
Other non-current assets	(71)	53
Accounts payable	1,951	(1,904)
Accrued expenses	3,670	(994)
Income taxes	(594)	4,573
Other liabilities	2	(55)
Net cash provided by operating activities	<u>9,428</u>	<u>21,238</u>
Investing activities:		
Purchases of property and equipment	(6,063)	(5,769)
Proceeds from sale of property and equipment	30	5,779
Proceeds from sale of business	—	1,946
Investment in capital stock	—	(500)
Investment by non-controlling member	—	200
Cash paid for business	(5,424)	(16,602)
Net cash used in investing activities	<u>(11,457)</u>	<u>(14,946)</u>
Financing activities:		
Proceeds from long-term debt	452,055	459,385
Repayment of long-term debt	(440,130)	(453,579)
Payment of capital financing	(4,338)	(2,325)
Payment of contingent consideration	(564)	—
Repurchase of common stock	(2,736)	(8,940)
Payment of withholding taxes on stock awards	(2,113)	(945)
Net cash provided by (used in) financing activities	<u>2,174</u>	<u>(6,404)</u>
Net increase (decrease) in cash and cash equivalents	145	(112)
Cash and cash equivalents at beginning of period	460	572
Cash and cash equivalents at end of period	<u>\$ 605</u>	<u>\$ 460</u>
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 7,064	\$ 5,052
Cash paid during the period for income taxes, net of refunds received	\$ 890	\$ 260
Non-cash financing activity—seller financing	\$ —	\$ 5,000
Non-cash financing activity—capital lease agreements	\$ 11,406	\$ 6,840

See accompanying Notes to Consolidated Financial Statements.

Delta Apparel, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 28, 2019

Note 1—The Company

Delta Apparel, Inc. (collectively with DTG2Go, LLC, Salt Life, LLC, M.J. Soffe, LLC, and other subsidiaries, "Delta Apparel," "we," "us," "our," or the "Company") is a vertically-integrated, international apparel company. With approximately 8,500 employees worldwide, we design, manufacture, source, and market a diverse portfolio of core activewear and lifestyle apparel products under our primary brands of Salt Life®, COAST®, Soffe®, and Delta. We are a market leader in the direct-to-garment digital print and fulfillment industry, bringing DTG2Go technology and innovation to the supply chain of our customers. We specialize in selling casual and athletic products through a variety of distribution channels and tiers, including outdoor and sporting goods retailers, independent and specialty stores, better department stores and mid-tier retailers, mass merchants and e-retailers, the U.S. military, and through our business-to-business ecommerce sites. Our products are also made available direct-to-consumer on our websites and in our branded retail stores. This diversified distribution allows us to capitalize on our strengths to provide our activewear and lifestyle apparel products to a broad and evolving customer base whose shopping preferences may span multiple retail channels.

We design and internally manufacture the majority of our products. More than 90% of the apparel units that we sell are sewn in our owned or leased facilities. This allows us to offer a high degree of consistency and quality, leverage scale efficiencies, and react quickly to changes in trends within the marketplace. We have manufacturing operations located in the United States, El Salvador, Honduras, and Mexico, and we 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 ("GAAP") and include the accounts of Delta Apparel and its wholly-owned domestic and foreign subsidiaries, as well as its majority-owned subsidiary, Salt Life Beverage, LLC ("Salt Life Beverage"). In January 2018, Delta Apparel, Inc. established Salt Life Beverage, of which Delta Apparel, through its subsidiary, holds a 60% ownership interest. Salt Life Beverage was formed to manufacture, market and sell Salt Life-branded alcoholic beverage products. We have concluded we have a controlling financial interest in Salt Life Beverage and have consolidated its results in accordance with Accounting Standards Codification ("ASC") ASC-810, *Consolidations*, and Accounting Standards Update ("ASU") No. 2015-02, *Consolidation (Topic 810); Amendments to Consolidations*. The non-controlling interest represents the 40% proportionate share of the results of Salt Life Beverage. All significant intercompany accounts and transactions have been eliminated in consolidation.

We operate our business in two distinct segments: Delta Group and Salt Life Group. 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.

(b) Fiscal Year: We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. All references to "2019" and "2018" relate to the 52 week fiscal years ended on September 28, 2019, and September 29, 2018, respectively.

(c) Use of Estimates: The preparation of financial statements in conformity with GAAP 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, such as allowance for doubtful accounts receivable, refund liabilities, 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 doubtful accounts.

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, we assess the need for a specific reserve for bad debts. 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. Bad debt expense was less than 1% of net sales in each of fiscal years 2019 and 2018.

(f) Inventories: We state inventories at the lower of cost or net realizable value 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 ASC 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 ASC 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 value 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, as a result of several acquisitions. 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 acquired and liabilities assumed, and is not amortized. The total amount of goodwill is expected to be deductible for tax purposes. See Note 6 — 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 methodology 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, including projected sales, gross margins, selling, general and administrative expenses, and capital expenditures, 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 recorded in 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 DTG2Go acquisitions in August 2013 and March 2018, respectively. We remeasure contingent consideration in accordance with ASC 805, *Business Combinations* based on historical operating results and projections for the future. The estimated fair value of the contingent consideration for Salt Life was \$0.2 million and \$1.3 million at September 28, 2019, and September 29, 2018, respectively. The DTG2Go contingent consideration was valued at \$8.9 million and \$9.2 million at September 28, 2019 and September 29, 2018, respectively.

(m) Revenue Recognition: Revenue is recognized when performance obligations under the terms of the contracts are satisfied. Our performance obligation primarily consists of delivering products to our customers. Control is transferred upon providing the products to customers in our retail stores, upon shipment of our products to the consumers from our ecommerce sites, and upon shipment from our distribution centers to our customers in our wholesale operations. Once control is transferred to the customer, we have completed our performance obligation.

Our receivables resulting from wholesale customers are generally collected within two months, in accordance with our established credit terms. Our direct-to-consumer ecommerce and retail store receivables are collected within a few days. Our revenue, including freight income, is recognized net of applicable taxes in our Consolidated Statements of Operations.

In certain areas of our wholesale business, we offer discounts and allowances to support our customers. Some of these arrangements are written agreements, while others may be implied by customary practices in the industry. Wholesale sales are recorded net of discounts, allowances, and operational chargebacks. As certain allowances and other deductions are not finalized until the end of a season, program or other event which may not have occurred, we estimate such discounts, allowances, and returns that we expect to provide.

We only recognize revenue to the extent that it is probable that we will not recognize a significant reversal of revenue when the uncertainties related to the variability are ultimately resolved. In determining our estimates for discounts, allowances, chargebacks, and returns, we consider historical and current trends, agreements with our customers and retailer performance. We record these discounts, returns and allowances as a reduction to net sales in our Consolidated Statements of Operations and as a refund liability in our accrued expenses in our Consolidated Balance Sheets, with the estimated value of inventory expected to be returned in prepaid and other current assets in our Consolidated Balance Sheets. As of September 28, 2019, there was \$1.0 million in refund liabilities for customer returns, allowances, markdowns and discounts within accrued expenses.

We record shipping and handling charges incurred by us before and after the customer obtains control as a fulfillment cost rather than an additional promised service. Our customers' terms are less than one year from the transfer of goods, and we do not adjust receivable amounts for the impact of the time value of money. We do not capitalize costs of obtaining a contract which we expect to recover, such as commissions, as the amortization period of the asset recognized would be one year or less.

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 licensee's royalty report in accordance with the terms of the executed license agreement and when all other revenue recognition criteria have been met.

Our revenue streams consist of wholesale, direct-to-consumer ecommerce and retail stores which are included in our Consolidated Statements of Operations. The table below identifies the amount and percentage of net sales by distribution channel (in thousands):

	Fiscal Year Ended			
	September 28, 2019		September 29, 2018	
	\$	%	\$	%
Retail	\$ 4,396	1%	\$ 3,560	1%
Direct-to-consumer ecommerce	5,526	1%	5,339	1%
Wholesale	421,808	98%	386,551	98%
Net Sales	<u>\$ 431,730</u>	<u>100%</u>	<u>\$ 395,450</u>	<u>100%</u>

The table below provides net sales by reportable segment (in thousands) and the percentage of net sales by distribution channel for each reportable segment:

	Fiscal Year Ended September 28, 2019			
	Net Sales	Retail	Direct-to-Consumer e-commerce	Wholesale
Delta Group	\$ 389,075	0.3%	0.3%	99.4%
Salt Life Group	42,655	7.6%	9.9%	82.5%
Total	<u>\$ 431,730</u>			

	Fiscal Year Ended September 29, 2018			
	Net Sales	Retail	Direct-to-Consumer e-commerce	Wholesale
Delta Group	\$ 356,009	0.3%	0.4%	99.3%
Salt Life Group	39,441	6.2%	10.3%	83.5%
Total	<u>\$ 395,450</u>			

(n) 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.

(o) Cost of Goods Sold: We include all manufacturing and sourcing costs incurred prior to the receipt of finished goods at our distribution facilities in cost of goods sold. The cost of goods sold principally includes product costs, 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 may include costs related to their distribution network in cost of goods sold, and we include them in selling, general and administrative expenses.

(p) 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 \$17.6 million and \$16.9 million in fiscal years 2019 and 2018, respectively. In addition, selling, general and administrative expenses include costs related to sales associates, administrative personnel, advertising and marketing expenses, royalty payments on licensed products, and other general and administrative expenses.

(q) Advertising Costs: All costs associated with advertising and promoting our products are expensed during the period 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 some of 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. We record cooperative advertising costs as a selling expense and the related cooperative advertising reserve as an accrued liability. Advertising costs totaled \$4.7 million and \$4.0 million in fiscal years 2019 and 2018, respectively. Included in these costs were \$0.8 million and \$0.7 million in fiscal years 2019 and 2018, respectively, related to our cooperative advertising programs.

(r) Stock-Based Compensation: Stock-based compensation is accounted for under the provisions of ASC 718, *Compensation – Stock Compensation*, which 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. 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.

(s) Income Taxes: We account for income taxes pursuant to ASC 740, *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.

(t) 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 ASC 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 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.

(u) 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 during the period transacted. We recognize the resulting foreign exchange gains and losses as a component of other income, net in the Consolidated Statements of Operations. These gains and losses are immaterial for all periods presented.

(v) 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 fixed rate debt approximates fair value based on the current rates offered to us for debt of the same remaining maturities.

(w) Other Comprehensive Income: Other Comprehensive Income consists of net earnings and unrealized gains from cash flow hedges, net of tax. Accumulated other comprehensive (loss) income ("AOCI") contained in the shareholders' equity section of the Consolidated Balance Sheets related to interest rate swap agreements and was a loss of \$1.0 million as of September 28, 2019, and income of \$0.1 million as of September 29, 2018.

(x) Yarn and Cotton Procurements: We have a supply agreement with Parkdale Mills, Inc. and Parkdale America, LLC, (collectively "Parkdale"), to supply our yarn requirements that has been in place since 2005, with our existing agreement running through December 31, 2021. 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.

(y) 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 ASC 815, *Derivatives and Hedging*, 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. 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 raw material option agreements outstanding at September 28, 2019 or September 29, 2018.

The table below indicates information on our outstanding interest rate swap agreements during fiscal years 2019 and 2018:

	Effective Date	Notational Amount	LIBOR Rate	Maturity Date
Interest Rate Swap	July 19, 2017	\$10 million	1.99%	May 10, 2021
Interest Rate Swap	July 25, 2018	\$20 million	3.18%	July 25, 2023

During fiscal years 2019 and 2018, these 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 AOCI (loss) gain, net of taxes, of (\$1.1 million) and \$0.2 million for the years ended September 28, 2019, and September 29, 2018, respectively. See Note 15(d) - Fair Value Measurements for further details.

(z) Equity Method Accounting: As of September 28, 2019, we owned 31% of the outstanding capital stock in our Honduran equity method investment. We apply the equity method of accounting for our investment, as we have less than a 50% ownership interest and can exert significant influence. We do not exercise control over this company and do not have substantive participating rights. As such, this entity is not considered a variable interest entity.

(aa) Net Income Attributable to Non-Controlling Interest: The net income attributable to non-controlling interest represents the share of net income allocated to members of our consolidated affiliates.

(ab) Business Combinations: Business combinations completed by Delta Apparel have been accounted for under the acquisition method of accounting. The acquisition method requires the assets acquired and liabilities assumed, including contingencies, to be recorded at the fair value determined at the acquisition date and changes thereafter recorded in income. We generally obtain independent third-party valuation studies for certain assets acquired and liabilities assumed to assist us in determining the fair value. Goodwill represents the purchase price over the fair value of tangible and intangible assets acquired and liabilities assumed. The results of acquired businesses are included in our results of operations from the date of acquisition.

(ac) Capital Leases: We classify leases as capital or operating leases in accordance with ASC 840, *Leases*. We account for a lease that transfers substantially all of the benefits and risks incidental to ownership of property as a capital lease. At the inception of a capital lease, we record an asset and payment obligation at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. All other leases are accounted for as operating leases, and the related lease payments are charged to expenses as incurred.

(ad) Recently Adopted Accounting Pronouncements: In May 2014, the FASB issued ASU 2014-19, *Revenue from Contracts with Customers* ("ASU 2014-09"), which replaced the existing revenue recognition guidance in U.S. GAAP. Since the issuance of ASU 2014-09, the FASB released several amendments to improve and clarify the implementation guidance, as well as to change the effective date. These standards have been collectively codified within ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard also requires additional disclosures about the nature, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments.

We adopted ASC 606 effective October 1, 2018 using the modified retrospective method. We applied the standard to all contracts as of the transition date. Information for prior years has not been retrospectively adjusted and continues to reflect the authoritative accounting standards in effect for those periods.

With the adoption of ASC 606, the timing of revenue recognition for our primary revenue streams remained substantially unchanged, with no material effect on net sales. See the table below (in thousands) for the effect of the adoption of the standard on our Consolidated Balance Sheet as of September 28, 2019 due to the change in recording provisions for customer refunds as a liability instead of netted against trade accounts receivable.

	As Reported		Balances
	September 28, 2019	Effect of Standard	without Adoption
Accounts receivable, net	59,337	(682)	58,655
Prepaid expenses and other current assets	2,999	(155)	2,844
Total Current Assets	243,598	(837)	242,761
Total assets	377,988	(837)	377,151
Accrued expenses	20,791	(1,047)	19,744
Total current liabilities	88,875	(1,047)	87,828
Total liabilities	224,100	(1,047)	223,053
Total liabilities and equity	377,988	(1,047)	376,941

(ae) Recently Issued Accounting Pronouncements Not Yet Adopted:

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, ("ASU 2016-02") which is codified in ASC 842, *Leases*. ASC 842 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. The standard allows entities to present the effects of the accounting change as either a cumulative adjustment as of the beginning of the earliest period presented or as of the date of adoption. ASC 842 is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods, with early application permitted. ASC 842 will, therefore, be adopted in our first quarter of the fiscal year beginning September 29, 2019 (fiscal year 2020).

We have an implementation team tasked with reviewing our lease obligations and determining the impact of the new standard to our financial statements. The team is also tasked with identifying appropriate changes to our business processes, systems, and controls to support recognition and disclosure under the new standard. The implementation team reports its findings and progress of the project to management on a frequent basis and to the Audit Committee of the Board of Directors on a quarterly basis. We have identified contracts with potential leasing arrangements, entered leases into a tracking and accounting software, and are analyzing the results of the impact of adoption. Based on our current lease portfolio, we preliminarily expect ASC 842 to have a material impact on our consolidated balance sheets primarily related to the recognition of operating lease assets and liabilities. However, we do not expect the standard to have a material impact on our consolidated statements of operations, comprehensive income, or cash flows. Further details regarding our undiscounted future lease payments as well as the timing of those payments are included within Note 10 - Leases.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, ("ASU 2017-12"). The amendments in ASU 2017-12 apply to any entity that elects to apply hedge accounting in accordance with U.S. GAAP. ASU 2017-12 permits more flexibility in hedging interest rate risk for both variable rate and fixed rate financial instruments, and the ability to hedge risk components for nonfinancial hedges. In addition, this ASU requires an entity to present the earnings effect of hedging the instrument in the same income statement line in which the earnings effect of the hedge item is reported. In addition, companies no longer need to separately measure and report hedge ineffectiveness and can use an amortization approach or continue with mark-to-market accounting. ASU 2017-12 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those annual periods. ASU 2017-12 will be adopted in the first quarter of our fiscal year beginning September 29, 2019 (fiscal year 2020). The provisions of ASU 2017-12 are not anticipated to have a material effect on our financial condition, results of operations, cash flows or disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and other (Topic 350), Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). To simplify the subsequent measurement of goodwill, ASU 2017-04 eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for financial statements issued for annual and interim periods beginning after December 15, 2019. ASU 2017-04 will therefore be effective in our fiscal year beginning October 4, 2020 (fiscal year 2021). The provisions of ASU 2017-04 are not anticipated to have a material effect on our financial condition, results of operations, cash flows or disclosures.

Note 3—Acquisitions

On October 8, 2018, our DTG2Go, LLC subsidiary purchased substantially all of the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services ("SSI"), a premium provider of direct-to-garment digital printed products. The SSI business operated from locations in Iowa and Colorado serving the western and mid-western parts of the United States. During the fiscal 2019 second quarter, we ceased production at the operation in Colorado, as the location was not strategic because it served the same geographic locations as the Iowa and existing DTG2Go Nevada locations.

We have included the financial results of the acquired entity since the date of the acquisition in our Delta Group segment. It is not practicable to disclose the revenue and income of SSI since the acquisition date, as we have integrated the SSI and DTG2Go businesses together since acquisition.

The SSI acquisition purchase price consisted of the following (in thousands):

Cash	\$	2,000
Promissory note		7,000
Capital lease financing		3,000
Net working capital adjustment		729
Total consideration	\$	12,729

During the fiscal 2019 fourth quarter, we completed the accounting for the acquisition. The final allocation of consideration to the assets and liabilities are noted in the table below, which includes measurement period adjustments recorded in our third quarter of fiscal year 2019 for additional information obtained on conditions that existed at the acquisition date. The total amount of goodwill is expected to be deductible for tax purposes.

	Allocation as of October 8, 2018	Measurement Period Adjustments	Allocation as of September 28, 2019
Accounts receivable	\$ 1,184	\$ —	\$ 1,184
Inventory	1,127	—	1,127
Other current assets	86	—	86
Fixed assets	3,400	—	3,400
Goodwill	3,380	1,300	4,680
Intangible assets	4,020	(1,100)	2,920
Accounts payable	(668)	—	(668)
Consideration paid	<u>\$ 12,529</u>	<u>\$ 200</u>	<u>\$ 12,729</u>

We accounted for the SSI acquisition pursuant to ASC 805, *Business Combinations*, with the purchase price allocated based upon fair value. The fair value of the fixed assets acquired were estimated using the market approach, based on analysis of sales and offerings for assets that are considered similar to the acquired assets. The fair value of the acquired customer relationships intangible assets was estimated using discounted cash flows using the multi-period excess earnings method. The methods used to determine the fair value assigned to the fixed and intangible assets fall into Level 3 inputs as defined by ASC 820, *Fair Value Measurements and Disclosures*.

Note 4—Inventories

Inventories, net of reserves of \$10.0 million and \$10.5 million as of September 28, 2019, and September 29, 2018, respectively, consist of the following (in thousands):

	September 28, 2019	September 29, 2018
Raw materials	\$ 12,022	\$ 9,641
Work in process	17,765	18,327
Finished goods	149,320	147,015
	<u>\$ 179,107</u>	<u>\$ 174,983</u>

Raw materials include finished yarn and direct materials for the Delta Group, undecorated garments for the DTG2Go business, and direct embellishment materials for the Salt Life Group.

Note 5—Property, Plant and Equipment

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

	Estimated Useful Life (in years)	September 28, 2019	September 29, 2018
Land and land improvements	25	\$ 569	\$ 569
Buildings	20	3,715	3,096
Machinery and equipment	10	99,962	90,565
Computers and software	3-10	21,065	20,724
Furniture and fixtures	7	3,650	3,073
Leasehold improvements	3-10	5,790	5,702
Vehicles and related equipment	5	587	754
Construction in progress	N/A	7,873	1,649
		<u>143,211</u>	<u>126,132</u>
Less accumulated depreciation and amortization		(81,807)	(74,018)
		<u>\$ 61,404</u>	<u>\$ 52,114</u>

The acquisition cost of machinery and equipment acquired under capital leases was \$28.0 million and \$16.6 million as of September 28, 2019, and September 29, 2018, respectively.

Note 6—Goodwill and Intangible Assets

Goodwill and components of intangible assets consist of the following (in thousands):

	September 28, 2019			September 29, 2018			Economic Life
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	
Goodwill	\$ 37,897	\$ —	\$ 37,897	\$ 33,217	\$ —	\$ 33,217	N/A
Intangibles:							
Tradename/trademarks	\$ 16,090	\$ (3,278)	\$ 12,812	\$ 16,090	\$ (2,736)	\$ 13,354	20 - 30 yrs
Customer relationships	7,400	(993)	6,407	4,500	(253)	4,247	20 yrs
Technology	1,720	(1,289)	431	1,720	(1,105)	615	10 yrs
License Agreements	2,100	(630)	1,470	2,100	(527)	1,573	15 - 30 yrs
Non-compete agreements	1,657	(1,170)	487	1,637	(928)	709	4 - 8.5 yrs
Total intangibles	<u>\$ 28,967</u>	<u>\$ (7,360)</u>	<u>\$ 21,607</u>	<u>\$ 26,047</u>	<u>\$ (5,549)</u>	<u>\$ 20,498</u>	

Goodwill represents the acquired goodwill net of the cumulative impairment losses recorded in fiscal year 2011 of \$0.6 million. As of September 28, 2019, the Delta Group segment includes \$18.0 million of goodwill, and the Salt Life Group segment includes \$19.9 million.

Depending on the type of intangible assets, amortization is recorded under cost of goods sold or selling, general and administrative expenses. Amortization expense for intangible assets was \$1.8 million for the year ended September 28, 2019, and \$1.3 million for the year ended September 29, 2018. Amortization expense is estimated to be approximately \$1.7 million for fiscal year 2020, \$1.6 million for each of fiscal years 2021 and 2022, \$1.5 million for fiscal year 2023, and approximately \$1.4 million for fiscal year 2024.

Note 7—Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 28, 2019	September 29, 2018
Accrued employee compensation and benefits	\$ 13,388	\$ 11,138
Taxes accrued and withheld	1,160	882
Refund liabilities	1,047	—
Accrued freight	969	1,023
Income taxes payable	379	—
Other	3,848	3,699
	<u>\$ 20,791</u>	<u>\$ 16,742</u>

Note 8—Long-Term Debt

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

	September 28, 2019	September 29, 2018
Revolving U.S. credit facility, interest at base rate or adjusted LIBOR rate plus an applicable margin (interest at 4.2% on September 28, 2019) due May 2021	\$ 101,957	\$ 85,746
Revolving credit facility with Banco Ficohsa, a Honduran bank, interest at 6.9% due August 2025 (denominated in U.S. dollars)	5,000	4,958
Term loan with Banco Ficohsa, a Honduran bank, interest at 6.0%, monthly installments beginning November 2014 through December 2020 (denominated in U.S. dollars)	800	1,400
Term loan with Banco Ficohsa, a Honduran bank, interest at 6.0%, monthly installments beginning June 2016 through April 2022 (denominated in U.S. dollars)	776	1,067
Term loan with Banco Ficohsa, a Honduran bank, interest at 6.0%, monthly installments beginning October 2017 through September 2021 (denominated in U.S. dollars)	1,953	3,018
Salt Life acquisition promissory note, imputed interest at 3.62%, quarterly payments beginning September 2016 through June 2019	—	2,471
DTG2Go, LLC acquisition promissory note, interest at 6.0%, quarterly payments beginning January 2019 through October 2021	5,250	—
Salt Life Beverage, LLC promissory note, non-interest, lump sum payment due January 2020	100	—
	<u>115,836</u>	<u>98,660</u>
Less current portion of long-term debt	<u>(6,540)</u>	<u>(6,577)</u>
Long-term debt, excluding current maturities	<u>\$ 109,296</u>	<u>\$ 92,083</u>

Credit Facility

On May 10, 2016, we 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, Culver City Clothing Company (f/k/a Junkfood Clothing Company), Salt Life, LLC, and DTG2Go, LLC (f/k/a Art Gun, LLC) (collectively, the "Borrowers"), are co-borrowers under the Amended Credit Agreement.

On November 27, 2017, the Borrowers entered into a First Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the "First Amendment"). The First Amendment amended the definition of Fixed Charge Coverage Ratio within the Amended Credit Agreement to permit up to \$10 million of the proceeds received from the March 31, 2017, sale of certain assets of the Junkfood business to be used towards share repurchases for up to one year from the date of that transaction. In addition, the definition of Permitted Purchase Money Indebtedness was amended to extend the time period within which the Borrowers may enter into capital leases and to increase the aggregate principal amount of such leases into which the Borrowers may enter to up to \$15 million. The definition of Permitted Investments was also amended to permit the Borrowers to make investments in entities that are not a party to the Amended Credit Agreement in an aggregate amount of up to \$2 million. The First Amendment also allowed the change in the name of our Junkfood Clothing Company subsidiary to Culver City Clothing Company. There were no changes to the Amended Credit Agreement related to interest rate, borrowing capacity, or maturity.

On March 9, 2018, the Borrowers entered into a Consent and Second Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the "Second Amendment"). Pursuant to the Second Amendment, Wells Fargo and the other lenders set forth therein consented to Art Gun, LLC's acquisition of substantially all of the assets of TeeShirt Ink Inc. d/b/a DTG2Go. The Second Amendment also: (i) revised certain provisions in the Amended Credit Agreement relating to our ability to pay cash dividends or distributions to shareholders or to repurchase shares of our common stock so that the effects of the Tax Cuts and Jobs Act of 2017 did not negatively impact our ability to make such dividends or distributions or to repurchase shares of our common stock during our 2018 fiscal year; (ii) amended the definition of Permitted Investments in the Amended Credit Agreement to allow investments in the Honduras partnership (as defined in the Amended Credit Agreement) in an aggregate original principal amount not to exceed \$6 million; (iii) amended the definition of Permitted Purchase Money Indebtedness in the Amended Credit Agreement to increase the aggregate principal amount of capital leases into which we may enter to up to \$25 million; (iv) permitted the name change of Art Gun, LLC to DTG2Go, LLC; and (v) added new definitions relating to the DTG2Go acquisition. There were no changes to the Amended Credit Agreement related to interest rate, borrowing capacity, or maturity.

On October 8, 2018, the Borrowers entered into a Consent and Third Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the "Third Amendment"). Pursuant to the Third Amendment, Wells Fargo and the other lenders set forth therein consented to DTG2Go, LLC's acquisition of substantially all of the assets of Silk Screen Ink Ltd. d/b/a SSI Digital Print Services. The Third amendment also: (i) amended the existing loan agreement, including various definitions therein, to add a first-in last-out "FILO" borrowing component; and (ii) amended the existing loan agreement, including various definitions therein, to address the potential unavailability or discontinuance of the use of LIBOR rates and updates certain provisions regarding compliance with denied party, sanctioned entity, anti-corruption and anti-money laundering and related laws and regulations and other items.

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.

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 DTG2Go. 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 greater 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 September 28, 2019, we had \$102.0 million outstanding under our U.S. revolving credit facility at an average interest rate of 4.2%, and had the ability to borrow an additional \$27.2 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 September 28, 2019, because our availability was above the minimum required under the Amended Credit Agreement. At September 28, 2019, 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 September 28, 2019, and September 29, 2018, there was \$16.1 million and \$14.7 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 ASC 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.

See Note 16—Subsequent Events for discussion of the Fourth Amendment to the Fifth Amended and Restated Credit Agreement executed on November 19, 2019.

Promissory Notes

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 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 were zero-interest notes and stated that interest would be imputed as required under Section 1274 of the Internal Revenue Code. We had imputed interest at 1.92% and 3.62% on the promissory notes that matured on June 30, 2016, and June 30, 2019, respectively. As of September 28, 2019, no amounts remained outstanding on these notes.

On October 8, 2018, we acquired substantially all of the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services. See Note 3—Acquisitions for more information on this transaction. In conjunction with this acquisition, we issued a promissory note in the principal amount of \$7.0 million. The promissory note bears interest of 6% with quarterly payments that began January 2, 2019, with the final installment due October 1, 2021. As of September 28, 2019, there was \$5.3 million outstanding for this note.

Honduran Debt

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 is secured by a first-priority lien on the assets of our Honduran operations, and is 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 September 28, 2019, is listed as part of the long-term debt schedule above.

Total Debt

The aggregate maturities of debt at September 28, 2019, are as follows (in thousands):

Fiscal Year	Amount
2020	\$ 6,540
2021	103,518
2022	778
2023	—
2024	—
Thereafter	5,000
	\$ 115,836

Note 9—Income Taxes

The Tax Cuts and Jobs Act of 2017 (the “New Tax Legislation”) was enacted on December 22, 2017, which significantly revised the U.S. corporate income tax code by, among other things, lowering federal corporate income tax rates, implementing a modified territorial tax system and imposing a repatriation tax, (“transition tax”), on deemed repatriated cumulative earnings of foreign subsidiaries which will be paid over eight years. In addition, new taxes were imposed related to foreign income, including a tax on global intangible low-taxed income (“GILTI”) as well as a limitation on the deduction for business interest expense (“Section 163(j)"). GILTI is the excess of the shareholder’s net controlled foreign corporations, (“CFC”) net tested income over the net deemed tangible income. The Section 163(j) limitation does not allow the amount of deductible interest to exceed the sum of the taxpayer’s business interest income, 30% of the taxpayer’s adjusted taxable income, and the taxpayer’s floor plan financing interest expense for the year. We have included in our calculation of our effective tax rate the estimated impact of GILTI and Section 163(j) which were effective for us beginning fiscal year 2019. We have elected to account for the tax on GILTI as a period cost and, therefore, do not record deferred taxes related to GILTI on our foreign subsidiaries.

In the quarter ended December 30, 2017, when the New Tax Legislation was enacted, we made reasonable estimates of the effects of the expense associated with the one-time transition tax and with remeasuring net deferred tax liabilities at a lower federal corporate tax rate. We recorded \$10.7 million as provisional amounts in fiscal year 2018. Our provisional assessment of the impacts of the New Tax Legislation were finalized during the first quarter of fiscal year 2019.

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

	Period ended	
	September 28, 2019	September 29, 2018
Current:		
Federal	\$ 732	\$ 4,629
State	(3)	16
Foreign	132	121
Total current	\$ 861	\$ 4,766
Deferred:		
Federal	\$ (304)	\$ 5,927
State	(80)	(233)
Total deferred	(384)	5,694
Provision for income taxes	\$ 477	\$ 10,460

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

	Period ended	
	September 28, 2019	September 29, 2018
United States, net of loss attributable to non-controlling interest	\$ (2,695)	\$ 156
Foreign	11,040	11,534
	\$ 8,345	\$ 11,690

Our effective income tax rate on operations for fiscal year 2019 was 5.5% compared to a rate of 89.5% in the prior year. Excluding the additional \$10.7 million of expense related to the New Tax Legislation, the adjusted effective tax rate was a benefit of 1.7% in fiscal year 2018. The change in the federal statutory rate from 34% to 21% as a result of the New Tax Legislation was effective as of December 22, 2017, part way through our fiscal year 2018. As such, the blended federal statutory tax rate for fiscal year 2018 was 24.3%.

We benefit from having income in foreign jurisdictions that are either exempt from income taxes or have tax rates that are lower than those in the United States. However, changes in the mix of U.S. taxable income compared to profits in tax-free or lower-tax jurisdictions can have a significant impact on our overall effective tax rate. In addition, the future impact of the New Tax Legislation may differ from historical amounts, possibly materially, due to, among other things, changes in interpretations and assumptions made regarding the New Tax Legislation, guidance that may be issued and actions we may take as a result of the New Tax Legislation.

A reconciliation between actual provision for income taxes and the provision for income taxes computed using the federal statutory income tax rate of 21.0% for fiscal year 2019 and 24.3% for fiscal year 2018 is as follows (in thousands):

	Period ended	
	September 28, 2019	September 29, 2018
Income tax expense at the statutory rate of 21.0% and 24.3%	\$ 1,831	\$ 2,861
State income tax (benefits expense, net of federal income tax benefit)	(82)	16
New Tax Legislation:		
Impact of federal rate change	—	624
Federal transition tax	109	10,039
GILTI inclusion	1,040	—
Impact of state rate changes	—	(236)
Impact of foreign earnings in tax-free zone	(2,186)	(2,676)
Nondeductible amortization and other permanent differences	(140)	(163)
Other	(95)	(5)
Provision for income taxes	\$ 477	\$ 10,460

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

	September 28, 2019	September 29, 2018
Deferred tax assets:		
State net operating loss carryforwards	\$ 2,190	\$ 1,870
Alternative minimum tax credit carryforward	—	397
Inventories and reserves	2,960	3,277
Accrued compensation and benefits	1,789	1,881
Receivable allowances and reserves	345	371
Other	1,093	67
Gross deferred tax assets	\$ 8,377	\$ 7,863
Less valuation allowance — state net operating loss carryforwards	(516)	(493)
Net deferred tax assets	\$ 7,861	\$ 7,370
Deferred tax liabilities:		
Depreciation	(4,611)	(5,459)
Goodwill and intangibles	(3,183)	(2,529)
Other	(72)	(140)
Gross deferred tax liabilities	\$ (7,866)	\$ (8,128)
Net deferred tax liabilities	\$ (5)	\$ (758)

As of September 28, 2019, we had state net operating losses ("NOLs") of approximately \$46.6 million, with deferred tax assets of \$2.2 million related to these state NOLs, and related valuation allowances against them of approximately \$0.5 million. These state net loss carryforwards expire at various intervals from 2020 through 2037. Our deferred tax asset related to state net operating loss carryforwards is reduced by a valuation allowance to result in net 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.

ASC 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 50% 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 September 28, 2019 or September 29, 2018.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Tax years 2015, 2016, 2017 and 2018, according to statute and with few exceptions, remain open to examination by various federal, state, local, and foreign jurisdictions.

Note 10—Leases

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

Future minimum lease payments under non-cancelable leases as of September 28, 2019, were as follows (in thousands):

Fiscal Year	Amount
2020	\$ 11,197
2021	9,903
2022	8,565
2023	7,732
2024	7,054
Thereafter	19,442
	<u>\$ 63,893</u>

Rent expense for all operating leases was \$10.6 million and \$9.9 million for fiscal years 2019 and 2018, respectively.

Note 11—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 requires for us to make a guaranteed match of a defined portion of the employee's contributions. During fiscal years 2019 and 2018 we contributed \$1.0 million and \$0.9 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 2019 and 2018. The following table presents the benefit obligation, which is included in accrued expenses in the accompanying balance sheets (in thousands).

	September 28, 2019	September 29, 2018
Balance at beginning of year	\$ 313	\$ 343
Interest expense	2	3
Benefits paid	(9)	(34)
Adjustment	1	1
Balance at end of year	<u>\$ 307</u>	<u>\$ 313</u>

Note 12—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, enabled 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, as applicable. The New Tax Legislation changed several conclusions under Section 162(m), including that there will no longer be a performance-based compensation exemption, and the Chief Financial Officer position is now included in the applicable calculation along with the next three highest-paid officers. This reform impacted taxes related to fiscal years 2019 and 2018.

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 granted under the 2010 Stock Plan.

We account for these plans pursuant to ASC 718. Shares are generally issued from treasury stock upon exercise of the options or the vesting of the restricted stock units and performance units. See Note 2—Significant Accounting Policies (r) Stock-Based Compensation for further detail.

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 2019 and 2018 was \$2.1 million and \$2.6 million, respectively. Associated with the compensation cost are income tax benefits recognized of \$0.1 million for both fiscal years 2019 and 2018.

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 2019. During fiscal year 2018, 10,000 remaining stock options, with an exercise price of \$13.07 per option, expired and were forfeited.

Restricted Stock Units and Performance Units

The following table summarizes the restricted stock unit and performance unit award activity during the periods ended September 28, 2019, and September 29, 2018:

	Fiscal Year Ended			
	September 28, 2019		September 29, 2018	
	Number of Units	Weighted average grant date fair value	Number of Units	Weighted average grant date fair value
Units outstanding, beginning of fiscal period	532,500	\$ 16.12	512,856	\$ 13.09
Units granted	—	—	205,500	\$ 20.57
Units issued	(247,000)	\$ 11.88	(146,781)	\$ 12.89
Units forfeited	(2,000)	\$ 21.51	(39,075)	\$ 11.88
Units outstanding, end of fiscal period	<u>283,500</u>	<u>\$ 19.78</u>	<u>532,500</u>	<u>\$ 16.12</u>

During fiscal year 2019, restricted stock units and performance units representing 205,000 and 42,000 shares of our common stock, respectively, vested upon the filing of our Annual Report on Form 10-K for the fiscal year ended September 29, 2018, and were issued in accordance with their respective agreements. All vested awards were paid in common stock.

During fiscal year 2018, restricted stock units and performance units, each consisting of 57,750 shares of our common stock, were granted and are eligible to vest upon the filing of our Annual Report on Form 10-K for the fiscal year ended September 28, 2019. One-half of the restricted stock units and one-half of the performance units are payable in common stock and one-half are payable in cash.

During fiscal year 2018, restricted stock units representing 90,000 shares of our common stock were granted and are eligible to vest upon the filing of our Annual Report on Form 10-K for the fiscal year ending October 3, 2020. These restricted stock units are payable in common stock.

During fiscal year 2018, restricted stock units and performance units representing 54,602 and 92,068 shares of our common stock, respectively, vested upon the filing of our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, and were issued in accordance with their respective agreements. One-half of the restricted stock units were paid in common stock and one-half in cash. Of the performance units, 72,138 were paid in common stock and 19,930 were paid in cash. In addition, restricted stock units and performance units representing 2,000 shares of our common stock vested and were issued in accordance with their agreement. One-half of the restricted stock units and one-half of the performance units were paid in common stock and one-half were paid in cash.

As of September 28, 2019, there was \$1.1 million of total unrecognized compensation cost related to unvested restricted stock units and performance units under the 2010 Stock Plan. This cost is expected to be recognized over a period of 1.2 years.

The following table summarizes information about the unvested restricted stock units and performance units as of September 28, 2019.

Restricted Stock Units/Performance Units	Number of Units	Average Market Price on Date of	
		Grant	Vesting Date*
Fiscal Year 2017 Performance Units	42,000	\$ 17.97	November 2019
Fiscal Year 2017 Performance Units	42,000	\$ 17.97	November 2020
Fiscal Year 2018 Restricted Stock Units	52,750	\$ 21.51	November 2019
Fiscal Year 2018 Performance Units	52,750	\$ 21.51	November 2019
Fiscal Year 2018 Restricted Stock Units	2,000	\$ 17.97	November 2019
Fiscal Year 2018 Performance Units	2,000	\$ 17.97	November 2019
Fiscal Year 2018 Restricted Stock Units	90,000	\$ 19.52	November 2020
	<u>283,500</u>		

* These awards are eligible to vest upon the filing of our Annual Report on Form 10-K for the applicable fiscal year, which is anticipated to be during the month and year indicated in this column.

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.

During fiscal year 2018, 6,000 remaining stock options, with an exercise price of \$8.30 per option, expired and were forfeited.

Note 13—Business Segments

Our operations are managed and reported in two segments, Delta Group and Salt Life Group, which reflect the manner in which the business is managed and results are reviewed by the Chief Executive Officer, who is our chief operating decision maker.

The Delta Group is comprised of our business units primarily focused on core activewear styles, and includes our Delta Activewear (encompassing our core Delta Catalog business and FunTees private label business), Soffe, and DTG2Go business units. We market, distribute and manufacture unembellished knit apparel under the main brands of Soffe®, Delta Platinum, 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, DTG2Go embellishes garments to create private label, custom decorated apparel servicing the fast-growing e-retailer channels, as well as the ad-specialty, promotional products and retail marketplaces.

The Salt Life Group is comprised of our lifestyle brands focused on a broad range of apparel garments, headwear and related accessories to meet consumer preferences and fashion trends, and includes our Salt Life and Coast business units. These products are sold through specialty and boutique shops, traditional department stores, and outdoor retailers, as well as direct-to-consumer through branded ecommerce sites and branded retail stores. Products in this segment are marketed under our lifestyle brands of Salt Life® and COAST®, as well as other labels.

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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"). Our segment operating earnings 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	
	September 28, 2019	September 29, 2018
Segment net sales:		
Delta Group	\$ 389,075	\$ 356,009
Salt Life Group	42,655	39,441
Total net sales	<u>\$ 431,730</u>	<u>\$ 395,450</u>
Segment operating income:		
Delta Group	\$ 23,780	\$ 26,091
Salt Life Group	6,160	4,747
Total segment operating income	<u>\$ 29,940</u>	<u>\$ 30,838</u>
Purchases of property, plant and equipment:		
Delta Group	\$ 4,861	\$ 4,341
Salt Life Group	1,202	917
Corporate	—	511
Total purchases of property, plant and equipment	<u>\$ 6,063</u>	<u>\$ 5,769</u>
Depreciation and amortization:		
Delta Group	\$ 9,889	\$ 8,090
Salt Life Group	1,522	1,456
Corporate	353	442
Total depreciation and amortization	<u>\$ 11,764</u>	<u>\$ 9,988</u>

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

	Fiscal Year Ended	
	September 28, 2019	September 29, 2018
Segment operating income	\$ 29,940	\$ 30,838
Loss attributable to non-controlling interest	374	107
Unallocated corporate expenses	13,671	13,328
Unallocated interest expense	7,550	5,713
Consolidated income before provision for income taxes	<u>\$ 8,345</u>	<u>\$ 11,690</u>

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	
	September 28, 2019	September 29, 2018
United States	\$ 431,082	\$ 394,252
Foreign	648	1,198
Total net sales	<u>\$ 431,730</u>	<u>\$ 395,450</u>

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

	As of	
	September 28, 2019	September 29, 2018
Total assets by segment:		
Delta Group	\$ 315,653	\$ 283,811
Salt Life Group	57,574	55,032
Corporate	4,761	4,766
Total assets	<u>\$ 377,988</u>	<u>\$ 343,609</u>
Equity investment in joint venture:		
Delta Group	\$ 10,388	\$ 8,980
Salt Life Group	—	—
Total equity investment in joint venture	<u>\$ 10,388</u>	<u>\$ 8,980</u>

We attribute our property, plant and equipment to a particular country based on the location of these assets. Summarized financial information by geographic area is as follows (in thousands):

	As of	
	September 28, 2019	September 29, 2018
United States	\$ 41,620	\$ 30,768
Honduras	15,326	16,823
El Salvador	3,209	3,476
Mexico	1,249	1,047
All foreign countries	19,784	21,346
Total property, plant and equipment, net	<u>\$ 61,404</u>	<u>\$ 52,114</u>

Note 14—Repurchase of Common Stock

Our Board of Directors has authorized management to use up to \$60.0 million to repurchase stock in open market transactions under our Stock Repurchase Program. During fiscal years 2019 and 2018, we purchased 141,501 shares and 463,974 shares, respectively, of our common stock for a total cost of \$2.7 million and \$9.0 million, respectively. As of September 28, 2019, we have purchased 3,498,962 shares of common stock for an aggregate of \$50.5 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 September 28, 2019, \$9.5 million remained available for future purchases under our Stock Repurchase Program, which does not have an expiration date. There were no repurchases of our common stock for the quarter ended September 28, 2019.

Note 15—Commitments and Contingencies

(a) Litigation

The Sports Authority Bankruptcy Litigation

Soffe was previously 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 related 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") including requests for declaratory judgment on a variety of matters related to the Products and Proceeds as well as several related claims. TSA lender Wilmington Savings Fund Society, FSB, as Successor Administrative and Collateral Agent ("WSFS"), intervened in the TSA Action seeking declaratory judgment on a variety of matters related to the Products and Proceeds and including several related claims. Soffe subsequently asserted counterclaims against WSFS in the TSA Action seeking declaratory judgment on a variety of matters related to the Products and Proceeds.

On November 26, 2018, the court issued an order in favor of WSFS with respect to its claimed interest in the majority of the Products and Proceeds. Soffe, WSFS, TSA Stores, Inc., TSA Ponce, Inc. and TSA Caribe, Inc. subsequently reached agreement to settle the above-referenced matters, with Soffe agreeing to pay approximately \$2.5 million in exchange for a comprehensive release of all claims at issue in the matters. These matters have now been finally resolved, with the agreed amounts funded on December 31, 2018. We recorded the settlement expense in other income, net in our Consolidated Statement of Operations in fiscal year 2019.

Other

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

(b) Purchase Contracts

We have entered into agreements, and have fixed prices, to purchase yarn, finished fabric, and finished apparel and headwear products. At September 28, 2019, minimum payments under these contracts were as follows (in thousands):

Yarn	\$	19,231
Finished fabric		2,973
Finished products		16,946
	\$	<u>39,150</u>

(c) Letters of Credit

As of September 28, 2019, we had outstanding standby letters of credit totaling \$0.4 million.

(d) Fair Value Measurements

From time to time we may use interest rate swaps or other instruments to manage our interest rate exposure and reduce the impact of future interest rate changes. These financial instruments are not used for trading or speculative purposes. The following financial instruments were outstanding as of September 28, 2019:

	Effective Date	Notational Amount	LIBOR Rate		Maturity Date
Interest Rate Swap	July 19, 2017	\$10 million	1.99	%	May 10, 2021
Interest Rate Swap	July 25, 2018	\$20 million	3.18	%	July 25, 2023

From time to time, we may purchase cotton option contracts to economically hedge the risk related to market fluctuations in the cost of cotton used in our operations. We do not receive hedge accounting treatment for these derivatives. As such, the realized and unrealized gains and losses associated with them are recorded within cost of goods sold on the Consolidated Statement of Operations.

ASC 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	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swap				
September 28, 2019	\$ (1,293)	\$ —	\$ (1,293)	\$ —
September 29, 2018	\$ 183	\$ —	\$ 183	\$ —
Cotton Options				
September 28, 2019	\$ —	\$ —	\$ —	\$ —
September 29, 2018	\$ (110)	(110)	\$ —	\$ —
Contingent Consideration				
September 28, 2019	\$ (9,094)	\$ —	\$ —	\$ (9,094)
September 29, 2018	\$ (10,542)	\$ —	\$ —	\$ (10,542)

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).

The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for derivatives as of September 28, 2019, and September 29, 2018.

	September 28, 2019	September 29, 2018
Other assets	\$ —	\$ 182
Deferred tax liabilities	324	(46)
Other liabilities	(1,293)	—
Accumulated other comprehensive loss	\$ (969)	\$ 136

The DTG2Go acquisition purchase price consisted of additional payments contingent on the combined business's achievement of certain performance targets related to sales and earnings before interest, taxes, depreciation and amortization ("EBITDA") for the period from April 1, 2018, through September 29, 2018, as well as for our fiscal years 2019, 2020, 2021 and 2022. The valuation of the fair value of the contingent consideration is based upon inputs into the Monte Carlo model, including projected results, which then are discounted to a present value to derive the fair value. The fair value of the contingent consideration is sensitive to changes in our projected results. At September 28, 2019, we estimated the fair value of contingent consideration to be \$8.9 million, a decrease of \$0.3 million from the September 29, 2018 balance of \$9.2 million. The decrease in the accrual was related to a payment of \$0.6 million for the period ended September 29, 2018 which was partially offset by an increase in the valuation for the remaining periods as a result of updated performance expectations.

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 September 28, 2019, we had \$0.2 million accrued in contingent consideration related to the acquisition of Salt Life, a \$1.1 million reduction from the accrual at September 29, 2018, based on actual performance to date in calendar year 2019 compared to prior estimates.

Note 16—Subsequent Events

Fourth Amendment to Fifth Amended and Restated Credit Agreement

On November 19, 2019, Delta Apparel, Inc. and its subsidiaries, M.J. Soffe, LLC, Culver City Clothing Company (f/k/a Junkfood Clothing Company), Salt Life, LLC, and DTG2Go, LLC (f/k/a Art Gun, LLC) entered into a Fourth Amendment to Fifth Amended and Restated Credit Agreement with Wells Fargo Bank and the other lenders set forth therein (the “Fourth Amendment”).

The Fifth Amended and Restated Credit Agreement, dated as of May 10, 2016, was filed as Exhibit 10.1 to Delta Apparel’s Quarterly Report on Form 10-Q filed with the SEC on May 12, 2016. The First Amendment to the Amended Credit Agreement was filed as Exhibit 10.2.5 to Delta Apparel’s Annual Report on Form 10-K filed with the SEC on November 28, 2017. The Consent and Second Amendment to the Amended Credit Agreement was filed as Exhibit 10.1 to Delta Apparel’s Form 8-K filed with the SEC on March 13, 2018. The Consent and Third Amendment to the Amended Credit Agreement was filed as Exhibit 10.1 to Delta Apparel’s Form 8-K filed with the SEC on October 9, 2018.

The Fourth Amendment, among other things, (i) increases the borrowing capacity under the Amended Credit Agreement from \$145.0 million to \$170.0 million (subject to borrowing base limitations), (ii) extends the maturity date from May 10, 2021 to November 19, 2024, (iii) reduces pricing on the revolver and first-in last-out “FILO” borrowing components by 25 basis points, and (iv) adds 25% of the fair market value of eligible intellectual property to the borrowing base calculation. In addition, the Fourth Amendment amends the definition of Fixed Charge Coverage Ratio to exclude up to \$10.0 million of capital expenditures incurred by the Borrowers in connection with the expansion of their distribution facility located within the Town of Clinton, Anderson County, Tennessee.

DESCRIPTION OF SECURITIES

The following is a summary of the material terms of the capital stock of Delta Apparel, Inc. (the “Company,” “we,” “us” or “our”). This summary is not complete and is qualified by reference to the Company’s Articles of Incorporation, as amended (“Articles of Incorporation”), and Bylaws, as amended (“Bylaws”). The Articles of Incorporation and Bylaws are filed as exhibits to the Company’s most recent Annual Report on Form 10-K and are incorporated by reference herein.

General

We are authorized to issue up to 15,000,000 shares of common stock, par value \$0.01 per share. We are also authorized to issue up to 2,000,000 shares of preferred stock, par value \$0.01 per share.

Common Stock

The holders of our common stock are entitled to one vote per share on all matters to be voted upon by our shareholders. Subject to any preferences that may be applicable to any preferred stock issued in the future, the holders of our common stock are entitled to receive ratably any dividends that may be declared from time to time by our Board of Directors (“Board”) out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the holders of our common stock are entitled to share ratably in all assets remaining after the payment of liabilities, subject to the prior distribution rights of any preferred stock. Our common stock has no preemptive or conversion rights. There are no redemption or sinking fund provisions applicable to our common stock.

Preferred Stock

We are authorized to issue 2,000,000 shares of “blank check” preferred stock, which may be issued from time to time in one or more classes and in one or more series within a class upon authorization by our Board. Our Board, without further approval of our shareholders, is authorized to fix the preferences, limitations and relative rights of the shares of each class or series within a class.

If we offer preferred stock, we will file the terms of the preferred stock with the Securities and Exchange Commission, and the prospectus supplement and/or other offering material relating to that offering will include a description of the specific terms of the offering, including any of the following applicable terms:

- the series, the number of shares offered and the liquidation value of the preferred stock;
- the price at which the preferred stock will be issued;
- the dividend rate, the dates on which the dividends will be payable and other terms relating to the payment of dividends on the preferred stock;
- the liquidation preference of the preferred stock;
- the voting rights of the preferred stock;
- whether the preferred stock is redeemable or subject to a sinking fund, and the terms of any such redemption or sinking fund;
- whether the preferred stock is convertible or exchangeable for any other securities, and the terms of any such conversion; and
- any additional rights, preferences, qualifications, limitations and restrictions of the preferred stock.

It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of our common stock until our Board determines the specific rights of the holders of the preferred stock. However, these effects might include:

- decreasing the amount of earnings and assets available for distribution to holders of common stock;
- restricting dividends on common stock;
- diluting the voting power of common stock;
- impairing the liquidation rights of common stock; and
- delaying, deferring or preventing a change in control of our Company.

Anti-Takeover Provisions

We are governed by the Georgia Business Corporation Code. Our Articles of Incorporation, Bylaws and the Georgia Business Corporation Code contain provisions that may delay, prevent or make more difficult an attempt by a third party to acquire control of the Company by means of a tender offer, proxy contest or other similar transaction involving control of the Company, even if viewed favorably by shareholders and/or should the offer include a substantial premium over the market price of our common stock at that time. In addition, these provisions may have the effect of assisting our management to remain in office and place it in a better position to resist changes that shareholders may want to make if dissatisfied with the conduct of our business. These provisions include the following:

Articles of Incorporation

Our Articles of Incorporation:

- authorize the issuance of our authorized but unissued shares of “blank check” preferred stock in one or more classes and in one or more series within any such class, with such preferences, limitations and relative rights granted to and imposed upon each class and series of preferred stock as determined by the Board in accordance with Section 14-2-602 of the Georgia Business Corporation Code;
- require the unanimous written consent of our shareholders for them to take action without a meeting of shareholders;
- require the Board, when evaluating any transaction involving control of the Company, to consider not only the consideration being offered in relation to the then-current market price for the Company’s capital stock but also in relation to the then current value of the Company in a freely-negotiated transaction and to the Board’s estimated future value of the Company (including the unrealized value of its properties and assets) as an independent going concern, as well as other factors the Board deems relevant, such as the interests of employees, customers, suppliers and creditors of the Company and its subsidiaries, and the communities in which its facilities are located; and

- provide that our shareholders shall elect the directors of the Company by the affirmative vote of the holders of a majority of the voting power of the shares of capital stock of the Company present in person or represented by proxy at the annual meeting of shareholders and entitled to vote for the election of directors, unless the number of nominees exceeds the number of directors to be elected, in which case the directors shall be elected by a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote for the election of directors.

Bylaws

Our Bylaws:

- permit a special meeting of the shareholders to be called by the holders of a majority of shares outstanding and entitled to vote at such meeting;
 - prohibit the conduct of any business at a special meeting of shareholders other than the business specified in the notice of the meeting;
 - require the unanimous written consent of our shareholders for them to take action without a meeting of shareholders;
 - require shareholders to provide advance notice to us of any shareholder nominations for directors at an annual or special meeting of shareholders or to bring any proposal of other business before an annual meeting of shareholders;
 - provide that, except as otherwise provided by our Articles of Incorporation, each outstanding share having voting rights shall be entitled to one vote on each matter submitted to a vote at a meeting of the shareholders;
 - provide that our shareholders shall elect the directors of the Company by the affirmative vote of the holders of a majority of the voting power of the shares of capital stock of the Company present in person or represented by proxy at the annual meeting of shareholders and entitled to vote for the election of directors, unless the number of nominees exceeds the number of directors to be elected, in which case the directors shall be elected by a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote for the election of directors, and as to all other matters, action on a matter is approved if the votes cast in favor of the action exceed the votes cast against the action;
 - allow the Board to set the number of directors between two and fifteen and authorize our Board to fill vacant directorships;
 - allow our board of directors to alter, amend or repeal our Bylaws and adopt new bylaws; and
 - elect for the Company to be covered by the “business combination” provisions of the Georgia Business Corporation Code described below.

Georgia Law

We have elected in our Bylaws to be governed by the “business combination” provisions of the Georgia Business Corporation Code (Sections 14-2-1131 through 14-2-1133), which could be viewed as having the effect of discouraging an attempt to obtain control of the Company; however we have not elected in our Bylaws to be governed by the “fair price” provisions of the Georgia Business Corporation Code (Sections 14-2-1110 through 14-2-1113), so the “fair price” provisions are not applicable to an attempt to obtain control of the Company. The business combination provision generally would prohibit us from engaging in various business combination transactions with any interested shareholder (defined generally as a beneficial owner of 10% or more of our outstanding common stock) for a period of five years after the date of the transaction in which the person became an interested shareholder unless specified board of directors and shareholder approval conditions are met.

Trading

Our common stock is listed on the NYSE American under the symbol “DLA.”

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC. The transfer agent’s address is 6201 15th Avenue, Brooklyn, New York 11219, and its telephone number is (800) 937-5449.

**FOURTH AMENDMENT TO
FIFTH AMENDED AND RESTATED CREDIT AGREEMENT**

THIS FOURTH AMENDMENT TO FIFTH AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is made and entered into on November 19, 2019, by and among **DELTA APPAREL, INC.**, a Georgia corporation ("Delta"), **M. J. SOFFE, LLC**, a North Carolina limited liability company ("Soffe"), **CULVER CITY CLOTHING COMPANY**, a Georgia corporation ("Culver City"), **SALT LIFE, LLC**, a Georgia limited liability company ("Salt Life"), **DTG2GO, LLC**, a Georgia limited liability company ("DTG2GO"); Delta, Soffe, Culver City, Salt Life, and DTG2GO, each individually, a "Borrower" and, collectively, "Borrowers"; the parties to the Credit Agreement (as defined below) from time to time as Lenders (each individually, a "Lender" and collectively, "Lenders"); and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association ("Wells Fargo"), in its capacity as agent for Lenders (together with its successors in such capacity, "Agent").

Recitals:

Borrowers, Agent and Lenders are parties to a certain Fifth Amended and Restated Credit Agreement dated as of May 10, 2016 (as at any time amended, restated, modified or supplemented, the "Credit Agreement"), pursuant to which Agent and Lenders have made certain loans and other financial accommodations available to Borrowers.

The parties desire to amend the Credit Agreement as hereinafter set forth.

NOW, THEREFORE, for TEN DOLLARS (\$10.00) in hand paid and other good and valuable consideration, the receipt and sufficiency of which are hereby severally acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1 . Definitions. All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) By adding a new Section 1.7 to the Credit Agreement as follows:

1.7 Divisions. For all purposes under the Loan Documents, in connection with any division or plan of division under Delaware law (or any comparable event under a different jurisdiction's laws): (a) if any asset, right, obligation or liability of any Person becomes the asset, right, obligation or liability of a different Person, then it shall be deemed to have been transferred from the original Person to the subsequent Person, and (b) if any new Person comes into existence, such new Person shall be deemed to have been organized on the first date of its existence by the holders of its Equity Interests at such time.

(b) By deleting the last two sentences of Section 2.3(a) of the Credit Agreement and by substituting in lieu thereof the following:

All Borrowing requests which are not made on-line via Agent's electronic platform or portal shall be subject to (and unless Agent elects otherwise in the exercise of its sole discretion, such Borrowings shall not be made until the completion of) Agent's authentication process (with results satisfactory to Agent) prior to the funding of any such requested Revolving Loan.

(c) By deleting the references to "\$14,500,000" in each of Section 2.3(b)(i), 2.3(d)(i) and 2.3(d)(ii) of the Credit Agreement and by substituting in lieu thereof, in each instance, a reference to "\$17,000,000."

(d) By adding a new sentence to the end of Section 2.3(g)(ii)(G) of the Credit Agreement as follows:

Subject to Section 17.14, no reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased exposure following such reallocation.

(e) By deleting the paragraph set forth at the end of Section 2.6(a) of the Credit Agreement and by substituting the following in lieu thereof:

Notwithstanding anything to the contrary set forth herein, (A) to the extent that there are any Loans outstanding on any day, an amount of such Loans equal to the lesser of (x) the FILO Formula Amount and (y) the principal amount of the Loans outstanding on such day shall be deemed to be made in respect of the FILO Formula Amount, and (B) such Loans, if LIBOR Rate Loans are available hereunder, shall be LIBOR Rate Loans and bear interest at a per annum rate equal to the LIBOR Rate plus three and one-quarter percent (3.25%), and, otherwise, shall bear interest at a per annum rate equal to the Base Rate plus two and one-quarter percent (2.25%).

(f) By deleting Section 2.10(c) of the Credit Agreement and by substituting the following in lieu thereof:

(c) **Field Examination and Other Fees.** Borrowers shall pay to Agent, field examination, appraisal, and valuation fees and charges, as and when incurred or chargeable, as follows (i) a fee of \$1,000 per day, per examiner, plus out-of-pocket expenses (including travel, meals, and lodging) for each field examination of any Borrower performed by personnel employed by Agent, and (ii) the fees or charges paid or incurred by Agent (but, in any event, no less than a charge of \$1,000 per day, per Person, plus out-of-pocket expenses (including travel, meals, and lodging)) if it elects to employ the services of one or more third Persons to perform field examinations of any Borrower or its Subsidiaries, to establish electronic collateral reporting systems, to appraise the Collateral, or any portion thereof, or to assess any Borrower's or its Subsidiaries' business valuation; provided, that so long as no Event of Default shall have occurred and be continuing, Borrowers shall not be obligated to reimburse Agent for more than:

(i) (1) one (1) Inventory appraisal per calendar year so long as Availability is equal to or greater than \$17,500,000 (such amount to be increased pro rata with the amount of any increase in the Commitments pursuant to Section 2.14), and (2) at Agent's discretion, two (2) Inventory appraisals per calendar year so long as Availability is less than \$17,500,000 (such amount to be increased pro rata with the amount of any increase in the Commitments pursuant to Section 2.14); provided, however, that there shall be no limit on the number of Inventory appraisals that Agent may conduct or request or for which Borrowers are obligated to reimburse Agent at any time Default or Event of Default exists or has occurred and is continuing;

(ii) at Agent's discretion, one (1) Real Property appraisal for each parcel of Real Property constituting Eligible Real Property per calendar year, so long as Availability is less than \$23,500,000 (such amount to be increased pro rata with the amount of any increase in the Commitments pursuant to Section 2.14); provided, however, that there shall be no limit on the number of Real Property appraisals for each parcel of Real Property constituting Eligible Real Property that Agent may conduct or request or for which Borrowers are obligated to reimburse Agent at any time a Default or Event of Default exists or has occurred and is continuing;

(iii) at Agent's discretion, one (1) Equipment appraisal per calendar year so long as Availability is less than \$23,500,000 (such amount to be increased pro rata with the amount of any increase in the Commitments pursuant to Section 2.14); provided, however, that there shall be no

limit on the number of Equipment appraisals that Agent may conduct or request or for which Borrowers are obligated to reimburse Agent at any time a Default or Event of Default exists or has occurred and is continuing; and

(iv) at Agent's discretion, one (1) Intellectual Property appraisal per calendar year; provided, however, that there shall be no limit on the number of Intellectual Property appraisals that Agent may conduct or request or for which Borrowers are obligated to reimburse Agent at any time a Default or Event of Default exists or has occurred and is continuing.

(g) By deleting the reference to "\$25,000,000" in Section 2.11(b)(i) of the Credit Agreement and by substituting in lieu thereof a reference to "\$10,000,000 or, if requested in writing by Borrowers at least five (5) days prior to proposed increase date, an amount greater than \$10,000,000 but less than or equal to \$25,000,000."

(h) By deleting Section 2.11(f) of the Credit Agreement and by substituting the following in lieu thereof:

(f) Each Borrower agrees to indemnify, defend and hold harmless each member of the Lender Group (including Issuing Bank and its branches, Affiliates, and correspondents) and each such Person's respective directors, officers, employees, attorneys and agents (each, including Issuing Bank, a "Letter of Credit Related Person") (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, liabilities, fines, costs, penalties, and damages, and all reasonable fees and disbursements of attorneys, experts, or consultants and all other costs and expenses actually incurred in connection therewith or in connection with the enforcement of this indemnification (as and when they are incurred and irrespective of whether suit is brought), which may be incurred by or awarded against any such Letter of Credit Related Person (other than Taxes, which shall be governed by Section 16) (the "Letter of Credit Indemnified Costs"), and which arise out of or in connection with, or as a result of:

(i) any Letter of Credit or any pre-advice of its issuance;

(ii) any transfer, sale, delivery, surrender or endorsement (or lack thereof) of any Drawing Document at any time(s) held by any such Letter of Credit Related Person in connection with any Letter of Credit;

(iii) any action or proceeding arising out of, or in connection with, any Letter of Credit (whether administrative, judicial or in connection with arbitration), including any action or proceeding to compel or restrain any presentation or payment under any Letter of Credit, or for the wrongful dishonor of, or honoring a presentation under, any Letter of Credit;

(iv) any independent undertakings issued by the beneficiary of any Letter of Credit;

(v) any unauthorized instruction or request made to Issuing Bank in connection with any Letter of Credit or requested Letter of Credit, or any error, omission, interruption or delay in such instruction or request, whether transmitted by mail, courier, electronic transmission, SWIFT, or any other telecommunication including communications through a correspondent;

(vi) an adviser, confirmer or other nominated person seeking to be reimbursed, indemnified or compensated;

(vii) any third party seeking to enforce the rights of an applicant, beneficiary, nominated person, transferee, assignee of Letter of Credit proceeds or holder of an instrument or document;

(viii) the fraud, forgery or illegal action of parties other than the Letter of Credit Related Person;

(ix) any prohibition on payment or delay in payment of any amount payable by Issuing Bank to a beneficiary or transferee beneficiary of a Letter of Credit arising out of Anti-Corruption Laws, Anti-Money Laundering Laws, or Sanctions;

(x) Issuing Bank's performance of the obligations of a confirming institution or entity that wrongfully dishonors a confirmation;

(xi) any foreign language translation provided to Issuing Bank in connection with any Letter of Credit;

(xii) any foreign law or usage as it relates to Issuing Bank's issuance of a Letter of Credit in support of a foreign guaranty including the expiration of such guaranty after the related Letter of Credit expiration date and any resulting drawing paid by Issuing Bank in connection therewith; or

(xiii) the acts or omissions, whether rightful or wrongful, of any present or future de jure or de facto governmental or regulatory authority or cause or event beyond the control of the Letter of Credit Related Person;

provided, that such indemnity shall not be available to any Letter of Credit Related Person claiming indemnification under clauses (i) through (xiii) above to the extent that such Letter of Credit Indemnified Costs may be finally determined in a final, non-appealable judgment of a court of competent jurisdiction to have resulted directly from the gross negligence or willful misconduct of the Letter of Credit Related Person claiming indemnity. Borrowers hereby agree to pay the Letter of Credit Related Person claiming indemnity on demand from time to time all amounts owing under this Section 2.11(f). If and to the extent that the obligations of Borrowers under this Section 2.11(f) are unenforceable for any reason, Borrowers agree to make the maximum contribution to the Letter of Credit Indemnified Costs permissible under applicable law. This indemnification provision shall survive termination of this Agreement and all Letters of Credit.

(i) By adding new Sections 2.11(o), (p), (q) and (r) to the Credit Agreement as follows:

(o) Each standby Letter of Credit shall expire not later than the date that is 12 months after the date of the issuance of such Letter of Credit; provided that any standby Letter of Credit may provide for the automatic extension thereof for any number of additional periods each of up to one year in duration; provided further that with respect to any Letter of Credit which extends beyond the Maturity Date, Letter of Credit Collateralization shall be provided therefor on or before the date that is five Business Days prior to the Maturity Date. Each commercial Letter of Credit shall expire on the earlier of (i) 120 days after the date of the issuance of such commercial Letter of Credit and (ii) five Business Days prior to the Maturity Date.

(p) If (i) any Event of Default shall occur and be continuing, or (ii) Availability shall at any time be less than zero, then on the Business Day following the date when Borrowers receive notice from Agent or Required Lenders (or, if the maturity of the Obligations has been accelerated, Revolving Lenders with Letter of Credit Exposure representing greater than 50% of the total Letter Credit Exposure) demanding Letter of Credit Collateralization pursuant to this Section 2.11(p) upon such demand, Borrowers shall provide Letter of Credit Collateralization with respect to the then existing Letter of Credit Usage. If Borrowers fail to provide Letter of Credit Collateralization as required by this Section 2.11(p), Revolving Lenders may (and, upon direction of Agent, shall) advance, as Revolving Loans the amount of the cash collateral required pursuant to the Letter of Credit Collateralization provision so that the then existing Letter of Credit Usage is cash collateralized in accordance with the Letter of Credit Collateralization provision (whether or not the Revolver Commitments have terminated, an Overadvance exists or the conditions in Section 3 are satisfied).

(q) The provisions of this Section 2.11 shall survive the termination of this Agreement and the repayment in full of the Obligations with respect to any Letters of Credit that remain outstanding.

(r) At Borrowers' costs and expense, Borrowers shall execute and deliver to Issuing Bank such additional certificates, instruments or documents

and take such additional action as may be reasonably requested by Issuing Bank to enable Issuing Bank to issue any Letter of Credit pursuant to this Agreement and related Issuer Document, to protect, exercise or enforce Issuing Bank's rights and interests under this Agreement or to give effect to the terms and provisions of this Agreement or any Issuer Document. Each Borrower irrevocably appoints Issuing Bank as its attorney-in-fact and authorizes Issuing Bank, without notice to Borrowers, to execute and deliver ancillary documents and letters customary in the letter of credit business that may include but are not limited to advisements, indemnities, checks, bills of exchange and issuance documents. The power of attorney granted by Borrowers is limited solely to such actions related to the issuance, confirmation or amendment of any Letter of Credit and to ancillary documents or letters customary in the letter of credit business. This appointment is coupled with an interest.

(j) By deleting Section 2.12(d) of the Credit Agreement and by substituting the following in lieu thereof:

(d) Special Provisions Applicable to LIBOR Rate.

(i) The LIBOR Rate may be adjusted by Agent with respect to any Lender on a prospective basis to take into account any additional or increased costs to such Lender of maintaining or obtaining any eurodollar deposits or increased costs (other than Taxes which shall be governed by Section 16), in each case, due to changes in applicable law occurring subsequent to the commencement of the then applicable Interest Period, including any Changes in Law and changes in the reserve requirements imposed by the Board of Governors, which additional or increased costs would increase the cost of funding or maintaining loans bearing interest at the LIBOR Rate. In any such event, the affected Lender shall give Borrowers and Agent notice of such a determination and adjustment and Agent promptly shall transmit the notice to each other Lender and, upon its receipt of the notice from the affected Lender, Borrowers may, by notice to such affected Lender (A) require such Lender to furnish to Borrowers a statement setting forth in reasonable detail the basis for adjusting such LIBOR Rate and the method for determining the amount of such adjustment, or (B) repay the LIBOR Rate Loans of such Lender with respect to which such adjustment is made (together with any amounts due under Section 2.12(b)(ii)).

(ii) Subject to the provisions set forth in Section 2.12(d)(iii) below, in the event that any change in market conditions or any Change in Law shall at any time after the date hereof, in the reasonable opinion of any Lender, make it unlawful or impractical for such Lender to fund or maintain LIBOR Rate Loans or to continue such funding or maintaining, or to determine or charge interest rates at the LIBOR Rate, such Lender shall give notice of such changed circumstances to Agent and Borrowers and Agent promptly shall transmit the notice to each other Lender and (y) in the case of any LIBOR Rate Loans of such Lender that are outstanding, the date specified in such Lender's notice shall be deemed to be the last day of the Interest Period of such LIBOR Rate Loans, and interest upon the LIBOR Rate Loans of such Lender thereafter shall accrue interest at the rate then applicable to Base Rate Loans, and (z) Borrowers shall not be entitled to elect the LIBOR Option until such Lender determines that it would no longer be unlawful or impractical to do so.

(iii) Effect of Benchmark Transition Event.

(A) Benchmark Replacement. Notwithstanding anything to the contrary herein or in any other Loan Document, upon the occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, Agent and Borrowers may amend this Agreement to replace the LIBOR Rate with a Benchmark Replacement. Any such amendment with respect to a Benchmark Transition Event will become effective at 5:00 p.m. on the fifth (5th) Business Day after Agent has posted such proposed amendment to all Lenders and Borrowers so long as Agent has not received, by such time, written notice of objection to such amendment from Lenders comprising Required Lenders. Any such amendment with respect to an Early Opt-in Election will become effective on the date that Lenders comprising Required Lenders have delivered to Agent written notice that such Required Lenders accept such amendment. No replacement of the LIBOR Rate with a Benchmark Replacement pursuant to this Section 2.12(d)(iii) will occur prior to the applicable Benchmark Transition Start Date.

(B) Benchmark Replacement Conforming Changes. In connection with the implementation of a Benchmark Replacement, Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(C) Notices; Standards for Decisions and Determinations. Agent will promptly notify Borrowers and Lenders of (1) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date and Benchmark Transition Start Date, (2) the implementation of any Benchmark Replacement, (3) the effectiveness of any Benchmark Replacement Conforming Changes and (4) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by Agent or Lenders pursuant to this Section 2.12(d)(iii) including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 2.12(d)(iii).

(D) Benchmark Unavailability Period. Upon Borrowers' receipt of notice of the commencement of a Benchmark Unavailability Period, Borrowers may revoke any request for a LIBOR Borrowing of, conversion to or continuation of LIBOR Rate Loans to be made, converted or continued during any Benchmark Unavailability Period and, failing that, Borrowers will be deemed to have converted any such request into a request for a Borrowing of or conversion to Base Rate Loans. During any Benchmark Unavailability Period, the component of Base Rate based upon the LIBOR Rate will not be used in any determination of the Base Rate.

(k) By deleting Section 2.12(f) of the Credit Agreement.

(l) By adding a new sentence to the end of Section 4.12 of the Credit Agreement as follows:

As of the Fourth Amendment Date, the information included in the Beneficial Ownership Certification is true and correct in all respects.

(m) By adding a new sentence to the end of Section 5.2 of the Credit Agreement as follows:

Borrowers and Agent hereby agree that the delivery of the Borrowing Base Certificate through Agent's electronic platform or portal, subject to Agent's authentication process, by such other electronic method as may be approved by Agent from time to time in its sole discretion, or by such other electronic input of information necessary to calculate the Borrowing Base as may be approved by Agent from time to time in its sole discretion, shall in each case be deemed to satisfy the obligation of Borrowers to deliver such Borrowing Base Certificate, with the same legal effect as if such Borrowing Base Certificate had been manually executed by Borrowers and delivered to Agent.

(n) By deleting the final sentence of Section 5.3 of the Credit and by substituting the following in lieu thereof

Each Borrower further agrees, on behalf of itself and its Subsidiaries, that nothing herein shall authorize any Borrower or any Subsidiary of a Borrower to convert from a corporation to a limited liability company or from a limited liability company to a corporation or change its classification or status for U.S. federal income tax purposes, as the case may be, unless, in each such case, Borrowers shall have given at least ninety (90) days prior written notice of such conversion to Agent, Agent shall have concluded that, under Applicable Law, such conversion shall not (x) detrimentally affect the enforceability of the

Loan Documents against the Borrower to be so converted (the "Converting Borrower") or the Liens in favor of Agent against the Property of the Converting Borrower, or (y) affect in any way the Converting Borrower's Obligations that were incurred prior to giving effect to such conversion, and Borrowers shall have taken all such actions as Agent may request in its discretion to maintain the perfection and priority of any Liens of Agent that would otherwise be affected thereby and to ensure the enforceability of the Obligations against such Converting Borrower.

(o) By adding a new sentence to the end of Section 5.6 to the Credit Agreement as follows:

If at any time the area in which any Real Property that is subject to a Mortgage is located is designated a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), obtain flood insurance in such total amount and on terms that are satisfactory to Agent and all Lenders from time to time, and otherwise comply with the Flood Laws or as is otherwise satisfactory to Agent and all Lenders.

(p) By adding a new sentence to the end of Section 5.12 of the Credit Agreement as follows:

Notwithstanding anything to the contrary contained herein (including Section 5.11 and this Section 5.12) or in any other Loan Document, Agent shall not accept delivery of any Mortgage from any Loan Party unless each Lender has received 45 days prior written notice thereof and Agent has received confirmation from each Lender that such Lender has completed its flood insurance diligence, has received copies of all flood insurance documentation and has confirmed that flood insurance compliance has been completed as required by the Flood Laws or as otherwise satisfactory to such Lender and (y) Agent shall not accept delivery of any joinder to any Loan Document with respect to any Subsidiary of any Loan Party that is not a Loan Party, if such Subsidiary that qualifies as a "legal entity customer" under the Beneficial Ownership Regulation unless such Subsidiary has delivered a Beneficial Ownership Certification in relation to such Subsidiary and Agent has completed its Patriot Act searches, OFAC/PEP searches and customary individual background checks for such Subsidiary, the results of which shall be satisfactory to Agent.

(q) By inserting the following parenthetical immediately prior to the "." set forth at the end of Section 6.4:

(including by an allocation of assets among newly divided limited liability companies pursuant to a "plan of division")

(r) By (i) deleting the word "or" set forth at the end of Section 14.1(a)(xi) of the Credit Agreement, (ii) deleting the ";" set forth at the end of Section 14.1(a)(xii) of the Credit Agreement and by substituting in lieu thereof ", or" and by adding a new Section 14.1(a)(xiii) to the Credit Agreement as follows:

(xiii) at any time that any Real Property is included in the Collateral, add, increase, renew or extend any Loan, Letter of Credit or Commitment hereunder until the completion of flood due diligence, documentation and coverage as required by the Flood Laws or as otherwise satisfactory to all Lenders

(s) By deleting Section 14.1(f) of the Credit Agreement and by substituting the following in lieu thereof:

(f) Anything in this Section 14.1 to the contrary notwithstanding, (i) any amendment, modification, elimination, waiver, consent, termination, or release of, or with respect to, any provision of this Agreement or any other Loan Document that relates only to the relationship of the Lender Group among themselves, and that does not affect the rights or obligations of any Loan Party, shall not require consent by or the agreement of any Loan Party, (ii) any amendment, waiver, modification, elimination, or consent of or with respect to any provision of this Agreement or any other Loan Document may be entered into without the consent of, or over the objection of, any Defaulting Lender, and (iii) any amendment contemplated by Section 2.12(d)(iii) of this Agreement in connection with a Benchmark Transition Event or an Early Opt-in Election shall be effective as contemplated by such Section 2.12(d)(iii) hereof.

(t) By adding new sentences to the end of Section 15.3 of the Credit Agreement as follows:

No Agent-Related Person shall have any liability to any Lender, and Loan Party or any of their respective Affiliates if any request for a Loan, Letter of Credit or other extension of credit was not authorized by the applicable Borrower. Agent shall not be required to take any action that, in its opinion or in the opinion of its counsel, may expose it to liability or that is contrary to any Loan Document or applicable law or regulation.

(u) By deleting Section 16.1 of the Credit Agreement and by substituting the following in lieu thereof:

16.1 Payments. All payments made by any Loan Party under any Loan Document will be made free and clear of, and without deduction or withholding for, any Taxes, except as otherwise required by applicable law, and in the event any deduction or withholding of Taxes is required, the applicable Loan Party shall make the requisite withholding, promptly pay over to the applicable Governmental Authority the withheld tax, and furnish to Agent as promptly as possible after the date the payment of any such Tax is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by Loan Parties. Furthermore, if any such Tax is an Indemnified Tax or an Indemnified Tax is so levied or imposed, Loan Parties agree to pay the full amount of such Indemnified Taxes and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement, any note, or Loan Document, including any amount paid pursuant to this Section 16.1 after withholding or deduction for or on account of any Indemnified Taxes, will not be less than the amount provided for herein. Loan Parties will promptly pay any Other Taxes or reimburse Agent for such Other Taxes upon Agent's demand. Loan Parties shall jointly and severally indemnify each Indemnified Person (as defined in Section 10.3) (collectively a "Tax Indemnitee") for the full amount of Indemnified Taxes arising in connection with this Agreement or any other Loan Document or breach thereof by any Loan Party (including any Indemnified Taxes imposed or asserted on, or attributable to, amounts payable under this Section 16) imposed on, or paid by, such Tax Indemnitee and all reasonable costs and expenses related thereto (including fees and disbursements of attorneys and other tax professionals), as and when they are incurred and irrespective of whether suit is brought, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority (other than Indemnified Taxes and additional amounts that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Tax Indemnitee). The obligations of Loan Parties under this Section 16 shall survive the termination of this Agreement, the resignation and replacement of the Agent, and the repayment of the Obligations.

(v) By adding a new Section 16.2(e) to the Credit Agreement as follows:

(e) If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding tax imposed by FATCA if such Lender were to fail to comply with the applicable due diligence and reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the IRC, as applicable), such Lender shall deliver to Agent (or, in the case of a Participant, to the Lender granting the participation only) at the time or times prescribed by law and at such time or times reasonably requested by Agent (or, in the case of a Participant, the Lender granting the participation) such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the IRC) and such additional documentation reasonably requested by Agent (or, in the case of a Participant, the Lender granting the participation) as may be necessary for Agent or Borrowers to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (e), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(w) By deleting Section 17.9(c) of the Credit Agreement and by substituting the following in lieu thereof:

(c) Each Loan Party agrees that Agent may make materials or information provided by or on behalf of Borrowers hereunder (collectively, "Borrower Materials") available to Lenders by posting the Communications on IntraLinks, SyndTrak or a substantially similar secure electronic transmission system (the "Platform"). The Platform is provided "as is" and "as available." Agent does not warrant the accuracy or completeness of the Borrower Materials, or the adequacy of the Platform and expressly disclaims liability for errors or omissions in the communications. No warranty of any

kind, express, implied or statutory, including any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by Agent in connection with the Borrower Materials or the Platform. In no event shall Agent or any Agent-Related Person have any liability to Loan Parties, any Lender or any other person for damages of any kind, including direct or indirect, special, incidental or consequential damages, losses or expenses (whether in tort, contract or otherwise) arising out of any Loan Party's or Agent's transmission of communications through the Internet, except to the extent the liability of such person is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from such person's gross negligence or willful misconduct. Each Loan Party further agrees that certain Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to Loan Parties or their securities) (each, a "Public Lender"). Loan Parties shall be deemed to have authorized Agent and its Affiliates and Lenders to treat Borrower Materials marked "PUBLIC" or otherwise at any time filed with the SEC as not containing any material non-public information with respect to Loan Parties or their securities for purposes of United States federal and state securities laws. All Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated as "Public Investor" (or another similar term). Agent and its Affiliates and Lenders shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" or that are not at any time filed with the SEC as being suitable only for posting on a portion of the Platform not marked as "Public Investor" (or such other similar term).

(x) By adding a new Section 17.16 to the Credit Agreement as follows:

Section 17.16. Acknowledgement Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for Hedge Agreements or any other agreement or instrument that is a QFC (such support, "QFC Credit Support" and each such QFC a "Supported QFC"), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the "U.S. Special Resolution Regimes") in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of Georgia or of the United States or any other state of the United States): In the event a Covered Entity that is party to a Supported QFC (each, a "Covered Party") becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

(y) By deleting the definitions of "Applicable Margin," "Authorized Person," "Borrowing Base," "Defaulting Lender," "FATCA," "FILO Maximum Amount," "Fixed Charge Coverage Ratio," "Maturity Date" and "Maximum Revolver Amount" set forth in Schedule 1.1 to the Credit Agreement and by substituting the following in lieu thereof, respectively:

"Applicable Margin" means, as of any date of determination and with respect to Base Rate Loans or LIBOR Rate Loans, as applicable, the applicable margin set forth in the following table that corresponds to the Alternate Average Excess Availability of Borrowers for the most recently completed fiscal quarter; provided, that for the period from the Closing Date through and including December 27, 2019, the Applicable Margin shall be set at the margin in the row styled "Level III"; provided further, that any time an Event of Default has occurred and is continuing, the Applicable Margin shall be set at the margin in the row styled "Level III":

<u>Level</u>	<u>Alternate Average Excess Availability</u>	<u>Applicable Margin Relative to Base Rate Loans (the "Base Rate Margin")</u>	<u>Applicable Margin Relative to LIBOR Rate Loans (the "LIBOR Rate Margin")</u>
I	≥ 50% of Revolver Commitments	0.25%	1.25%
II	< 50% of Revolver Commitments and ≥ 20% of Revolver Commitments	0.50%	1.50%
III	< 20% of Revolver Commitments	0.75%	1.75%

The Applicable Margin shall be re-determined as of the first day of each fiscal quarter of Borrowers.

"Authorized Person" means any one of the individuals identified as an officer of a Borrower on Schedule A-2 to this Agreement, as such schedule is updated from time to time by written notice from Borrowers to Agent, or any other individual identified by Administrative Borrower as an authorized person and authenticated through Agent's electronic platform or portal in accordance with its procedures for such authentication.

"Borrowing Base" means, as of any date of determination, the result of:

- (a) 85% of the amount of Eligible Accounts, less the amount, if any, of the Dilution Reserve *plus*
- (b) the lesser of:
 - (i) \$102,000,000, or
 - (ii) the lesser of (A) sixty percent (60%) of the Value of Eligible Finished Goods Inventory, Eligible Raw Material Inventory, and Eligible In-Transit Inventory; or (B) eighty-five percent (85%) of the Net Orderly Liquidation Value of such Eligible Inventory, *plus*
- (c) (i) at any time prior to the first day of the month immediately following the satisfaction of the Clinton Real Property Re-Appraisal Conditions, sixty-five percent (65%) of the appraised fair market value (based on the most recent appraisal completed prior to the Fourth Amendment Date that is in form, contains assumptions and utilizes methods acceptable to Agent and that is performed by an appraiser acceptable to Agent) of the Clinton Real Property, which amount shall be reduced on the first day of each month, commencing January 1, 2020 by an amount equal to \$25,945.83, and (ii) at any time on and after the first day of the month immediately following satisfaction of the Clinton Real Property Re-Appraisal Conditions, an amount equal to the lesser of (i) \$10,500,000 and (ii) sixty-five percent (65%) of the appraised fair market value of the Clinton Real Property (based on the most recent appraisal completed prior to the satisfaction of the Clinton Real Property Re-Appraisal Conditions that is in form, contains assumptions and utilizes methods acceptable to Agent and that is performed by an appraiser acceptable to Agent), which amount shall be reduced on the first day of each month, commencing on the first day of the second month immediately following satisfaction of the Clinton Real Property Re-Appraisal Conditions, by an amount equal to 1/120th of the lesser of (i) \$10,500,000 and (ii) sixty-five percent (65%) of the appraised fair market value of the Clinton Real Property (based on the most recent appraisal completed prior to the satisfaction of the Clinton Real Property Re-Appraisal Conditions that is in form, contains assumptions and utilizes methods acceptable to Agent and that is performed by an appraiser acceptable to Agent); *plus*
- (d) sixty-five percent (65%) of the appraised fair market value (based on the most recent appraisal completed prior to the Fourth Amendment Date that is in form, contains assumptions and utilizes methods acceptable to Agent and that is performed by an appraiser acceptable

to Agent) of Eligible Real Property of Borrowers other than the Clinton Real Property, which amount shall be reduced on the first day of each month, commencing January 1, 2020 by an amount equal to \$140,833.33; *plus*

(e) eighty-five percent (85%) multiplied by the Net Orderly Liquidation Value (based on the most recent appraisal completed prior to the Fourth Amendment Date that is in form, contains assumptions and utilizes methods acceptable to Agent and that is performed by an appraiser acceptable to Agent) of the Eligible Equipment of Borrowers, which amount shall be reduced on the first day of each month, commencing January 1, 2020 by an amount equal to \$37,632.74; *plus*

(f) twenty-five percent (25%) of the appraised fair market value (based on the most recent appraisal completed prior to the Fourth Amendment Date that is in form, contains assumptions and utilizes methods acceptable to Agent and that is performed by an appraiser acceptable to Agent) of the Eligible Intellectual Property of Borrowers, which amount shall be reduced on the first day of each month, commencing July 1, 2020 by an amount equal to \$129,008.33; *plus*

(g) the FILO Formula Amount; *minus*

(h) the aggregate amount of Reserves, if any, established by Agent under Section 2.1(c) of the Agreement.

Notwithstanding anything to the contrary contained herein, the portion of the Borrowing Base on any date calculated with reference to Eligible Real Property, Eligible Intellectual Property and Eligible Equipment collectively, shall not exceed (i) at any time prior to the first day of the month immediately following the satisfaction of the Clinton Real Property Re-Appraisal Conditions, twenty percent (20%) of the Maximum Revolver Amount and (ii) at any time on and after the first day of the month immediately following satisfaction of the Clinton Real Property Re-Appraisal Conditions, twenty-five percent (25%) of the Maximum Revolver Amount, and the aggregate amount of Adjusted Revolver Usage based on Eligible Inventory consisting of yarn classified as work-in-process outstanding at any time shall not exceed \$2,500,000 at any time.

"Defaulting Lender" means any Lender that (a) has failed to (i) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies Agent and Borrowers in writing that such failure is the result of such Lender's determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable Default or Event of Default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to Agent, Issuing Bank, or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit) within two Business Days of the date when due, (b) has notified any Borrower, Agent or Issuing Bank in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable Default or Event of Default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within three Business Days after written request by Agent or Administrative Borrower, to confirm in writing to Agent and Borrowers that it will comply with its prospective funding obligations hereunder (provided, that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by Agent and Borrowers), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of any Insolvency Proceeding, (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity, or (iii) become the subject of a Bail-in Action; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by Agent that a Lender is a Defaulting Lender under any one or more of clauses (a) through (d) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender upon delivery of written notice of such determination to Borrowers, Issuing Bank, and each Lender.

"FATCA" means Sections 1471 through 1474 of the IRC, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), and (a) any current or future regulations or official interpretations thereof, (b) any agreements entered into pursuant to Section 1471(b)(1) of the IRC, and (c) any intergovernmental agreement entered into by the United States (or any fiscal or regulatory legislation, rules, or practices adopted pursuant to any such intergovernmental agreement entered into in connection therewith).

"FILO Maximum Amount" means (a) on and after the Third Amendment Date through (and including) July 3, 2021, \$7,000,000, (b) on and after July 4, 2021 through (and including) August 7, 2021, \$5,000,000, (c) on and after August 8, 2021 through (and including) September 4, 2021, \$3,000,000, (d) on and after September 5, 2021 through (and including) October 2, 2021, \$1,000,000, and (e) on and after October 3, 2021, \$0.

"Fixed Charge Coverage Ratio" means, with respect to Borrowers and their Subsidiaries, on a consolidated basis, for any period of determination, the ratio of (a) the sum of (x) EBITDA of Borrowers during such period plus (y) Restructuring Expenses actually recorded on Borrowers' books during such period minus the sum of (i) the amount of any taxes paid in cash, cash dividends to the equity holders of such Person and other distributions to equity holders of such Person during the period in question (including all share repurchases and redemptions with respect to the Qualified Equity Interests of such Person other than those (A) made pursuant to Section 6.7(c) or (B) constituting Junkfood Sale Equity Interest Repurchases) plus (ii) all Unfinanced Capital Expenditures made during such period (other than Clinton Capital Expenditures made during such period) plus (iii) all regularly scheduled (as determined at the beginning of the respective period) principal payments of Indebtedness for borrowed money and Indebtedness with respect to the Capital Leases made during such period to (b) Fixed Charges of Borrowers and their Subsidiaries for the same period. In no event shall the amount of (x) all Restructuring Expenses added back to EBITDA during all periods exceed \$5,000,000 in the aggregate or (y) Clinton Capital Expenditures added back to EBITDA during all periods exceed \$10,000,000 in the aggregate.

"Maturity Date" means November 19, 2024.

"Maximum Revolver Amount" means \$170,000,000, decreased by the amount of reductions in the Revolver Commitments made in accordance with Section 2.4(c) of the Agreement.

(z) By adding the following new definitions of "Benchmark Replacement," "Benchmark Replacement Adjustment," "Benchmark Replacement Conforming Changes," "Benchmark Replacement Date," "Benchmark Transition Event," "Benchmark Transition Start Date," "Benchmark Unavailability Period," "Beneficial Ownership Certification," "BHC Act Affiliate," "Clinton Capital Expenditures," "Clinton Expansion Project," "Clinton Real Property," "Clinton Real Property Re-Appraisal Conditions," "Covered Entity," "Covered Party," "Default Right," "Early Opt-in Election," "Eligible Intellectual Property," "Federal Reserve Bank of New York's Website," "Flood Laws," "Fourth Amendment Date," "Fourth Amendment Fee Letter," "Other Taxes," "QFC," "QFC Credit Support," "Relevant Governmental Body," "SOFR," "Supported QFC," "Tax Indemnitee," "Term SOFR," "Unadjusted Benchmark Replacement" and "U.S. Special Resolution Regimes" to Schedule I.1 to the Credit Agreement in proper alphabetical order as follows, respectively:

"Benchmark Replacement" means the sum of: (a) the alternate benchmark rate (which may include Term SOFR) that has been selected by Agent and Borrowers giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the LIBOR Rate for United States dollar-denominated syndicated credit facilities, and (b) the Benchmark Replacement Adjustment; provided that, if the Benchmark Replacement as so determined would be less than zero, the Benchmark Replacement shall be deemed to be zero for the purposes of this Agreement.

"Benchmark Replacement Adjustment" means, with respect to any replacement of the LIBOR Rate with an Unadjusted Benchmark Replacement for each applicable Interest Period, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by Agent and Borrowers giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the LIBOR Rate with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the LIBOR Rate with the applicable Unadjusted Benchmark Replacement for United States dollar-denominated syndicated credit facilities at such time.

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Base Rate", the definition of "Interest Period", timing and frequency of determining rates and making payments of interest and other administrative matters) that Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Agent in a manner substantially consistent with market practice (or, if Agent decides that adoption of any portion of such market practice is not administratively feasible or if Agent determines that no market practice for the administration of the Benchmark Replacement exists, in such other manner of administration as Agent decides is reasonably necessary in connection with the administration of this Agreement).

"Benchmark Replacement Date" means the earlier to occur of the following events with respect to the LIBOR Rate:

(a) in the case of clause (a) or (b) of the definition of "Benchmark Transition Event," the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which the administrator of the LIBOR Rate permanently or indefinitely ceases to provide the LIBOR Rate; or

(b) in the case of clause (c) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the LIBOR Rate:

(a) a public statement or publication of information by or on behalf of the administrator of the LIBOR Rate announcing that such administrator has ceased or will cease to provide the LIBOR Rate, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the LIBOR Rate;

(b) a public statement or publication of information by the regulatory supervisor for the administrator of the LIBOR Rate, the Federal Reserve System of the United States (or any successor), an insolvency official with jurisdiction over the administrator for the LIBOR Rate, a resolution authority with jurisdiction over the administrator for the LIBOR Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the LIBOR Rate, which states that the administrator of the LIBOR Rate has ceased or will cease to provide the LIBOR Rate permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the LIBOR Rate; or

(c) a public statement or publication of information by the regulatory supervisor for the administrator of the LIBOR Rate announcing that the LIBOR Rate is no longer representative.

"Benchmark Transition Start Date" means (a) in the case of a Benchmark Transition Event, the earlier of (i) the applicable Benchmark Replacement Date and (ii) if such Benchmark Transition Event is a public statement or publication of information of a prospective event, the 90th day prior to the expected date of such event as of such public statement or publication of information (or if the expected date of such prospective event is fewer than 90 days after such statement or publication, the date of such statement or publication) and (b) in the case of an Early Opt-in Election, the date specified by Agent or Required Lenders, as applicable, by notice to Borrowers, Agent (in the case of such notice by Required Lenders) and Lenders.

"Benchmark Unavailability Period" means, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the LIBOR Rate and solely to the extent that the LIBOR Rate has not been replaced with a Benchmark Replacement, the period (x) beginning at the time that such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the LIBOR Rate for all purposes hereunder in accordance with Section 2.12(d)(iii) and (y) ending at the time that a Benchmark Replacement has replaced the LIBOR Rate for all purposes hereunder pursuant to Section 2.12(d)(iii).

"Beneficial Ownership Certification" means a certification regarding beneficial ownership as required by the Beneficial Ownership Regulation.

"BHC Act Affiliate" of a Person means an "affiliate" (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such Person.

"Clinton Capital Expenditures" means Capital Expenditures incurred by Borrowers in connection with the Clinton Expansion Project.

"Clinton Expansion Project" means the expansion of Borrowers' distribution facility located on the Clinton Real Property.

"Clinton Real Property" means Borrowers' real property located within the Town of Clinton, Anderson County, Tennessee, as more fully described on Schedule R-1.

"Clinton Real Property Re-Appraisal Conditions" means the first date on which:

(a) no Default or Event of Default is in existence;

(b) Agent shall have received an appraisal of the Clinton Real Property that is (i) in form, contains assumptions and utilizes methods acceptable to Agent, (ii) performed by an appraiser acceptable to Agent, and (iii) conducted after the completion of the Clinton Expansion Project (to the reasonable satisfaction of Agent);

(c) Agent shall have received an ALTA as-built survey of the Clinton Real Property that is (i) in form and substance acceptable to Agent, including a metes-and-bounds property description of the Clinton Real Property, (ii) performed by a licensed surveyor acceptable to Agent, and (iii) performed after the completion of the Clinton Expansion Project (to the reasonable satisfaction of Agent);

(d) Agent shall have received a mortgagee title insurance policy with such endorsements and affirmative coverages as may be required by Agent (or a marked commitment to issue the same) for the Clinton Real Property issued by a title insurance company satisfactory to Agent in amounts satisfactory to Agent assuring Agent that the Mortgage on the Clinton Real Property is a valid and enforceable first priority mortgage Lien on the Clinton Real Property free and clear of all defects and encumbrances except Permitted Liens (and insuring over all mechanics' and material suppliers' Liens arising (or which may arise) from work performed with respect to the Clinton Expansion Project), and otherwise in form and substance satisfactory to Agent;

(e) Agent shall have received confirmation from each Lender that such Lender has (i) completed its flood insurance diligence, (ii) has

received copies of all flood insurance documentation, and (iii) has confirmed that flood insurance compliance has been completed as required by the Flood Laws or as otherwise satisfactory to such Lender, in each case with respect to the Clinton Real Property;

(f) Agent shall have received a duly executed counterpart of an amendment to the Mortgage for the Clinton Real Property from the applicable Borrower, which shall be in form and substance satisfactory to Agent;

(g) Agent shall have received an opinion of Loan Parties' Tennessee counsel in form and substance satisfactory to Agent with respect to the Mortgage on the Clinton Real Property;

(h) Agent shall have received a certificate of insurance, together with the endorsements thereto, as are required by Section 5.6 of this Agreement, in form and substance satisfactory to Agent;

(i) Agent shall have received a copy of the certificate of occupancy (or similar document) issued by the applicable Governmental Authority with respect to the Clinton Real Property and such other evidence that Agent may reasonably require to demonstrate the completion of the Clinton Expansion Project; and

(j) Agent shall have received a certificate signed by Borrowers' chief financial officer on such date certifying that, without giving effect to the transactions contemplated by this definition and in the definition of "Borrowing Base," Borrowers have (i) pro forma Alternate Excess Availability of not less than twelve and one-half percent (12.5%) of the lesser of (x) the Borrowing Base (based on the most recently delivered Borrowing Base Certificate prior to such date pursuant to Section 5.2) and (y) the Maximum Revolver Amount on such date, and (ii) a pro forma Fixed Charge Coverage Ratio of not less than 1.10 to 1.00 for the twelve fiscal (12) month period ending on the last day of the most recently ended fiscal month for which Borrowers have delivered the financial statements required by Section 5.1, in each case as demonstrated by the calculations attached thereto.

"Covered Entity" means any of the following:

- (a) a "covered entity" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);
- (b) a "covered bank" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or
- (c) a "covered FSI" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

"Covered Party" has the meaning specified therefor in Section 17.16 of this Agreement.

"Default Right" has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

"Early Opt-in Election" means the occurrence of:

(a) (i) a determination by Agent or (ii) a notification by Required Lenders to Agent (with a copy to Borrowers) that Required Lenders have determined that United States dollar-denominated syndicated credit facilities being executed at such time, or that include language similar to that contained in Section 2.12(d)(iii) are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace the LIBOR Rate, and

(b) (i) the election by Agent or (ii) the election by Required Lenders to declare that an Early Opt-in Election has occurred and the provision, as applicable, by Agent of written notice of such election to Borrowers and Required Lenders or by Required Lenders of written notice of such election to Agent.

"Eligible Intellectual Property" means any federally registered trademark of Borrowers used in the ordinary course of Borrowers' business which is acceptable to Agent based on the criteria set forth below. In general, Eligible Trademarks shall not include (a) any trademark subject to an Intellectual Property Claim, any trademark securing Permitted Trademark Financing Debt, or any trademark otherwise subject to a security interest or other Lien in favor of any Person other than Agent except those permitted in this Agreement (but without limiting the right of Agent to establish any Reserves with respect to amounts secured by such security interest or other Lien in favor of any Person even if permitted herein); (b) any trademark which is not subject to the first priority, valid and perfected security interest or Lien of Agent; (c) any trademark registered exclusively outside the United States of America; or (d) any trademark with respect to which Agent has not received an appraisal in form, scope and methodology acceptable to Agent and by an appraiser acceptable to Agent, addressed to Agent and Lenders and upon which Agent and Lenders are expressly permitted to rely. General criteria for Eligible Trademarks may be established and revised from time to time by Agent in good faith based on an event, condition or other circumstance arising after the date hereof, or existing on the date hereof to the extent Agent has no written notice thereof from a Borrower, which adversely affects or could reasonably be expected to adversely affect the trademark in the good faith determination of Agent. Any trademark which is not an Eligible Trademark shall nevertheless be part of the Collateral.

"Federal Reserve Bank of New York's Website" means the website of the Federal Reserve Bank of New York at <http://www.newyorkfed.org>, or any successor source.

"Flood Laws" means the National Flood Insurance Act of 1968, Flood Disaster Protection Act of 1973, and related laws, rules and regulations, including any amendments or successor provisions.

"Fourth Amendment Date" means November 19, 2019.

"Fourth Amendment Fee Letter" means that certain fee letter, dated as of the Fourth Amendment Date, among Borrowers and Agent, in form and substance reasonably satisfactory to Agent.

"Other Taxes" means all present or future stamp, court, excise, value added, or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document.

"QFC" has the meaning assigned to the term "qualified financial contract" in, and shall be interpreted in accordance with, 12 U.S.C. § 5390(c)(8) (D).

"QFC Credit Support" has the meaning specified therefor in Section 17.16 of this Agreement.

"Relevant Governmental Body" means the Federal Reserve Board or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board or the Federal Reserve Bank of New York or any successor thereto.

"SOFR" with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as

the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's Website.

"Supported QFC" has the meaning specified therefor in Section 17.16 of this Agreement.

"Tax Indemnitee" has the meaning specified therefor in Section 16.1 of the Agreement.

"Term SOFR" means the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"Unadjusted Benchmark Replacement" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

"U.S. Special Resolution Regimes" has the meaning specified therefor in Section 17.16 of this Agreement.

(aa) By deleting clause (o)(ii) of the definition of "Permitted Indebtedness" set forth in Schedule 1.1 of the Credit Agreement and by substituting the following in lieu thereof:

(ii) the Permitted Foreign Debt in an aggregate outstanding principal amount not to exceed \$25,000,000 at any time outstanding for all Subsidiaries of each Borrower that are CFCs,

(bb) To correct a scrivener's error, by changing the definition of "Change in Control" set forth in Schedule 1.1 of the Credit Agreement to read "Change of Control."

(cc) By deleting Schedule C-1 to the Credit Agreement and by substituting in lieu thereof Schedule C-1 attached hereto.

3. Ratification and Reaffirmation. Each Borrower hereby ratifies and reaffirms the Obligations, each of the Loan Documents and all of such Borrower's covenants, duties, indebtedness and liabilities under the Loan Documents.

4. Acknowledgments and Stipulations. Each Borrower acknowledges and stipulates that the Credit Agreement and the other Loan Documents executed by such Borrower are legal, valid and binding obligations of such Borrower that are enforceable against such Borrower in accordance with the terms thereof; all of the Obligations are owing and payable without defense, offset or counterclaim (and to the extent there exists any such defense, offset or counterclaim on the date hereof, the same is hereby waived by such Borrower); the security interests and Liens granted by such Borrower in favor of Agent are duly perfected, first priority security interests and Liens; and, as of the close of business on November 18, 2019, the unpaid principal amount of the Revolver Loans totaled \$106,872,594.13, and the undrawn face amount of all Letters of Credit totaled \$425,000.00.

5. Representations and Warranties. Each Borrower represents and warrants to Agent and Lenders, to induce Agent and Lenders to enter into this Amendment, that no Default or Event of Default exists on the date hereof; the execution, delivery and performance of this Amendment have been duly authorized by all requisite corporate action on the part of such Borrower and this Amendment has been duly executed and delivered by such Borrower; and all of the representations and warranties made by such Borrower in the Credit Agreement are true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date hereof, as though made on and as of the date hereof (except to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) as of such earlier date).

6. Reference to Credit Agreement. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement," "hereunder," or words of like import shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

7. Breach of Amendment. This Amendment shall be part of the Credit Agreement and a breach of any representation, warranty or covenant herein shall constitute an Event of Default.

8. Conditions Precedent. The effectiveness of the amendments contained in Section 2 hereof are subject to the satisfaction of each of the following conditions precedent, in form and substance satisfactory to Agent, unless satisfaction thereof is specifically waived in writing by Agent:

(a) Agent's receipt of duly executed counterparts of this Amendment, the Fourth Amendment Fee Letter, amendments to the Mortgages and the other Loan Documents and all instruments and documents to be entered into in connection herewith from the applicable Borrowers and Lenders;

(b) Agent's receipt of (i) evidence that appropriate financing statements have been duly filed in such office or offices as may be necessary or, in the opinion of Agent, desirable to perfect the Agent's Liens in and to the Collateral, and (ii) searches reflecting the filing of all such financing statements;

(c) Agent's receipt of a certificate from the Secretary of each Loan Party (i) attesting to the resolutions of such Loan Party's board of directors authorizing its execution, delivery, and performance of the Loan Documents to which it is a party, (ii) authorizing specific officers of such Loan Party to execute the same, and (iii) attesting to the incumbency and signatures of such specific officers of such Loan Party;

(d) Agent's receipt of copies of each Loan Party's Governing Documents, as amended, modified, or supplemented to the Closing Date, which Governing Documents shall be (i) certified by the Secretary of such Loan Party, and (ii) with respect to Governing Documents that are charter documents, certified as of a recent date (not more than 30 days prior to the Closing Date) by the appropriate governmental official;

(e) Agent's receipt of a certificate of status with respect to each Loan Party, dated within 10 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Loan Party, which certificate shall indicate that such Loan Party is in good standing in such jurisdiction;

(f) Subject to Section 9 hereof, Agent's receipt of certificates of status with respect to each Loan Party, each dated within 30 days of the Closing Date, such certificates to be issued by the appropriate officer of the jurisdictions (other than the jurisdiction of organization of such Loan Party) in which its failure to be duly qualified or licensed would constitute a Material Adverse Effect, which certificates shall indicate that such Loan Party is in good standing in such jurisdictions;

(g) Agent's receipt of a completed Borrowing Base Certificate as of September 28, 2019 giving pro forma effect to the transactions contemplated by this Amendment showing that Borrowers shall have not less than \$25,000,000 of Availability;

(h) Agent's receipt of flood certifications (and, if applicable, acceptable flood insurance and FEMA form acknowledgements of insurance) for the Real Property Collateral, satisfactory in form and substance to Agent;

(i) Agent's receipt of appraisals of the Real Property Collateral, Eligible Equipment and Eligible Intellectual Property satisfactory to Agent;

(j) Agent's completion, with results satisfactory to Agent, of (i) Patriot Act searches, OFAC/PEP searches and customary individual background checks for each Loan Party, and (ii) OFAC/PEP searches and customary individual background searches for each Loan Party's senior management and key principals;

(k) Agent's receipt of an opinion of Loan Parties' counsel in form and substance satisfactory to Agent;

(l) Agent's receipt of a certificate of insurance, together with the endorsements thereto, as are required by Section 5.6 of the Credit Agreement, in form and substance satisfactory to Agent; and

(m) Agent and each Lender's receipt, at least ten Business Days prior to the date hereof, of a Beneficial Ownership Certification that is complete and accurate in all respects in relation to any Loan Party that qualifies as a "legal entity customer" under the Beneficial Ownership Regulation.

9. Post-Closing Covenants. Borrowers covenant and agree to deliver to Agent:

(a) On or before November 27, 2019, mortgagee title insurance policies with such endorsements and affirmative coverages as may be required by Agent (or marked commitments to issue the same) for the Real Property Collateral issued by a title insurance company satisfactory to Agent (each a "Mortgage Policy" and, collectively, the "Mortgage Policies") in amounts satisfactory to Agent assuring Agent that the Mortgages on such Real Property Collateral are valid and enforceable first priority mortgage Liens on such Real Property Collateral free and clear of all defects and encumbrances except Permitted Liens, which Mortgage Policies otherwise shall be in form and substance satisfactory to Agent; and

(b) On or before December 20, 2019, a certificate of status with respect to Delta issued by the appropriate officer of the State of Texas, which certificate shall indicate that Delta is in good standing in such jurisdiction.

10. Expenses of Agent. Borrowers agree to pay, **on demand**, all costs and expenses incurred by Agent in connection with the preparation, negotiation and execution of this Amendment and any other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of Agent's legal counsel and any taxes or expenses associated with or incurred in connection with any instrument or agreement referred to herein or contemplated hereby.

11. Effectiveness; Governing Law. This Amendment shall be effective upon acceptance by Agent and Lenders (notice of which acceptance is hereby waived), whereupon the same shall be governed by and construed in accordance with the internal laws of the State of Georgia.

12. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

13. No Novation, etc. Except as otherwise expressly provided in this Amendment, nothing herein shall be deemed to amend or modify any provision of the Credit Agreement or any of the other Loan Documents, each of which shall remain in full force and effect. This Amendment is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction, and the Credit Agreement as herein modified shall continue in full force and effect.

14. Counterparts; Telecopied Signatures. This Amendment may be executed in any number of counterparts and by different parties to this Amendment on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

15. Further Assurances. Each Borrower agrees to take such further actions as Agent shall reasonably request from time to time in connection herewith to evidence or give effect to the amendments set forth herein or any of the transactions contemplated hereby.

16. Section Titles. Section titles and references used in this Amendment shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreements among the parties hereto.

17. Release of Claims. To induce Agent and Lenders to enter into this Amendment, each Borrower hereby releases, acquits and forever discharges Agent and Lenders, and all officers, directors, agents, employees, successors and assigns of Agent and Lenders, from any and all liabilities, claims, demands, actions or causes of action of any kind or nature (if there be any), whether absolute or contingent, disputed or undisputed, at law or in equity, or known or unknown, that such Borrower now has or ever had against Agent or any Lender arising under or in connection with any of the Loan Documents or otherwise. Each Borrower represents and warrants to Agent and Lenders that such Borrower has not transferred or assigned to any Person any claim that such Borrower ever had or claimed to have against Agent or any Lender.

18. Waiver of Jury Trial. To the fullest extent permitted by applicable law, the parties hereto each hereby waives the right to trial by jury in any action, suit, counterclaim or proceeding arising out of or related to this Amendment.

[Remainder of page intentionally left blank; signatures appear on following pages.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal and delivered by their respective duly authorized officers on the date first written above.

BORROWERS:

DELTA APPAREL, INC.

By: /s/ Deborah H. Merrill
Name: **Deborah H. Merrill**
Title: Vice President, Chief Financial Officer,
and Treasurer

M.J. SOFFE, LLC

By: /s/ Deborah H. Merrill
Name: **Deborah H. Merrill**
Title: Vice President, Chief Financial Officer,
and Treasurer

CULVER CITY CLOTHING COMPANY

By: /s/ Deborah H. Merrill
Name: **Deborah H. Merrill**
Title: Chief Financial Officer

SALT LIFE, LLC

By: /s/ Deborah H. Merrill
Name: **Deborah H. Merrill**
Title: Vice President, Chief Financial Officer,
and Treasurer

DTG2GO, LLC

By: /s/ Deborah H. Merrill
Name: **Deborah H. Merrill**
Title: Vice President, Chief Financial Officer,
and Treasurer

[Signatures continue on the following page.]

AGENT:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Ryan C. Tozier
Name: **Ryan C. Tozier**
Title: Vice President

LENDERS:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Ryan C. Tozier
Name: **Ryan C. Tozier**
Title: Vice President

[Signatures continue on the following page.]

REGIONS BANK

By: /s/ Elizabeth L. Schoer
Name: Elizabeth L. Schoer
Title: Sr. Vice President

[Signatures continue on the following page.]

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Doug Meckelnburg
Name: Doug Meckelnburg
Title: Vice President

Schedule C-1

Commitments

Lender	Revolver Commitment
Wells Fargo Bank, National Association	\$88,000,000.00
PNC Bank, National Association	\$41,000,000.00
Regions Bank	\$41,000,000.00
All Lenders	\$170,000,000.00

DELTA APPAREL, INC.

AMENDED AND RESTATED SHORT-TERM INCENTIVE COMPENSATION PLAN

ARTICLE I. PURPOSE

The purpose of the Plan is to recognize and reward those employees of Delta Apparel, Inc. (the "Company") who contribute substantially to the achievement of short-term, strategic objectives of the Company and to aid in attracting and retaining employees.

ARTICLE II. DEFINITIONS

"**Board**" means the Board of Directors of Delta Apparel, Inc.

"**CEO**" means the Chief Executive Officer of Delta Apparel, Inc.

"**Code**" means the Internal Revenue Code of 1986, as amended, including any regulations promulgated thereunder and any successor provisions.

"**Committee**" means such committee of the Board as the Board may designate to administer the Plan; provided that the Committee shall consist of no less than two non-employee directors.

"**Company**" means Delta Apparel, Inc., a Georgia corporation.

"**Compensation Limit**" shall have the meaning set forth in Section 5.3.

"**Participant**" means an employee of the Company or one of its Subsidiaries who is designated as a Participant by the Committee with respect to a Performance Period.

"**Performance Criteria**" means total stockholder return; revenues, sales, net income, EBIT, EBITDA, stock price, and/or earnings per share; return on assets, net assets, and/or capital; return on stockholders' equity; debt/equity ratio; working capital; safety; quality; the Company's financial performance or the performance of the Company's stock versus peers; cost reduction; productivity; market mix; economic value added or other performance criteria designated by the Committee, in each case determined in accordance with generally accepted accounting principles ("GAAP"), subject to such adjustments as the Committee may determine to be appropriate.

"**Performance Period**" means the Company's fiscal year or any other period designated by the Committee.

"**Performance Goals**" shall have the meaning set forth in Section 5.1.

"**Plan**" means this Amended and Restated Short-Term Incentive Compensation Plan.

"**Subsidiary**" means a legal entity of which the Company owns directly or indirectly at least 50% of the equity interests.

"**Subsidiary Goal**" shall have the meaning set forth in Section 6.3.

ARTICLE III. ADMINISTRATION

3.1. Administration. The Plan shall be administered by the Committee. The Committee shall have all authority necessary or helpful to enable it to discharge its responsibilities with respect to the Plan, including but not limited to the exclusive right and discretion to (i) interpret the Plan, construe any ambiguous provisions of the Plan, and resolve any ambiguities regarding the application of the provisions of the Plan to any particular set of circumstances; (ii) determine eligibility for participation in the Plan; (iii) decide all questions concerning eligibility for and the amount of any compensation payable under the Plan; (iv) establish, revise and administer Performance Goals under the Plan and certify whether or to what extent they are attained; (v) establish, amend and rescind from time to time procedures and rules to aid in the administration of the Plan; and (vi) make any and all determinations necessary or advisable for the administration, interpretation and application of the Plan. All actions taken by the Committee under the Plan shall be final, conclusive and binding upon the Company, its Subsidiaries, its shareholders, the employees of the Company and its Subsidiaries, and all persons having any right or interest in or under the Plan.

3.2. Liability of Committee Members; Indemnification. No member of the Committee shall be liable for any act or omission in connection with the execution of the member's duties or the exercise of the member's discretion under the Plan, except when such acts or omissions represent gross negligence or willful misconduct. To the extent permitted by the Company's bylaws and applicable law, the Company shall defend and hold harmless each such person from any and all claims, losses, damages, expenses (including legal expenses and attorneys' fees) and liabilities (including any amounts paid in settlement with the approval of the Board of Directors) arising from any act or omission with respect to the Plan, except when such acts or omissions represent gross negligence or willful misconduct.

ARTICLE IV. ELIGIBILITY

4.1. Eligibility to Become a Participant. All employees of the Company and its Subsidiaries are eligible to become Participants. Directors of the Company and its Subsidiaries who are not employees of the Company or one of its Subsidiaries are not eligible to be designated as Participants.

4.2. Designation of Participants. Prior to commencement of each Performance Period, the CEO shall submit to the Committee the CEO's non-binding recommendations as to which employees of the Company and its Subsidiaries should be Participants for the Performance Period. Prior to the commencement of the Performance Period, the Committee, in its sole discretion, shall designate the employees of the Company and its Subsidiaries who will be Participants with respect to such Performance Period. Participants shall be identified by name and/or by an objective classification (for example, all salaried employees). The fact that an employee is designated a Participant for a Performance Period does not entitle such employee to receive any compensation under the Plan; the determination as to whether or not a Participant will receive any compensation pursuant to the Plan shall be determined solely in accordance with Article V and Article VI.

**ARTICLE V. PERFORMANCE GOALS;
INCENTIVE COMPENSATION FORMULAS**

5.1. Establishment of Performance Goals. Not later than 90 days after the commencement of a Performance Period (and in any event prior to the date when twenty-five percent (25%) of the Performance Period has elapsed), the Committee shall establish in writing one or more performance goals ("Performance Goals") for the Performance Period for every individual who is a Participant with respect to such Performance Period. Performance Goals shall be based on one or more of the Performance Criteria and may be based on either the performance of the Company or one or more of its segments over the Performance Period or, if the Participant is employed by a Subsidiary or division of the Company during the Performance Period, the performance during the Performance Period of such Subsidiary or division. The Committee may establish different Performance Goals, and may base Performance Goals on different Performance Criteria, for different Participants and/or different classes of Participants. Each Performance Goal established shall be an objective goal (meaning that a third party having knowledge of the relevant facts would be able to determine whether the Performance Goal has been met.)

5.2. Calculation of Incentive Compensation. Not later than 90 days after the commencement of a Performance Period (and in any event prior to the date when twenty-five percent (25%) of the Performance Period has elapsed), the Committee shall also establish in writing, with respect to each Performance Goal established, the formula or method for determining the amount of compensation payable if the Performance Goal is met to Participants for whom the Performance Goal has been established. The formula or method must be objective (meaning that a third party having knowledge of the relevant facts would be able to determine the amount of compensation payable to each affected Participant if the Performance Goal is met.) The formula or method shall specify the individual Participant(s) or class(es) of Participants to which it applies.

5.3. Limitation on Incentive Compensation. Regardless of the formula or method established by the Committee pursuant to Section 5.2, in no event shall any Participant be entitled to receive compensation pursuant to the Plan in excess of \$1,500,000 during any calendar year (the "Compensation Limit").

ARTICLE VI. PAYMENT

6.1. Payment. No payment under the Plan shall be made to any Participant unless and until the Committee certifies in writing that the relevant Performance Goal(s) and any other material preconditions to such payment were in fact satisfied. The Company shall make payments to Participants as soon as reasonably practicable after the Committee has made the foregoing certification in writing, and any and all payments shall be made after the end of the Performance Period but before the end of the calendar year in which the relevant Performance Period ended; provided that a Participant may elect to defer part or all of any payments to which the Participant is entitled under the Plan to the extent, if any, permitted and provided for by any deferred compensation plan or program that the Company or one of its Subsidiaries may elect to establish and maintain and provided that such election is made in compliance with the applicable requirements of Section 409A of the Code. Neither the Company nor its Subsidiaries nor any of their officers, directors, employees or agents makes any representation as to the tax treatment of any such deferred payments. Payments under the Plan may be subject to such terms and conditions (including terms regarding vesting and forfeiture) as the Committee may establish in writing not later than 90 days after the commencement of a Performance Period (and in any event prior to the date when twenty-five (25%) of the Performance Period has elapsed), provided that such terms and conditions do not conflict with the terms of the Plan. All payments under the Plan shall be in cash.

6.2. Termination of Employment. Unless the Committee expressly provides otherwise in writing, no Participant shall be entitled to any payment under the Plan with respect to a Performance Period if the Participant at any time during the Performance Period is not an employee of either the Company or one of its Subsidiaries. Notwithstanding the preceding sentence, unless the Committee expressly provides otherwise in writing, if the Participant ceases to be an employee of either the Company or one of its Subsidiaries during the Performance Period due to the Participant's retirement (provided that the Participant is at least age 62), death or permanent and total disability (as defined in Code Section 22(e)(3)), the Participant shall be entitled to a percentage portion of the payment, if any, that the Participant would have been entitled to had the Participant remained employed by the Company or one of its Subsidiaries throughout the Performance Period, where the percentage shall be the percentage of the Performance Period during which the Participant was an employee of the Company or one of its Subsidiaries. This Section 6.2 shall not affect the timing of any payment made in accordance with this Section, which timing shall continue to be in accordance with Section 6.1.

6.3. Transfer of Employment within Corporate Group. If a Participant would be entitled to compensation based on attainment of a Performance Goal relating to the performance of the Subsidiary or division of the Company (a "Subsidiary Goal") employing the Participant at the commencement of the Performance Period and during the Performance Period the Participant ceases to be employed by such Subsidiary or division but remains an employee of the Company or another Subsidiary or division throughout the remainder of the Performance Period, the Participant shall only be entitled to a percentage portion of the payment, if any, that the Participant would have been entitled to based on the attainment of the Subsidiary Goal (absent this Section 6.3) had the Participant remained employed by the Subsidiary or division that employed the Participant at the commencement of the Performance Period; the percentage shall be the percentage of the Performance Period during which the Participant was an employee of the Subsidiary or division, as the case may be, to which the Subsidiary Goal related. This Section 6.3 shall not affect the timing of any payment made in accordance with this Section, which timing shall continue to be in accordance with Section 6.1.

6.4. Liability for Incentive Compensation Payments. The Company or the Subsidiary, as the case may be, that employed the Participant at the commencement of a Performance Period shall be solely liable for any payments due to a Participant under the Plan with respect to such Performance Period.

ARTICLE VII. MISCELLANEOUS

7.1. No Assignment, etc. No compensation that may be payable under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer (except by will or the laws of descent and distribution), assignment, pledge or encumbrance.

7.2. No Right, Title or Interest in Company Assets. To the extent that any person acquires a right to receive payments from the Company or one of its Subsidiaries under this Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company or the Subsidiary, as the case may be, and such person shall not have any rights in or against any specific assets of the Company or any of its Subsidiaries.

7.3. No Right to Employment. Participation in the Plan with respect to any Performance Period shall not give any person any right to remain in the employ of the Company or any of its Subsidiaries during such Performance Period or at any other time nor shall it give any person the right to be a Participant with respect to any other Performance Period. Neither this Plan nor any document referring to or created in connection with this Plan in any way shall affect the right of the Company and its Subsidiaries to terminate any employee at any time for any reason or no reason.

7.4. Amendment and Termination. Subject to applicable law, the Board may at any time, with or without notice, amend, suspend or terminate the Plan, provided that no amendment that would require shareholder approval shall be effective without such shareholder approval.

7.5. Section 409A Compliance. This Plan and any and all awards and payments under or pursuant to the Plan are intended to comply with the requirements of Section 409A of the Code ("Section 409A") or applicable exemptions therefrom and shall be construed and administered in accordance with such intent. Notwithstanding any other provision of this Plan, payments provided under this Plan may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Plan that may be excluded from Section 409A as a short-term deferral or otherwise shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, if any amounts payable under this Plan are payable in installments, each installment shall be treated as a separate payment. Under no circumstances shall any Participant or other payment recipient be permitted to designate the taxable year in which any payment is made under this Plan if such payment could be made in more than one taxable year.

7.6. Tax Withholding. The Company and its Subsidiaries shall have the right to deduct and withhold from all payments under the Plan all sums required to be withheld by any applicable tax laws and regulations with respect to the payment of any compensation under the Plan.

7.7. Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Georgia, except to the extent that such laws may be preempted by federal law.

7.8. Effective Date; Term. The Plan was originally effective as of June 1, 2000 and was amended and restated effective November 19, 2020. The amendment and restatement of the Plan shall not affect the validity of any compensation arrangement established pursuant to the terms of the Plan prior to such amendment and restatement. The Plan shall remain in effect until terminated by the Board.

DELTA APPAREL, INC. 2010 STOCK PLAN

RESTRICTED STOCK UNIT AND PERFORMANCE UNIT AWARD AGREEMENT

THIS RESTRICTED STOCK UNIT AND PERFORMANCE UNIT AWARD AGREEMENT (“Agreement”) is dated this 29th day of September, 2019, by and between DELTA APPAREL, INC., a Georgia corporation (“Company”), and _____ (“Participant”).

WHEREAS, the Compensation Committee of the Board of Directors of the Company has, pursuant to the Delta Apparel, Inc. 2010 Stock Plan (“Plan”), made an Award of the grant of Restricted Stock Units and Performance Units of the Company to the Participant and authorized and directed the execution and delivery of this Agreement;

NOW THEREFORE, in consideration of the foregoing, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and the Participant hereby agree as follows. All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Plan.

Section 1. AWARD OF RESTRICTED STOCK UNITS AND PERFORMANCE UNITS

In consideration of the services performed and to be performed by the Participant, the Company hereby awards to the Participant under the Plan a total of _____ Restricted Stock Units under Section 8(c) of the Plan and a total of _____ Performance Units under Section 8(e) of the Plan, both of which are subject to the terms and conditions set forth in this Agreement and the Plan. The value of each Restricted Stock Unit and Performance Unit shall be determined and measured by the value of one share of stock of the Company.

Section 2. VESTING OF UNITS BASED ON SERVICE REQUIREMENTS

The Restricted Stock Unit grants are based on Service requirements and shall vest on the date on which the Company files with the Securities and Exchange Commission its Annual Report on Form 10-K for the Company's fiscal year ending October 2, 2021 (“RSU Vesting Date”).

Notwithstanding the above, occurrence of any of the following events shall cause the immediate vesting of Restricted Stock Units:

- (a) The death of the Participant;
- (b) Disability of the Participant; or
- (c) A Change in Control.

Except as otherwise set forth herein, the unvested portion of the Restricted Stock Unit Award shall be entirely forfeited by the Participant in the event that prior to vesting the Participant breaches any terms or conditions of the Plan, the Participant resigns from the Company, the Participant's employment with the Company is terminated for reasons other than death or Disability, or any conditions imposed upon vesting are not met.

Section 3. VESTING OF UNITS BASED ON PERFORMANCE REQUIREMENTS

The Performance Unit grants are based on the Company's achievement of performance requirements and shall vest upon the later of the date the Board of Directors (or committee thereof, if applicable) certifies in writing that the Company achieved the following performance-based goals established by the Board of Directors (or committee thereof, if applicable) on a consolidated basis or the date on which the Company files with the Securities and Exchange Commission its Annual Report on Form 10-K for the Company's fiscal year ending October 2, 2021 (“PSU Vesting Date”):

Granted Units Earned based on Average Return on Capital Employed	Fiscal Years 2020 and 2021 Return on Capital Employed Requirement
Minimum 50%	5%
Par 100%	10%
Maximum 150%	15%

Performance Unit Awards shall be prorated between the Minimum and Maximum percentages based upon actual Return on Capital Employed results.

Return on Capital Employed shall mean an amount calculated by dividing the sum of Delta Apparel, Inc.'s consolidated earnings before interest and tax for the 2020 and 2021 fiscal years by the sum of Delta Apparel, Inc.'s consolidated annual average capital employed for the 2020 and 2021 fiscal years.

Notwithstanding the above, occurrence of any of the following events shall cause the immediate vesting at 100% of Performance Units:

- (a) The death of the Participant;
- (b) Disability of the Participant; or
- (c) A Change in Control.

Except as otherwise set forth herein, the unvested portion of the Performance Unit Award shall be entirely forfeited by the Participant in the event that prior to vesting the Participant breaches any terms or conditions of the Plan, the Participant resigns from the Company, the Participant's employment with the Company is terminated for reasons other than death or Disability, or any conditions imposed upon vesting are not met.

Section 4. NON-TRANSFERABILITY OF RIGHTS

The Participant shall have no right to sell, transfer, pledge, assign or otherwise assign or hypothecate any of the Participant's rights under this Agreement or, until the portion of the Awards granted hereby covering the Restricted Stock Units and Performance Units shall vest, the Restricted Stock Units and Performance Units covered by the Award granted hereby, other than by will or the laws of descent and distribution, and such rights shall be exercisable during Participant's lifetime only by the Participant.

Section 5. PAYMENT UPON VESTING OF RESTRICTED STOCK UNITS AND PERFORMANCE UNITS

Subject to the terms and conditions of the Plan, the Company shall, as soon as practicable following the RSU Vesting Date (but no later than March 15 of the calendar year following the calendar year that includes such vesting date), deliver to you a number of Shares equal to one-half of the value of the aggregate number of Restricted Stock Units that became vested on the RSU Vesting Date and a cash payment equal to one-half of the value of the aggregate number of Restricted Stock Units that became vested on the RSU Vesting Date.

Subject to the terms and conditions of the Plan, the Company shall, as soon as practicable following the PSU Vesting Date (but no later than March 15 of the calendar year following the calendar year that includes such vesting date), deliver to you a number of Shares equal to one-half of the value of the aggregate number of Performance Units that became vested on the PSU Vesting Date and a cash payment equal to one-half of the value of the aggregate number of Performance Units that became vested on

the PSU Vesting Date.

Upon payment by the Company, the respective Restricted Stock Units and Performance Units shall therewith be cancelled. The delivery of Shares and cash awards under this Section 5 shall be subject to applicable employment and income tax withholding and the terms of Section 7 herein.

Section 6. NO DIVIDEND OR VOTING RIGHTS

The Participant acknowledges that he or she shall be entitled to no dividend or voting rights with respect to the Restricted Stock Units or Performance Units.

Section 7. WITHHOLDING TAXES; SECTION 83(b) ELECTION

- (a) No Shares will be payable upon the vesting of a Restricted Stock Unit or Performance Unit unless and until the Participant satisfies any Federal, state or local withholding tax obligation required by law to be withheld in respect of this Award. The Participant acknowledges and agrees that to satisfy any such tax obligation the Company may deduct and retain from the Shares payable upon vesting of the Restricted Stock Units or Performance Units such number of Shares as is equal in value to the Company's minimum statutory withholding obligations with respect to the income recognized by the Participant upon such vesting (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such income). The number of such Shares to be deducted and retained shall be based on the closing price of the Shares on the day prior to the applicable RSU Vesting Date or PSU Vesting Date.
- (b) The Participant acknowledges that in the event an election under Section 83(b) of the Internal Revenue Code of 1986 is filed with respect to this Award, Participant must give a copy of the election to the Company within ten days after filing with the Internal Revenue Service.

Section 8. ENFORCEMENT; INCORPORATION OF PLAN PROVISIONS

The participant acknowledges receipt of the Delta Apparel, Inc. 2010 Stock Plan (the "Plan") of the Company. The Restricted Stock Units Award and Performance Units Award evidenced hereby are made under and pursuant to the Plan, and incorporated herein by reference, and the Awards are subject to all of the provisions thereof. Capitalized terms used herein without definition shall have the same meanings given such terms in the Plan. The Participant represents and warrants that he or she has read the Plan and is fully familiar with all the terms and conditions of the Plan and agrees to be bound thereby.

Section 9. MISCELLANEOUS

- (a) No Representations or Warranties. Neither the Company nor the Committee or any of their representatives or agents has made any representations or warranties to the Participant with respect to the income tax or other consequences of the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company, the Committee or any of their representatives or agents for an assessment of such tax or other consequences.
- (b) Employment. Nothing in this Agreement or in the Plan or in the making of the Award shall confer on the Participant any right to or guarantee of continued employment with the Company or any of its Subsidiaries or in any way limit the right of the Company or any of its Subsidiaries to terminate the employment of the Participant at any time.
- (c) Investment. The Participant hereby agrees and represents that any Shares payable upon Vesting of the Restricted Stock Units or Performance Units shall be held for the Participant's own account for investment purposes only and not with a view of resale or distribution unless the Shares are registered under the Securities Act of 1933, as amended.
- (d) Necessary Acts. The Participant and the Company hereby agree to perform any further acts and to execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement.
- (e) Severability. The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially enforceable provision to the extent enforceable in any jurisdiction, shall nevertheless be binding and enforceable.
- (f) Waiver. The waiver by the Company of a breach of any provision of this Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.
- (g) Binding Effect; Applicable Law. This Agreement shall bind and inure to the benefit of the Company and its successors and assigns, and the Participant and any heir, legatee, or legal representative of the Participant. This Agreement shall be construed, administered and enforced in accordance with and subject to the terms of the Plan and the laws of the State of Georgia.
- (h) Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding.
- (i) Amendment. This Agreement may be amended by written agreement of the Participant and the Company, without the consent of any other person.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first hereinabove written.

DELTA APPAREL, INC.

By: _____

PARTICIPANT

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) Culver City Clothing Company, a Georgia corporation.
- (3) Salt Life, LLC, a Georgia limited liability company.
- (4) Salt Life Beverage Management, LLC, a Delaware limited liability company.
- (5) Salt Life Beverage, LLC, a Delaware limited liability company.
- (6) DTG2Go, LLC, a Georgia limited liability company.
- (7) 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.

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,
- (2) Registration Statement (Form S-8 No. 333-172018) pertaining to the Delta Apparel, Inc. 2010 Stock Plan, and
- (3) Registration Statement (Form S-3 No. 333-214783) of Delta Apparel, Inc.;

of our reports dated November 21, 2019, with respect to the consolidated financial statements 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 September 28, 2019.

/s/ Ernst & Young LLP

Atlanta, Georgia
November 21, 2019

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 case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2019

/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 case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2019

/s/Deborah H. Merrill
Chief Financial Officer and
President, Delta Group

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 September 28, 2019, 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 21, 2019

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

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

EXHIBIT 32.2
CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

1. The Annual Report on Form 10-K for the fiscal year ended September 28, 2019, 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 21, 2019

/s/Deborah H. Merrill

Deborah H. Merrill
Chief Financial Officer and President, Delta Group

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