

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

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

For The Fiscal Year Ended October 1, 2022

☐ 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

58-2508794

(State or other jurisdiction of incorporation or organization)

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

2750 Premiere Parkway, Suite 100

Duluth, Georgia 30097

(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	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01	DLA	NYSE American

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐.

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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 \$29.94 as quoted by the NYSE American on April 2, 2022, 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 \$191.0 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 6,915,663 as of November 14, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's Annual Meeting of Shareholders is currently scheduled for February 9, 2023. 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 October 1, 2022.

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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”, “outlook”, “anticipate”, “expect”, “intend”, “remain”, “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 general U.S. and international economic conditions;
- the impact of the COVID-19 pandemic on our operations, financial condition, liquidity, and capital investments, including recent labor shortages, inventory constraints, and supply chain disruptions;
- significant interruptions or disruptions within our manufacturing, distribution or other operations;
- deterioration in the financial condition of our customers and suppliers and changes in the operations and strategies of our customers and suppliers;
- the volatility and uncertainty of cotton and other raw material prices and availability;
- the competitive conditions in the apparel industry;
- our ability to predict or react to changing consumer preferences or trends;
- our ability to successfully open and operate new retail stores in a timely and cost-effective manner;
- the ability to grow, achieve synergies and realize the expected profitability of acquisitions;
- changes in economic, political or social stability at our offshore locations in areas in which we, or our suppliers or vendors, operate;
- our ability to attract and retain key management;
- 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 changes in our effective tax rate;
- 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;
- changes in international trade regulations;
- our ability to comply with trade regulations;
- changes in employment laws or regulations, our relationship with employees; or our ability to attract and retain employees;
- negative publicity resulting from violations of manufacturing standards or labor laws or unethical business practices by our suppliers and independent contractors;
- the inability of suppliers or other third-parties, including those providing properly functioning key equipment, transportation, and other services, to perform their obligations or fulfill the terms of their contracts with us;
- restrictions on our ability to borrow capital or service our indebtedness;
- interest rate fluctuations increasing our obligations under our variable rate indebtedness;
- the ability to raise additional capital;
- the impairment of acquired intangible assets;
- foreign currency exchange rate fluctuations;
- 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 8,600 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®, Soffe®, and Delta. We are a market leader in the on-demand, digital print and fulfillment industry, bringing DTG2Go's proprietary technology and innovation to our customers' supply chain. 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, eRetailers, the U.S. military, and through our business-to-business digital platform. Our products are also made available direct-to-consumer on our ecommerce sites and in our branded retail stores. Our diversified go-to-market strategy 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 with more than 90% of the apparel units that we sell are sewn in our own 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.

We were incorporated in Georgia in 1999, and our headquarters is located in Duluth, Georgia. Our common stock trades on the NYSE American under the symbol "DLA." We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. All references to "2022" refer to the 52-week fiscal year ended October 1, 2022. All references to "2021" relate to the 52-week fiscal year ended October 2, 2021. We are filing as a smaller reporting company for 2022 as our public float was less than the applicable \$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., 2750 Premiere Parkway, Suite 100, Duluth, Georgia 30097. 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: DTG2Go and Delta Activewear.

DTG2Go

We are a market leader in the on-demand, direct-to-garment digital print and fulfillment industry, bringing technology and innovation to the supply chains of our many customers. Our 'On-Demand DC' digital solution provides retailers and brands with immediate access to utilize DTG2Go's broad network of print and fulfillment facilities, while offering the scalability to integrate digital fulfillment within the customer's own distribution facilities. 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. Via our eight fulfillment facilities throughout the United States, DTG2Go offers a robust digital supply chain, shipping custom graphic products within 24 to 48 hours to consumers in the United States and to over 100 countries worldwide. DTG2Go has made significant investments in its "digital-first" retail model, providing digital graphic prints that meet the high-quality standards required for brands, retailers and intellectual property holders. Throughout fiscal 2022, we continued to invest in our proprietary software, new digital print equipment, and in research and development initiatives related to the setups, formulas and processes needed to serve our customers. Through integration with Delta Activewear, DTG2Go also services the eRetailer, ad-specialty, promotional and screen print marketplaces, among others.

Delta Activewear

Delta Activewear is a preferred supplier of activewear apparel to regional and global brands as well as direct to retail and wholesale markets. The Activewear business is organized around three key customer channels – Delta Direct, Global Brands, and Retail Direct – that are distinct in their go-to-market strategies and how their respective customer bases source their various apparel needs. Our Delta Direct channel services the screen print, promotional, and eRetailer markets as well as retail licensing customers that sell through to many mid-tier and mass market retailers. Delta Direct products include a broad portfolio of apparel and accessories under the Delta, Delta Platinum, and Soffe brands as well as sourced items from select third party brands. Our fashion basics line includes our Platinum Collection, which offers fresh, fashionable silhouettes with a luxurious look and feel, as well as versatile fleece offerings. We offer innovative apparel products, including the Delta Dri line of performance shirts built with moisture-wicking material to keep athletes dry and comfortable; ringspun garments with superior comfort, style and durability; and Delta Soft, a collection with an incredible feel and price. We also offer our heritage, mid- and heavier-weight Delta Pro Weight® and Magnum Weight® tee shirts.

The iconic Soffe brand offers activewear for spirit makers and record breakers and is widely known for the original "cheer short" with the signature roll-down waistband. Soffe carries a wide range of activewear for the entire family. 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 Soffe 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." Complementing the Delta and Soffe brand apparel, we provide our customers with a broad range of product categories with nationally recognized branded products including polos, outerwear, headwear, bags and other accessories. Our Soffe products are also available direct to consumers at www.soffe.com.

Our Global Brands channel serves as a key supply chain partner to large multi-national brands, major branded sportswear companies, trendy regional brands, and all branches of the United States armed forces, providing services ranging from custom product development to shipment of branded products with "retail-ready" value-added services including embellishment, hangtags, and ticketing.

Our Retail Direct channel serves brick and mortar and online retailers by providing our portfolio of Delta, Delta Platinum, and Soffe products directly to the retail locations and ecommerce fulfillment centers of a diversified customer base including sporting goods and outdoor retailers, specialty and resort shops, farm and fleet stores, department stores, and mid-tier retailers.

As a key element of the integrated Delta Group segment, each of Activewear's primary channels offers a seamless solution for small-run decoration needs with on-demand digital print services, powered by DTG2Go.

Salt Life Group

Salt Life

Salt Life is an authentic, aspirational lifestyle brand that represents a passion for the ocean, the salt air, and, more importantly, a way of life 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 has continued to provide the cotton graphic tees and logo decals that originally drove awareness for the brand, and expanded into performance apparel, swimwear, board shorts, sunglasses, bags, and accessories. In fiscal 2022, Salt Life grew its retail footprint to include twenty-one stores across the U.S. coastline from Southern California to Key West and up the eastern seaboard to Rehoboth Beach, Delaware. Consumers can also seamlessly experience the Salt Life brand through one of our retail partners which include surf shops, specialty stores, department stores, and outdoor merchants or by accessing our Salt Life ecommerce site at www.saltlife.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 multiple 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, 2024. 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 fabric sourced in Mexico for use in our Campeche, Mexico sew facility, 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 2022 and 2021, we manufactured approximately 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 2022 and 2021, approximately 95% 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 2022 and 2021, we sourced less than 10% of our total products from third parties.

Many of the garments we produce will be decorated using screen printing or digital printing technology, and will be 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 eight domestic facilities, including five 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 supply of fashion and core basic garments. Furthermore, these facilities create a seamless nationwide footprint allowing us to reach approximately 95% of all U.S. consumers with two-day shipping.

We operate eight distribution facilities strategically located throughout the United States that carry in-stock inventory for shipment to customers, with most shipments made via third-party carriers. To better serve customers, we allow products to be ordered by the piece, dozen, or full case quantity, 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 orders, 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 resort shops; department, mid-tier and mass retailers; sporting goods stores; eRetailers 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 custom programs are generally made only to order. During 2022, we shipped our products to approximately 7,300 customers, many of whom have numerous retail doors. No single customer accounted for more than 10% of our sales in 2022 or 2021, and our strategy is to not become dependent on any single customer. Revenues attributable to sales of our products in foreign countries represented less than 1% of consolidated net sales in both 2022 and 2021.

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 Intensity Athletics®, Kudzu®, Pro Weight®, Magnum Weight®, and the Delta Design logo trademark. 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, we are an official intellectual property licensee for branches of the United States military which is used within the Soffe brand. We believe these license agreements are important given the military heritage of Soffe.

Environmental, Sustainability, and Governance

We aim to disclose and communicate transparently any material risks that could affect our investors, and we strive to implement policies and practices that continuously improve the transparency and sustainability of our supply chain. The Environmental, Sustainability, and Governance ("ESG") disclosures within this Annual Report and our definitive Proxy Statement align with the standards issued by the Sustainability Accounting Standards Board ("SASB") for the Apparel, Accessories, and Footwear industry and with regulations and guidance issued by the Securities and Exchange Commission. The indicators in the Annual Report and definitive Proxy Statement have been carefully selected to show the most relevant aspects of our performance in the areas of environmental impact, health and safety, responsible raw material sourcing, safe chemical management, and responsible corporate governance.

Conserving the Environment

We believe that efficiently and sustainably managing natural resources is a smart business practice and a responsible decision for the planet. By effectively and safely managing the materials used to manufacture our apparel products, we also protect the health and safety of our customers and employees. Our commitment to environmental sustainability includes compliance with safe chemistry practices and implementing technology and processes that reduce energy and water consumption, reuse and effectively treat wastewater, and reduce and recycle waste. We are committed to full compliance with local, regional, and national environmental laws and regulations.

Reducing our Environmental Impact

Environmental problems such as climate change and resource depletion are escalating worldwide. Therefore, understanding and managing greenhouse gas emissions is important to effectively mitigate our impact to the environment. We are committed to monitoring our greenhouse gas emissions and adopting innovative technologies to improve the energy efficiency of our facilities and reduce our overall energy intensity, which is measured as primary energy consumption in kilowatt-hours per unit of gross domestic product.

The focus on reducing our overall energy intensity is driven by our goal to establish an energy efficient operation and reduce greenhouse gas emissions, which will contribute to lowering our operating costs as well as reducing our carbon footprint. The operations at our Ceiba Textiles facility account for a significant portion of the fuel and electricity used in our manufacturing network and, as such, are our largest contributors of carbon dioxide (CO₂) emissions. In May 2022 Ceiba Textiles began receiving 100 percent clean, renewable energy from a 14.7-megawatt solar power array installed by the industrial park in which the facility is located. Not only is solar energy sustainable, it does not emit greenhouse gases, air, or water pollution when producing electricity, contributing to our goal to establish an energy efficient operation and reduce greenhouse gas emissions.

When comparing 2022 to our 2018 baseline year, we have reduced our total greenhouse gas emissions by 3.5 percent and reduced our emissions intensity by 12 percent in 2022. These reductions avoid the equivalent of 1,637 metric tons of CO₂ emissions, which is comparable to the energy used by approximately 206 homes for one year or the carbon sequestered by 1,937 acres of U.S. forests in one year.

In recent years we implemented several energy efficiency projects such as installing a heat exchanger at our Ceiba Textiles facility in Honduras that plays an essential role in reducing the environmental impact of manufacturing processes by recovering and reusing energy. We also continue to replace compact florescent light bulbs with LED lighting, which is known to emit less heat and use less energy than conventional bulbs, decrease the temperature on factory floors, and thus potentially raise productivity, particularly on hot days. In the sewing area, we improved the performance of our sewing machines by installing new motors that use significantly less energy due to advanced technology. In the knitting operations area, we modified the cooling system to turn off automatically when the outside temperature and humidity reaches the optimum environment inside.

In February 2022, we removed 27 older model circular knitting machines and installed 18 large capacity knitting machines. Each new machine is much more energy efficient in addition to being more productive; with each new machine capable of knitting one and one-half times more greige fabric in less time than one of the older knitting machines. The new knitting machines were directly responsible for reducing our electricity usage by approximately 393,000 kilowatt hours in 2022. Additional energy saving initiatives at Ceiba Textiles included the purchase of a new steam textile dryer that replaced two existing thermal oil dryers. The steam dryer is capable of drying 66 percent more pounds of fabric per week than the thermal dryers and uses 25 percent less energy. Over a four-month service period in 2022, the new steam dryer was responsible for reducing our electricity usage by approximately 250,000 kilowatt hours and we anticipate its energy savings to double next year. Together, these two energy-saving initiatives reduced our total electricity usage by 641,875 kilowatt hours and avoided 455 metric tons of carbon dioxide (CO₂) emissions, which is comparable to the carbon sequestered by 538 acres of forest in one full year. In addition, compared to our 2018 baseline year, we produced 9.7 percent more finished fabric in 2022 while using 7.5 percent less fuel and 8.6 percent less electricity. Overall, this has improved our fuel intensity by approximately 16 percent and electricity intensity by approximately 17 percent compared to the 2018 baseline year.

Managing Water

Water is one of the world's most precious and vital resources. Access to water is essential to Delta Apparel's manufacturing operations, and we are committed to managing our water use in an efficient and responsible manner. Treating textile wastewater is necessary not only to protect the local ecosystems, but also to make the recycled water available to reuse in manufacturing processes or irrigation. To properly treat problematic substances before the water is discharged, our vertically integrated manufacturing facilities, as well as our third-party fabric suppliers, comply with wastewater discharge requirements through currently active licenses and permits issued by local governments. In each of the last five years, none of these wastewater treatment facilities have received a compliance citation or violation.

During manufacturing the most significant amount of water consumption occurs during the fabric washing, dyeing, and rinsing processes. To reduce our water consumption at Ceiba Textiles, we implemented a system in 2018 that reuses the leftover dye water for use in future batches of similar-colored fabric. This system saves approximately 4 million gallons or 15,000 cubic meters of water per year while maintaining the quality of our dyed fabrics. We also improved our dye formulas to further reduce water consumption and reduce the amount of contaminants remaining in the wastewater. Compared to our 2018 baseline, these initiatives reduced our water intensity by 9.1 percent in 2021 and 7.3 percent in 2022.

Wastewater from Ceiba Textiles is transferred to the Green Valley water treatment facility, which operates on an environmental license issued by the Honduras Ministry of Energy, Natural Resources, Environment, and Mines. Over 87 percent of our 2022 water consumption at Ceiba Textiles was recycled. The Green Valley wastewater treatment facility uses the industry standard primary, secondary, and tertiary water treatment methods based on the types of effluents being discharged as well as regulatory and environmental standards. Treatment procedures are also in place to neutralize and remove additional substances that may potentially be harmful, but are not necessarily regulated. The following information describes the primary, secondary, and tertiary water treatment methods.

- Primary – Primary treatment methods include screening, sedimentation, homogenization, pH neutralization, and mechanical and chemical flocculation, which is a chemical added to the water that binds suspended solids into heavier particles that are easier to remove. Nano and cross-flow nano filtration techniques are also used to reduce the vast majority of sodium chloride and dyes.
- Secondary – Secondary treatment is designed to substantially degrade the biological content of the wastewater by using a combination of physical and aerobic biological processes. Secondary treatment methods include various types of filtration along with an activated sludge process, which stabilizes and converts potentially toxic contaminants into less harmful forms such as carbon dioxide and water, which are safe for the environment.
- Tertiary – Tertiary treatment is the final cleaning process that purifies wastewater before it is reused, recycled, or discharged into the environment. Treatment methods include a combination of physical and chemical techniques to decontaminate and purify the water.

Managing Waste

Our waste management strategy is to reduce, reuse, and recycle, which increases the likelihood that the waste materials we generate during the manufacturing process never reach landfills, lakes, rivers, streams, or municipal water systems. We are committed to full compliance with local, regional, and national environmental laws and regulations in the countries in which we operate as it relates to responsible recycling and disposal of hazardous and non-hazardous waste.

Pre-consumer textile waste is created during the cutting and sewing processes and includes small pieces of fabric trimmed away and other fabric scraps. We have modified sewing patterns to significantly reduce fabric waste during cutting. We also invested in sewing machines capable of folding excess fabric inside the sleeve and bottom hems to eliminate trimming. This initiative not only reduces textile waste but also lowers fabric production needs, which saves water, electricity, and fuel.

We have multiple reuse and recycle programs that help limit the waste that would otherwise be disposed in landfills:

- We partner with several companies that collect our fabric waste and sell it to manufacturers in the automotive industry, among others, that can mix the fabric with other materials to create alternate applications for the fabric, such as for automotive seats and windshield wipers.
- Our offshore screen-printing facilities recycle colors of ink that remain at the end of a production project for use in future production. In one year, this recycling program can recover as much as 75 percent of the residual plastisol ink and 50 percent of the residual water-based ink that otherwise would have been discarded.
- All of our manufacturing, sewing, and distribution facilities participate in cardboard recycling programs. Each facility flattens and places all cardboard in an outside container for recycling companies to then collect on a regular schedule.

Using Safe Chemistry

Textile operations use various chemicals, cleaners, dyes, and inks throughout the manufacturing, finishing, and decorating processes. We strive to use non-hazardous, bioeliminable ingredients in our apparel products and throughout our manufacturing processes to protect the safety of our customers and employees as well as reduce negative impacts on the environment. For example, our DTG2Go digital printing facilities use water-based biodegradable inks that are 100 percent non-hazardous and adhere to the strictest human health and environmental standards.

We have a robust, hazard-based chemicals management system throughout our manufacturing processes. Our commitment to safe chemistry begins in the design and development stage of our products, which are conceived from the latest fashion trends and are fully compliant with statutory, industry, and customer-specific safety requirements. We are proud that the chemicals we use comply with the restricted substance list (“RSL”) published by the American Apparel & Footwear Association (“AAFA”). AAFA is the industry’s leading resource for maintaining and publishing banned and restricted substances lists for finished apparel products around the world. We continuously monitor our RSL, which includes additional substances that may be harmful, but are not necessarily regulated. We also control against the procurement of restricted substances through our purchase approval processes and arrangements with dye and chemical vendors.

The dyes and chemicals used in our manufacturing facilities are tested annually by a third-party laboratory that uses a scoring system to determine the level of compliance. Since 2017 we have maintained a “Green” status, which is the highest level of compliance. Annual tests are also conducted by a third-party laboratory to ensure our compliance with The Consumer Product Safety Improvement Act (“CPSIA”) of 2008 and The Safe Drinking Water and Toxic Enforcement Act of 1986 (“Proposition 65 of California State Law”), in addition to adherence to any customer-supplied RSL. Our manufacturing employees are provided training on compliance with our RSL as well as training on how to safely handle potentially hazardous substances throughout the manufacturing process.

It is also important to us that all our significant third-party yarn and fabric suppliers share our high compliance standards and operate in a legal and responsible manner. We require these suppliers to provide, at least annually, certification or self-declaration documents that demonstrate compliance with industry standard parameters for safe chemistry. We take immediate corrective actions in instances where non-compliance may be identified.

Responsible Sourcing

As a vertically-integrated apparel company, we believe it is important to have a high degree of oversight into all aspects of sourcing, manufacturing, and distribution. To that end, the lifecycle of a Delta Apparel garment begins with high quality, sustainable cotton, which is the primary ingredient for the majority of apparel products across our brand portfolio. Over 90 percent of our garments are created with U.S. cotton, which is known for both the quality of its fibers as well as the sustainability practices of the cotton farmers who harvest it. Cotton is not considered a water-intensive crop and more than 60 percent of the cotton grown in the U.S. is produced without irrigation. Cotton is also highly tolerant of soil and water salinity levels, so it can be grown with water and soil resources unsuitable for most other crops. We do not source cotton from regions that regularly experience water stress, and we do not source conflict minerals in the production of our products.

Delta Apparel is a member of the Cotton LEADS program, which is committed to sustainable and traceable cotton production. This partnership enables us to broaden our support of the cotton farmers who supply our Company with high-quality cotton, allowing us to continue transforming sustainably-sourced cotton into high quality, responsible apparel products for our customers. We serve as a supply chain partner for many customers who expect high quality raw materials and require the ability to trace those raw materials back to the source. With cotton traceability, we are now able to trace the fiber used in our garments all the way back to harvest.

The vast majority of the yarn we use in our textile operations is sourced from Parkdale Mills, whose products are independently certified to Standard 100 established by the International Oeko-Tex Association ("OEKO-TEX"), which is one of our industry's most well-known and trusted certifications for product safety. In addition, our significant suppliers of external fabric are certified to Standard 100 by OEKO-TEX.

Monitoring Progress

We use the Sustainable Apparel Coalition's Higg Index to measure the environmental impact of all our offshore manufacturing facilities and the facilities of our key external fabric suppliers. The Higg Index tool provides transparency of our efforts to reduce our environmental impact, and it identifies areas for continued improvement. Our Ceiba Textiles facility has been using this tool for several years, and our 2021 self-assessment resulted in a total score in the upper quartile as compared to our industry competitors. Our most recent self-assessment was completed in April 2022 and the results will be available in April 2023. We retain the services of an external consultant to verify our assessments for a sample of facilities and to provide guidance for any areas of improvement.

Social Responsibility and Human Capital Management

Our employees are our most important and valuable asset. Our diverse and talented workforce helps drive our culture of high performance, close teamwork, and deep caring for each other across geographies and functions. We have an impact on the lives of over 8,600 employees across the globe as well as their families and communities. We support the livelihoods of our people through competitive wages and benefits, providing them with a safe and healthy workspace, supporting the communities in which they live, and, most importantly, treating all employees with dignity and respect.

Our People

The table below provides an overview of the approximate number of our employees by geographic location as well as the tenure of that employee base as of September 2022:

Country	Number of Employees	Tenure		
		5 Years or Less	6 - 10 Years	10 Years or More
El Salvador	3,245	62%	20%	19%
Honduras	3,229	53%	27%	21%
Mexico	986	59%	15%	27%
United States	1,163	74%	9%	18%
Total	8,623	60%	20%	20%

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Our employee base fluctuates based on seasonal labor requirements within our distribution and fulfillment centers, as well as based on production levels within our manufacturing facilities. These personnel changes generally trend with the overall demand for our products and services.

Approximately 80 percent of the 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 positive.

The table below provides an overview of the approximate percentage of our employees by gender and region as of September 2022:

Region	Male	Female
Offshore	49%	51%
United States	35%	65%
Total	47%	53%

Diversity and Inclusion

We are committed to fostering an inclusive culture where every employee is treated with dignity and respect, regardless of their gender, age, race, abilities, sexual orientation, or other legally protected characteristic. We believe that our employees' contributions are richer because of their diverse backgrounds and experiences, which strengthens the collaboration of our cross-functional, global teams and leads to improved performance.

Wages and Benefits

Investing in our people is critical for their personal and professional success, and we believe this investment enhances engagement and performance levels. Our compensation philosophy is to provide a fair living wage that is also scalable to the performance of the business. We provide our employees with at least the legal minimum wage or the prevailing industry wage in the countries where we operate, whichever is higher, complying with all legal requirements. We also provide fringe benefits, some of which are required by law, contract, or as per established collective bargaining agreements, while others are more favorable than required.

In recognition of the importance of raising the standard of living in certain communities in which we operate, we provide additional benefits, such as free onsite medical care from fully licensed physicians and nurses that encompass clinics and wellness programs. In these locations, we also provide subsidized meal assistance as well as free transportation to and from our facilities.

We invest in the professional development of our employees through various training programs. In 2022, we provided more than 230,400 hours of professional development and safety training for our employees, which is a 6 percent increase from the previous year.

Health and Safety

Our responsibility is to provide our employees with a safe and healthy work environment that meets or exceeds the applicable environmental and health and safety laws and regulations. All our manufacturing facilities in El Salvador, Honduras, and Mexico are Worldwide Responsible Accredited Production ("WRAP") certified. We are a Category C affiliate with the Fair Labor Association ("FLA"), an organization that supports human rights compliance monitoring for our plants and our third-party contractors.

Because textile manufacturing can contain various hazards and risks to workers, we have proactive programs in place to promote workplace safety, personal health, and employee wellness. Our culture promotes and rewards safety-first in all aspects of manufacturing, materials handling, and distribution of our apparel products. Safety training and awareness is embedded in employee orientation and onboarding, job performance and evaluation, and ongoing training based on a set safety training calendar by topic. We standardize, document, and improve our manufacturing and distribution safety procedures that require activities to be performed in the safest manner possible.

We are proud that our safety records are consistently better than OSHA's benchmarks for the apparel manufacturing sector. For example, Delta Apparel's 2022 incident rate for total recordable cases dropped to 0.19 percent compared to the apparel industry average incident rate of 1.7 percent.

Our production and distribution processes incorporate ergonomic material handling equipment to reduce physical risks, protect employee health, and optimize productivity. In our cut and sew facilities, we use ergonomically-friendly chairs and floor mats in addition to facilitating frequent group stretching and movement exercises. In several of our manufacturing and distribution facilities we provide lightweight slip sheet material handling equipment, which has the dual benefit of reducing manual labor and potential back strain on employees.

At the onset of the COVID-19 pandemic, we quickly implemented a comprehensive series of protocols and safety measures across all our facilities to protect the health and safety of our employees and contractors. We also created our own COVID-19 safety videos to promote healthy behaviors at home and in the workplace. Today, these COVID-19 safety measures are still in place at our offshore facilities, including maintaining plexiglass partitions to separate cafeteria seating areas and requiring all employees to observe safe distancing. We also continue to provide all employees with personal protective equipment, sanitizing products, and COVID-19 informational materials.

Monitoring

We conduct annual audits of all our internal manufacturing facilities as well as our significant third-party fabric suppliers to evaluate compliance with the FLA Workplace Code of Conduct. These audits cover labor topics, such as forced or child labor, compensation policies, and nondiscrimination, as well as environmental health and safety topics, such as fire safety, processes for safe chemistry, and environmental permits. These audits are important in identifying and preventing human rights and environmental health and safety violations.

The annual audits are conducted by Delta Apparel employees in our human resources or compliance departments, and they follow predefined audit programs and checklists that involve a mix of in-person site visits and walkthroughs of the facility, observations of processes, interviews with employees, and inspection of records and applicable permits. The audit results are documented with supporting photographs for any non-conformance findings. The internal auditors then report the findings to management, including the recommended corrective actions, and the date by which the corrective actions must be complete. The audits performed in 2022 resulted in no priority non-conformance findings, which are defined as severe violations of code of conduct in the areas of labor or environmental health and safety. For minor violations identified, we put corrective action plans in place to remediate the findings.

Community Outreach

Delta Apparel is committed to giving back to the communities where our employees live and work through volunteer service and community outreach. In 2022, our employees were involved in programs to promote environmental responsibility and improve the way of life for nearby communities. For example, Salt Life sponsored a number of national organizations, in addition to offering a variety of t-shirts for which donations were collected for various relief efforts. In addition, our US employees were directly involved with the community through both the donation of merchandise to fundraisers and sponsorship of individual volunteer efforts with nearby organizations. Additionally, our offshore employees in Mexico, Honduras, and El Salvador were involved in numerous activities throughout the year including the following:

- Our facilities in Mexico and Honduras continue to support COVID-19 campaigns in local communities by donating personal protection items such as sanitizing gel and face masks. Schools in Mexico that received donations were the 21 de Agosto Primary School in the town of Villa Madero, which is south of Seybaplaya, Campeche, and the Lazaro Cardenas Primary School in Seybaplaya where some of our employees' children attend. Our Mexico facilities employ 210 people who live in these communities. In Honduras, donations of items such as bleach, sanitizing gel, alcohol, and face masks were made to the San Raphael Orphanage located in Villanueva, Cortes, and Dos Caminos Health Care Center located in Dos Caminos, Cortes. The Delta Honduras and Delta Cortes facilities employ 203 people who live in Dos Caminos.
- For the second year, Mexico employees joined with the "Together We Will Win" civil association and the Una Caricia Humana, IAP organization to collect and donate thousands of plastic bottle caps that are sold to companies that grind and reuse the plastic to make new products. The proceeds from the sale of the caps are used to help cover the cost of comprehensive treatment for children with cancer. Una Caricia Humana provides free support to families of children with cancer such as food, lodging, medicines, treatment supplies, and transportation.
- For the second year, Delta Campeche employees participated in the Campeche Turtle Project to help save the critically endangered Hawksbill sea turtle by cleaning the plastic waste from beaches in Seybaplaya where the turtles come to lay their eggs for six months per year. On average, a sea turtle lays around 100 eggs; however, only 1 percent of the hatchlings actually makes its way out into the ocean and survives, making it critical to remove any obstacles that would prevent the hatchling from reaching the water. The beach cleanup resulted in one full trash bag for approximately every five yards of beach.
- Delta Cortes employees installed trash cans and environmental signs, and cleaned litter in an area of the Mico Quemado mountain range, which is an ecological reserve located in the department of Yoro. More than 280 square kilometers of this mountain chain are protected by the Central Government of Honduras due to its ecological importance to surrounding communities. Not only are the forests and valleys filled with rare plants and exotic animals, this area contains rivers and natural springs that are the primary water source for over 450,000 people in the cities of Santa Rita and El Negrito.
- Employees at Ceiba Textiles donated a gas-powered trimmer to the Quimistán Municipal Environmental Unit to support the maintenance of the area reforested as a result of the annual "United for a Greener Honduras" campaign in which Ceiba Textiles employees previously participated. Reforestation in this area of western Honduras was a critical factor in increasing the region's water retention capacity as it reduced the impact to nearby communities when rivers would overflow during the rain and hurricane seasons.
- In the town of Santiago Nonualco in the department of La Paz, Textiles La Paz employees painted the entrance of the Caserio Ojo de Agua school and installed four fans in two classrooms. Out of the approximately 270 children who attend this school, 50 of those are the children of employees at the Textiles La Paz facility.

Competition

As a vertically-integrated apparel company, we have numerous competitors 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. Our Delta Direct products generally are highly price competitive, and competitor actions can greatly influence pricing and demand for our products. While price is still important in our Global Brands and Retail Direct channels, quality and service are generally more important factors for customer choice. Our ability to consistently service the needs of our Global Brand and Retail Direct customers greatly impacts future business in these channels. We believe our U.S. market-adjacent 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 and go-to-market strategies over the years, we have reduced the overall seasonality of our business. 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 2022 may not be indicative of the distribution in future years.

Environmental and Other 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. 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. 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.

The environmental and other regulations applicable to our business are becoming increasingly stringent, and we incur capital and other expenditures annually to achieve compliance with these environmental standards and regulations. We currently do not expect that the amount of expenditures required to comply with these environmental standards or other regulatory matters 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 and other regulatory 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.

Risks Related to our Strategy

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, inflation, the cost of labor and transportation, and other factors that are generally unpredictable and beyond our control. As described under the heading “Manufacturing, Sourcing, and Distribution”, 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 periods of increased cotton costs and price volatility. By way of example, the price of cotton increased to almost 50% in a five-month period and reached a high of over \$1.50 in our fiscal 2022. In some instances, we were unable to pass through these higher costs to our customers, with the gross margins in our Activewear and other businesses negatively impacted as a result. In addition, sudden decreases in the price of cotton and other raw materials may result in the cost of inventory exceeding the cost of new production, which may result in downward selling price pressures, 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. In addition, we may not be able to obtain sufficient quantities of yarn from alternative sources, which could require us to adjust manufacturing levels, negatively impacting our business and results of operations.

We also source fabric in Mexico for use in our Campeche, Mexico sew facility, 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. Recent distress in global credit markets, rising interest rates, foreign exchange rate fluctuations, significant geopolitical conflicts, volatility in energy prices, constraints on the global supply chain and other factors continue to affect the global economy and adversely impact demand for our products. In 2022, the U.S. experienced significantly heightened inflationary pressures which we expect to continue into 2023. We may not be able to fully mitigate the impact of inflation through price increases, productivity initiatives and cost savings, which could have a material adverse effect on our financial results. In addition, if the U.S. economy enters a recession, we may experience sales declines and may have to decrease prices, all of which could have a material adverse impact on our financial results. Historically, during recessionary periods, the demand for casual and activewear apparel has been strong and our business has performed well. However, there can be no assurances that this correlation will continue in future recessions. Sometimes, 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 also 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.

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 other items we provide. We believe that our brands are recognized by consumers across many demographics and geographies. The popularity 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 retail 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 digital platforms and wholesale customers to minimize the competition within our sales channels. As we expand into new geographic areas, we need to successfully identify and satisfy the consumer preferences in these areas. In addition, we 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.

Risks Related to our Operations

The COVID-19 pandemic has had, and could continue to have, a material adverse effect our ability to operate, results of operations, financial condition, liquidity, and capital investments. The COVID-19 pandemic has had an adverse effect and could continue to adversely affect our performance, results of operations, financial condition, liquidity, and capital investments. The virus has impacted all regions around the world, resulting in restrictions and shutdowns implemented by national, state, and local authorities. During fiscal 2020, these requirements resulted in temporary closures of all of our branded retail locations and, our manufacturing facilities in El Salvador, Honduras Mexico, and North Carolina. Throughout fiscal years 2022 and 2021, the vast majority of our branded retail locations and manufacturing facilities have continued to operate.

Many of our customers and suppliers also face these and other challenges, which has resulted in ongoing supply chain and logistic constraints, closure of certain third-party manufacturers and increased freight cost at various stages of the pandemic. Any further material temporary or long-term disruption in our supply chain could lead to reduced demand for our products and services and could impair our customers' ability to pay all or portion of the amounts owed to us. We rely on suppliers and third-parties to deliver raw materials and transport our finished goods. Prolonged inventory shortages may result in significant lost business or delay in shipments which could have a material adverse effect on our results of operations and financial condition.

The extent to which COVID-19 impacts our business will depend on future developments, which are highly uncertain and cannot be predicted, including the ultimate duration, severity and sustained geographic resurgence of the virus, the emergence of new variants and strains of the virus, and the success of actions to contain the virus and its variants, or treat its impact. The COVID-19 pandemic has and will likely continue to result in social, economic, and labor instability in the countries in which we, or the third parties with whom we engage, operate. The long-term economic impact and near-term financial impacts of the COVID-19 pandemic, including but not limited to, possible impairment, restructuring, and other charges, as well as overall impact on our business, results of operations, financial condition, liquidity, or capital resources and investments, cannot be reliably quantified or estimated at this time due to the uncertainty of future developments.

Our operations are subject to political, social, and economic 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. Any of these political, social, or economic 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 years 2021 and 2022, our operations in and around San Pedro Sula, Honduras, were partially disrupted by the protests and strikes related to increasing fuel costs and the impact related to higher ticket prices on public transportation. 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.

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 or global 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.

We rely on third parties to provide us with certain key equipment and services for our business. If any of these third parties fails to perform their obligations to us or declines to provide properly functioning equipment or services to us in the future, we may suffer a disruption to our business. We rely on certain key equipment and services provided by various third parties, including logistics partners and equipment suppliers. For example, we rely on third parties to provide certain inbound and outbound transportation and delivery services and other third parties to provide us with key equipment to support our manufacturing and fulfillment platforms, including our DTG2Go digital platform. If any of these or other third parties fails to perform their obligations to us or declines to provide properly functioning equipment or services to us in the future, we may suffer a disruption to our business or increased costs. Furthermore, we may be unable to implement substitute arrangements on a timely and cost-effective basis on terms favorable to us.

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, supply disruptions, inflation, and weather conditions. Many of these factors impacted such cost in fiscal year 2022 and are expected to have an impact in the near term. 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 have a material adverse effect on our financial position and results of operations, especially if such increases make us less competitive compared to others in the industry.

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, phishing 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.

Extreme weather conditions, natural disasters, and other catastrophic events, including those caused by climate change, could negatively impact our results of operations and financial condition. Extreme weather conditions in the areas in which our manufacturing facilities, retail stores, suppliers, customers, distribution centers, data centers, and offices are located could adversely affect our results of operations and financial condition. Moreover, natural disasters such as earthquakes, hurricanes, floods, or wildfires, public health crises, such as pandemics and epidemics (including, for example, the COVID-19 pandemic), political crises, such as terrorist attacks, war and other political instability, or other catastrophic events, whether occurring in the United States or abroad, and their related consequences and effects, including energy shortages, could disrupt our operations, the operations of our suppliers or customers or result in economic instability that could negatively impact customer spending, any or all of which would negatively impact our results of operations and financial condition. In addition, fire and other natural disasters such as hurricanes, earthquakes, or floods have occurred and can recur in the countries in which we operate. These types of events could impact our global supply chain, including the ability of suppliers to provide raw materials where and when needed, the ability of third parties to ship merchandise, and our ability to ship products from or to the impacted region(s).

In addition, climate change and the increased focus by governments, organizations, customers, and investors on sustainability issues, including those related to climate change and socially responsible activities, may adversely affect our reputation, business, and financial results. Investor advocacy groups, certain institutional investors, investment funds, other market participants, shareholders, and stakeholders have focused increasingly on environmental, social, and governance, or ESG, and related sustainability practices of companies. These parties have placed increased importance on the implications of the social cost of their investments. If our ESG practices do not meet investor or other stakeholder expectations and standards (which are continually evolving and may emphasize different priorities than the ones we choose to focus on), then our brand, reputation, and potential employee retention may be negatively impacted. We could also incur additional costs and require additional resources to monitor, report, and comply with various ESG practices and regulations. Also, our failure, or perceived failure, to manage reputational threats and meet expectations with respect to socially responsible activities and sustainability commitments could negatively impact our brand credibility, employee retention, and the willingness of our customers and suppliers to do business with us.

Risks Related to Legal and Regulatory Matters

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 generally 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.

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, of 30% of the taxpayer's adjusted taxable income. The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which was enacted on March 27, 2020, provided temporary changes to income and non-income-based tax laws, including some provisions which were previously enacted under the New Tax Legislation. The CARES Act revised the U.S. corporate income tax code on a temporary basis by, among other things, eliminating the 80% of taxable income limitation on net operating loss (“NOL”) carryforwards, allowing NOL carrybacks, and increasing the Section 163(j) interest limitation deduction from 30% to 50% of adjusted taxable income.

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. We may be limited in our ability to deduct 50% of applicable foreign earnings under the GILTI income inclusion or to deduct U.S. interest expense based on the amount of U.S. taxable income earned in a particular fiscal year. In addition, the future impact of the CARES Act and New Tax Legislation may differ from historical amounts, possibly materially, due to, among other things, changes in interpretations and assumptions made regarding the CARES Act and New Tax Legislation, guidance that may be issued, and actions we may take as a result of the CARES Act and New Tax Legislation.

Further changes to U.S. tax laws impacting how U.S. multinational corporations are taxed on U.S. and foreign earnings, including any potential increase in the U.S. corporate income tax rate, the doubling of the rate of tax on certain earnings of foreign subsidiaries, and a 15% minimum tax on worldwide book income, among other things, could have a material adverse effect on our tax expense and cash flow.

We are subject to periodic litigation in both domestic and international jurisdictions that may adversely affect our financial condition 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 condition 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®, Soffe®, 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.

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 U.S.-Mexico-Canada Agreement (“USMCA”), and the Central America Free Trade Agreement (“CAFTA”). Our claims for duty free or reduced duty treatment under CAFTA, 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. Trade partnerships and treaties can be subjected to negotiations and modifications by domestic and foreign governments, which could result in new or increased tariffs on goods we import into the United States. Subsequent repeal or further modification of 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 reduction or 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, changes in our relationship with our employees, and changes in our ability to attract and retain employees could adversely affect our results of operations. As of October 1, 2022, we employed approximately 8,600 employees worldwide, with approximately 7,500 of these employees located in Honduras, El Salvador and Mexico. Changes in domestic and foreign laws and regulations 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 could impact our relationship with our employees and adversely impact the productivity and ultimate cost of our manufacturing operations. A total of approximately 2,600 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.

Our business is dependent on attracting and retaining a large number of quality employees with staffing needs especially high during the holiday season. Competition for personnel is highly competitive, and there is no assurance we will be able to attract and retain a sufficient number of qualified personnel in future periods. Our ability to meet our labor needs is subject to many factors, such as prevailing wage rates, minimum wage legislation, unemployment levels, and actions by our competitors in compensation levels. Wage rates have recently increased significantly in the U.S. and wage increases have also occurred in foreign countries in which we operate. Any further significant increases in wage rates in these countries in which we operate could have a material adverse impact on our operating results. In addition, changes in federal, state, or local laws and regulations relating to employee benefits, including, but not limited to, sick time, paid time off, leave of absence, wage-and-hour, overtime, and meal-and-break time could cause us to incur additional costs. Competitive and regulatory pressures have already significantly increased our labor costs and we may be unable to fully pass these costs to our customers through increased selling prices, which could deteriorate our profitability. In addition, further changes that hurt our ability to attract and retain personnel could adversely affect our results of operations in the future.

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.

Risks Related to Financial Matters

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. Cash on hand and availability under our U.S. revolving credit facility totaled \$34.6 million at October 1, 2022, well above the minimum thresholds specified in our credit agreement. In addition, we were above our credit facility's 1.0 fixed charge coverage ratio ("FCCR") threshold for the preceding 12-month period. A significant deterioration in our business could cause our availability to fall below minimum thresholds, thereby requiring us to maintain the minimum FCCR specified in our credit agreement, which we may not be able to maintain. The covenants in our credit facility 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 and may not be available. 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, fund share repurchases or 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 as well as retail shutdowns as a result of the COVID-19 pandemic. 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. During fiscal year 2022, customers generally paid on the credit extended to them, and we ended fiscal year 2022 with days sales outstanding at 51.7 days, up from 47.4 days at September 2021. Although our historical allowances have been materially accurate, if market conditions change, additional reserves may be required. 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 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. Reference rates used to determine the applicable interest rates for our variable rate debt began to rise significantly in the second half of fiscal 2022. If interest rates continue to increase, the debt service obligations on such indebtedness will continue to increase even if the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. In addition, as a result of our latest debt amendment certain of the variable rate indebtedness extended to us uses the Secured Overnight Financing Rate (SOFR) as a benchmark for establishing the interest rate. While we believe we will continue to use SOFR through fiscal 2022 and into fiscal 2023, other factors may impact SOFR including factors causing SOFR to cease to exist, new methods of calculating SOFR 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 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 2022 and September 2021, our goodwill and other intangible assets were approximately \$61.9 million and \$64.2 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 2022, we concluded based on the assessment performed 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.

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 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, and 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, 2022, we had 6,915,663 shares of common stock outstanding. We believe that approximately 37% of our stock is beneficially owned by entities and individuals who each own more than 5% of the outstanding shares of our common stock. Institutional investors that each beneficially own more than 5% of the outstanding shares collectively own approximately 25% 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, especially in light of the limited trading volumes.

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 Duluth, Georgia. 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 2022:

	Owned	Leased	Other	Total
Manufacturing	2	6	—	8
Distribution	2	1	1	4
Decoration/distribution	1	6	1	8
Retail stores/showroom	1	23	—	24
Offices	—	5	—	5
Total	6	41	2	49

Our primary manufacturing locations as of September 2022, 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

As of September 2022 and 2021, our long-lived assets in Honduras, El Salvador and Mexico collectively encompassed approximately 27% and 25%, respectively, of our consolidated net property, plant and equipment, of which 18% was in Honduras. 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 2022, are as follows:

Location	Utilization	Segment
Clinton, TN	Distribution	Delta Group
Fayetteville, NC	Distribution	Salt Life Group
Hebron, OH	Distribution	Delta Group
Opelika, AL	Distribution	Delta Group
Clearwater, FL	Decoration/distribution	Delta Group
Cranbury, NJ	Decoration/distribution	Delta Group
Fayetteville, NC	Decoration/distribution	Delta Group
Lewisville, TX	Decoration/distribution	Delta Group
Miami, FL	Decoration/distribution	Delta Group
Nashville, TN	Decoration/distribution	Delta Group
Phoenix, AZ	Decoration/distribution	Delta Group
Storm Lake, IA	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, our Honduran credit facility, and our Salvadoran 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, 2022, there were approximately 782 record holders of our common stock.

Dividends: Our Board of Directors did not declare, nor were any dividends paid, during 2022 or 2021. Subject to certain restrictions, our credit facility allows stock repurchases and cash dividends from two sources: (1) legally available funds other than cash from certain sale/leaseback transactions, (2) legally available funds solely from certain recent sale/leaseback transactions. In each case, at least 15% of the maximum revolver amount and borrowing base must be available both for 30 days before the transaction and after giving effect to it. There is also a restriction on the total amount of such payments from April 3, 2016 to the date of determination. For payments from funds other than sale/lease backs, the amount is \$10,000,000 plus 50% of net income since April 3, 2016. For payments solely from sale/leasebacks, the amount is limited to \$10,000,000 since April 3, 2016. Also, payments from sale/leasebacks must be in excess of the subject real property's contribution to the borrowing base. Subsidiaries of the Borrowers (as defined in the credit facility) are not subject to these restrictions on dividends to the Borrowers. At September 2022, and September 2021, there was \$24.9 million and \$19.0 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. Reserved

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

Financial measures included herein have been presented on a generally accepted accounting principles ("GAAP") basis.

Business Outlook

Fiscal year 2022 marked another year of strong organic growth for Delta Apparel and highlighted the collective reach of our multiple go-to-market strategies. The combination of our vertically integrated manufacturing and service platforms with our diversified distribution allowed us to successfully navigate what was a dynamic business and economic environment throughout the year. All five of our market channels – Delta Direct, Global Brands, Retail Direct, DTG2Go, and Salt Life – delivered year-over-year sales increases and drove overall sales growth of 11%. For the year, we achieved a 6.6% operating margin on \$484.7 million in net sales, and earnings of \$2.80 per diluted share.

Our Delta Group segment's fully integrated Activewear and DTG2Go businesses continue to offer solutions to a broadening spectrum of customers across the apparel industry. Our Activewear business is organized around three key customer channels – Delta Direct, Global Brands, and Retail Direct – that are distinct in their market approaches and customer bases. Our Delta Direct channel offers the screen print, promotional, eRetailer and retail licensing markets a broad portfolio of apparel and accessories under the Delta, Delta Platinum, and Soffe brands, including basic, performance, fashion basic and other elevated product offerings, as well as sourced items from select third party brands.

Our Global Brands channel serves as a key supply chain partner to large multi-national brands, providing services ranging from custom product development to value-added “retail-ready” enhancements, and our Retail Direct channel provides our portfolio of Delta, Delta Platinum, and Soffe products with value-added “retail-ready” enhancements directly to the brick and mortar retail locations and ecommerce fulfillment centers of a customer base ranging from sporting goods and outdoor retailers, specialty and resort shops, and farm and fleet stores to department stores and mid-tier retailers. Our onshore and nearshore manufacturing and fulfillment platforms, coupled with a distribution network spanning the United States, continue to become more integral to brand and retailer sourcing strategies and generate new interest from customers looking to reach the United States market more efficiently and manage supply chain risks associated with international trade policy, ESG priorities, inflationary pressures, and supply chain disruptions.

Our DTG2Go business and its leadership position in digital print and fulfillment give us the unique ability to offer customers across all of our channels a seamless make-on-demand solution. DTG2Go continues to grow through its “digital first” strategy, achieving strong double-digit sales growth in fiscal year 2022, including increased units and revenue. More and more customers across the apparel industry see the compelling economics of DTG2Go's digital make-on-demand model as a desirable alternative to traditional make-to-forecast models, particularly when integrated with our Delta Direct channel's vertical supply of blank garments.

Profitability at DTG2Go was impacted during the year by additional costs for equipment to further its “digital first” model and the tight domestic labor market, but we expect operating margins to improve materially over time. We see more exciting growth potential at DTG2Go going forward as the apparel industry migrates more towards the DTG2Go model, selling prices continue to grow, and we increase our output to meet elevating demand.

Our Delta Group segment achieved significant overall growth for the year even as demand between its various market channels shifted, with strong order flow in our Global Brands and DTG2Go channels helping to offset slowness in our Delta Direct channel to end the year. Our Delta Direct channel was heavily impacted by strong inflationary pressures on both input and labor costs that resulted in some downward pressure on gross margins in the second half of year. We expect this market fluidity and inflationary cost environment to continue in fiscal year 2023, and we will continue to leverage the flexibility of our vertical platform and adjust production levels to manage inventory, mitigate higher input costs, and stay aligned with customer demand.

Our Salt Life Group segment continued to excel in fiscal year 2022, producing record revenues of \$60.3 million and a strong double-digit sales increase of 21% percent over the prior year. Growing consumer awareness and engagement with the Salt Life lifestyle brand, together with the Salt Life team’s ability to manage supply chain issues and shipping delays, culminated in organic growth across all three Salt Life omnichannel markets – wholesale, retail, and ecommerce – in the fourth quarter of fiscal year 2022. We look for that growth trend to continue in fiscal year 2023.

With the milestone achievement of eight new store openings in fiscal year 2022, there are now 21 Salt Life branded retail doors open for business across the United States coastline from Southern California to Key West and up the eastern seaboard to Rehoboth Beach, Delaware. We expect to continue to expand Salt Life’s retail footprint with six to eight planned store openings in 2023, including a new location in Long Branch, New Jersey in the coming months to further Salt Life’s geographic reach in the northeast.

We continue to invest in marketing initiatives designed to elevate the Salt Life brand and drive increased engagement. Salt Life’s YouTube channel reached 7.1 million views in fiscal 2022, a 36% increase over the prior year. Beyond YouTube, Salt Life’s social media channel net audience spanning Facebook, Instagram, Twitter, LinkedIn and Pinterest grew nearly 85% on the year. Salt Life also continues to interact with consumers through its online content portal, The Daily Salt, and its Salt Life-branded podcast, Above and Below.

Overall fiscal 2022 was another excellent year for Delta Apparel. Our performance highlights the strong foundation across our business segments and the benefits of our broad channels of distribution, the demand for our unique product and service offerings, the efficiencies of our vertically integrated operations, and the emotional connection our lifestyle brand, Salt Life, has with a broad range of consumers. Although we move into fiscal year 2023 with some unsettled economic conditions, we believe that we continue to be well-positioned to take advantage of opportunities as they arise and win additional market share.

Results of Operations

Net sales for 2022 were \$484.9 million, up 11.0% from \$436.8 million in the prior year. Our growth was broad-based with sales increasing year-over year in both the Delta Group and Salt Life Group segments.

Delta Group segment net sales increased 10% to \$424.8 million in 2022 compared to prior year net sales of \$387.0 million. Within the Activewear business, our Global Brand and Retail Direct channels both achieved double-digit year over year growth, and our Delta Direct channel achieved single-digit year over year growth. Our DTG2Go business achieved both unit and sales dollar growth, resulting in sales growth of 17% over the prior year.

Salt Life Group segment net sales were \$60.1 million in 2022, increasing 21% from \$49.7 million in the prior year. During fiscal 2022, the segment saw both wholesale and direct-to-consumer retail channel growth over the prior year. Salt Life also opened eight new branded retail doors, bringing our total retail store locations to 21.

Overall gross profit increased by 7% to \$108.8 million from \$101.9 million in the prior year. Gross margins were 22.4% of sales, a decline of 90 basis points from prior year gross margins of 23.3% of sales. The decline from the prior year is a result of increased input costs in the Delta Group, offset by favorable sales mix in the Salt Life group.

Delta Group segment gross margins were 18.3% compared to 20.2% in the prior year. Margins were negatively impacted by increasing input costs and labor costs.

Salt Life Group segment gross margins improved by 370 basis points to 51.6% compared to 47.9% in 2021. Margins were favorably impacted by a stronger mix of direct-to-consumer sales and favorable mix of higher profit products.

Selling, general and administrative (“SG&A”) expenses in 2022 were \$79.5 million, or 16.4% of sales, compared to \$70.7 million, or 16.2% of sales, in 2021. Expenses increased in 2022 due to higher selling costs associated with the expansion of Salt Life’s retail footprint and higher distribution labor costs.

Other income of \$2.4 million in 2022 included \$0.9 million in profits related to our equity investment in Green Valley Industrial Park, S.A. de C.V., the Honduran entity that owns and operates the industrial park in Naco, Quimistan, Santa Barbara Honduras, where our Ceiba Textiles facility is located (“Honduran Equity Method Investment”), as well as \$1.9 million in income from the net reduction in contingent consideration liabilities, offset by a loss on the disposal of fixed assets of \$0.4 million. In the prior year, other income of \$1.6 million included \$0.5 million of profits related to our Honduran Equity Method investment as well as \$2.4 million income from the net reduction in contingent consideration liabilities, partially offset by \$1.3 million of expenses related to the impact of the two hurricanes that disrupted our Honduran manufacturing facilities in the December quarter.

Operating income for 2022 was \$31.8 million. This compares to an operating income of \$32.7 million in the prior year.

Delta Group segment operating income for 2022 was \$38.0 million, or 9.0% of sales, compared to \$40.0 million, or 10.3% of sales, in 2021. The decline in operating income is attributable to gross margin decline from increasing input costs.

Salt Life Group segment operating income was \$8.2 million for 2022 compared to prior year operating income of \$5.8 million. Operating income improved due to higher sales volume coupled with favorable product mix.

Interest expense for 2022 was \$7.7 million compared to \$6.8 million in 2021. The increase is primarily due to higher average debt levels.

Our 2022 effective income tax rate is 17.9% compared to 21.9% in the prior year. See Note 9—Income Taxes for more information.

Net income attributable to shareholders in 2022 was \$19.7 million, or \$2.80 per diluted share. Our prior year net income was \$20.3 million, or \$2.86 per diluted share.

Liquidity and Capital Resources

Operating Cash Flows

Cash used by operating activities in 2022 was \$20.1 million, compared to cash provided by operating activities of \$25.5 million in 2021. The lower operating cash flows in 2022 primarily relate to increasing input costs and higher ending inventory levels at year-end.

Investing Cash Flows

Cash used in investing activities in 2022 and 2021 was \$13.0 million. Capital expenditures during 2022 and 2021 were \$19.9 and \$15.8 million, respectively. Capital expenditures in both periods primarily related to investments in our distribution expansion, digital print equipment, information technology, and retail stores. There were \$10.4 million in expenditures financed under capital lease arrangements and \$1.0 million in unpaid expenditures as of September 2022.

We currently expect to spend less on capital expenditures in 2023 as compared to 2022. These projects would be focused on digital print equipment, information technology, manufacturing efficiency, and direct-to-consumer investments, including new Salt Life retail store openings.

Financing Activities

Cash provided by financing activities was \$24.1 million in 2022 compared to cash used of \$19.5 million in 2021. In 2022, we increased the amount outstanding on our U.S credit facility and utilized cash proceeds to fund operating activities and certain capital investments, as well as the required payments on our capital lease financing. Additionally, in the current year we entered into a new Honduran term loan with a principal of \$3.7 million and a new term loan related to our El Salvador facility for \$3.0 million, both with five-year terms. We repurchased \$4.0 million shares of our common stock during 2022 compared to no share repurchases in 2021.

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.

Our asset-based U.S. revolving credit facility, as amended on June 2, 2022, as well as cash flows from operations, are intended to fund our day-to-day working capital needs, along with capital lease financing arrangements, to fund our planned capital expenditures. However, any material deterioration in our results of operations may result in the loss of our ability to borrow under our U.S. revolving credit facility and to issue letters of credit to suppliers, or may cause the borrowing availability under that 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. A significant deterioration in our accounts receivable or inventory levels could restrict our ability to borrow additional funds or service our indebtedness.

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 1.0. Our availability at September 2022, was above the minimum thresholds specified in our credit agreement, and we were above the 1.0 FCCR for the preceding 12-month period. A significant deterioration in our business could cause our availability to fall below minimum thresholds, thereby requiring us to maintain the minimum FCCR specified in our credit agreement, which we may not be able to maintain.

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 2022.

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. We have designated our interest rate swap contracts as cash flow hedges of our future interest payments. As a result, the gains and losses on the swap contracts are reported as a component of other comprehensive income and are reclassified into interest expense as the related interest payments are made. As of September 2022, all of other comprehensive income was attributable to shareholders and; none related to the non-controlling interest. The changes in fair value of the interest rate swap agreements resulted in other comprehensive gain, net of taxes, of \$0.9 million for the year ended September 2022, and other comprehensive gain, net of taxes, of \$0.5 million for the year ended September 2021.

Off-Balance Sheet Arrangements

As of September 2022, 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 letters of credit, and purchase obligations. We have disclosed 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 2016 to the date of determination. At September 2022, and September 2021, there was \$24.9 million and \$19.0 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 2022 and 2021. 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 2022, 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 2022, we purchased 136,181 shares of our common stock for a total cost of \$4.0 million. There were no repurchases of our common stock in 2021. As of September 2022, we had purchased 3,735,114 shares of common stock for an aggregate of \$56.4 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 2022, \$3.6 million remained authorized by our Board of Directors 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, inventories 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 obligations primarily consist 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 Sheets. As of September 2022, and September 2021, there was \$1.1 million and \$1.0 million, respectively, 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 collectability 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. Although our historical allowances have been materially accurate, if market conditions change, additional reserves may be required. Bad debt expense was less than 1% of net sales in each of 2022 and 2021.

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. 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. Although our historical reserves have been materially accurate, 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 Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services, ("SSI"). 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 Company tests goodwill for impairment annually on the first day of our third fiscal quarter, or more often if events occur or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. We assess the value of our goodwill under either a qualitative or quantitative approach. Under a qualitative approach, the Company evaluates various market and other factors to determine whether it is more likely than not that the Company's goodwill has been impaired. In performing the qualitative assessment, the Company considers the carrying value of its reporting units compared to its fair value as well as events and changes in circumstances that could include, but are not limited to, a significant adverse change in customer demand or business climate, an adverse action or assessment by a regulator, and significant adverse changes in the price of the Company's common stock. If such qualitative assessment indicates that impairment may have occurred, an additional quantitative assessment is performed by comparing the carrying value of the assets to their respective estimated fair values. If the recorded carrying value of goodwill exceeds its estimated fair value, an impairment charge is recorded to write the asset down to its estimated fair value.

The Company's goodwill impairment loss calculations contain uncertainties because they require management to make significant judgments in estimating the fair value of the Company's reporting units, including the projection of future cash flows and the selection of discount rates. These calculations contain uncertainties because they require management to make assumptions such as estimating economic factors, including the profitability of future business operations and, if necessary, the fair value of the reporting unit's assets and liabilities. Further, the Company's ability to realize the future cash flows used in its fair value calculations is affected by factors such as changes in economic conditions, changes in the Company's operating performance, and changes in the Company's business strategies. Significant changes in any of the assumptions involved in calculating these estimates could affect the estimated fair value of the Company's reporting units and could result in impairment charges in a future period.

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, as well as operating loss, interest deductions, 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 2022, we had state NOLs of approximately \$41.6 million, with deferred tax assets of \$2.0 million related to these state NOLs, and related valuation allowances against them of approximately \$0.6 million. These state net loss carryforwards expire at various intervals from 2027 through 2040.

Recent Accounting Standards

For information regarding recently issued accounting standards, refer to Note 2(ad) and Note 2(ae) 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 (the "Exchange Act") 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 periods ended September 2022, and September 2021, 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

None.

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 2022, 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 2022. 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 2022 included all of our operations. Based on our evaluation, our management has concluded that, as of September 2022, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of September 2022, 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 2022 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 October 1, 2022, 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 October 1, 2022, 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 October 1, 2022, and October 2, 2021, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended October 1, 2022, and the related notes and our report dated November 21, 2022 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, 2022

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

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 2022 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, Chief Financial Officer, and Chief 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, Chief Financial Officer, or Chief Accounting 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 2022 fiscal year under the headings "Executive Compensation," "Compensation Tables," and "Director Compensation."

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 2022 fiscal year under the headings "Equity Compensation Plan Information" and "Stock Ownership of Management and Principal Shareholder."

On February 6, 2020, our shareholders approved the Delta Apparel, Inc. 2020 Stock Plan ("2020 Stock Plan") to replace the 2010 Stock Plan, which was previously re-approved by our shareholders on February 4, 2015, and was scheduled to expire by its terms on September 14, 2020. The 2020 Stock Plan is substantially similar in both form and substance to the 2010 Stock Plan. The purpose of the 2020 Stock Plan is to continue to give our Board of Directors and its Compensation Committee the ability to offer a variety of compensatory awards designed to enhance the Company's long-term success by encouraging stock ownership among its executives, key employees and directors. Under the 2020 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 under the plan consist of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units, and other stock and cash awards. If a participant dies or becomes disabled (as defined in the 2020 Stock Plan) while employed by the Company 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 2020 Stock Plan, to establish, amend and rescind any rules and regulations relating to the 2020 Stock Plan, and to make any other determinations that it deems necessary. The aggregate number of shares of common stock that may be delivered under the 2020 Stock Plan is 449,714 plus any shares of common stock subject to outstanding awards under the 2010 Stock Plan that are subsequently forfeited or terminated for any reason before being exercised. Similar to the 2010 Stock Plan, the 2020 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 a given calendar year. The 2010 Stock Plan terminated and the 2020 Stock Plan became effective on February 6, 2020, the date of shareholders' approval.

Set forth in the table below is certain information about securities issuable under our equity compensation plans as of September 2022.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (2)	Number of securities remaining available for future issuance under equity compensation plans (excluding those currently outstanding)
Equity compensation plans approved by security holders	274,625	\$ —	276,464
Equity compensation plans not approved by security holders	—	—	—
Total	274,625	\$ —	276,464

(1) Includes all outstanding restricted stock units that have a performance-based vesting condition that would vest in equity shares, and assumes 100% vesting of performance-based targets.

(2) Not applicable, as there are no outstanding stock options at period end.

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 2022 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 2022 fiscal year under the heading "Proposal No. 3: 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 2022, and September 2021.

Consolidated Statements of Operations for the years ended September 2022, and September 2021.

Consolidated Statements of Comprehensive Income for the years ended September 2022, and September 2021.

Consolidated Statements of Shareholders' Equity for the years ended September 2022, and September 2021.

Consolidated Statements of Cash Flows for the years ended September 2022, and September 2021.

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.

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(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: Incorporated by reference to Exhibit 4.3 to the Company's Form 10-K filed on November 21, 2019.](#)
- [10.1](#) See Exhibit 2.1.
- [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.](#)

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- [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. Incorporated by reference to Exhibit 10.2.8 to the Company's Annual Report on Form 10-K filed on November 23, 2019.](#)
- [10.2.9 Fifth Amendment to Fifth Amended and Restated Credit Agreement dated April 27, 2020, 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. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on April 30, 2020.](#)
- [10.2.10 Sixth Amendment to Fifth Amended and Restated Credit Agreement dated August 28, 2020, 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. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 31, 2020.](#)
- [10.2.11 Seventh Amendment to Fifth Amended and Restated Credit Agreement dated June 2, 2022, 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. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 3, 2022.](#)
- [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.***](#)
- [10.5.1 Delta Apparel, Inc. 2020 Stock Plan: Incorporated by reference to Exhibit 1 to the Company's Proxy Statement filed on December 17, 2019.***](#)
- [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 10.6 to the Company's Form 10-K filed on November 22, 2021+.](#)
- [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 10.6.1 to the Company's Form 10-K filed on November 22, 2021+.](#)
- [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 10.6.2 to the Company's Form 10-K filed on November 22, 2021+.](#)
- [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 10.6.3 to the Company's Form 10-K filed on November 22, 2021+.](#)
- [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 Form 10-K filed on November 22, 2021+.](#)
- [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 10.6.5 to the Company's Quarterly Report on Form 10-Q filed on February 8, 2022+.](#)
- [10.6.6 Sixth Amendment to Yarn Supply Agreement dated as of December 27, 2021, 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 January 3, 2022+.](#)
- [10.7 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.***](#)
- [10.8 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.***](#)

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- [10.8.1 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.***](#)
- [10.8.2 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.***](#)
- [10.8.3 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.***](#)
- [10.8.4 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.***](#)
- [10.8.5 Fifth Amendment to Employment Agreement between Delta Apparel, Inc. and Robert W. Humphreys dated May 11, 2020: Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 12, 2020.***](#)
- [10.8.6 Sixth Amendment to Employment Agreement between Delta Apparel, Inc. and Robert W. Humphreys dated January 13, 2022: Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 18, 2022.***](#)
- [10.9 Employment Agreement between Delta Apparel, Inc. and Simone Walsh dated November 30, 2021: Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 30, 2021.***](#)
- [10.10 Employment Agreement between Delta Apparel, Inc. and Justin M. Grow dated September 6, 2022.***](#)
- [10.11 Employment Agreement between Delta Apparel, Inc. and Matthew J. Miller dated April 4, 2022: Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 3, 2022.***](#)
- [10.12 Employment Agreement between Delta Apparel, Inc. and Jeffery N. Stillwell dated January 1, 2022: Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2022.***](#)
- [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 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.***](#)
- [10.15 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.](#)
- [10.16 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.***](#)
- [10.17 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.***](#)
- [10.18 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.***](#)
- [10.19 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.***](#)
- [10.20 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.***](#)
- [10.21 Form of Restricted Stock Unit and Performance Unit Award Agreement: Incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on November 21, 2019.***](#)
- [10.22 Form of Restricted Stock Unit and Performance Unit Award Agreement.***](#)
- [10.23 Form of Restricted Stock Unit Award Agreement.***](#)
- [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.](#)

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101.INS Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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 (indicated therein by asterisk) have been omitted for confidential treatment.

*** 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)

11/21/22
Date

/s/Simone Walsh
Simone Walsh
Chief Financial Officer
(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 11/21/22
Anita D. Britt Date
Director

/s/Sonya E. Medina 11/21/22
Sonya E. Medina Date
Director

/s/J. Bradley Campbell 11/21/22
J. Bradley Campbell Date
Director

/s/A. Alexander Taylor, II 11/21/22
A. Alexander Taylor, II Date
Director

/s/G. Jay Gogue 11/21/22
G. Jay Gogue Date
Director

/s/Simone Walsh 11/21/22
Simone Walsh Date
Chief Financial Officer
(principal financial and accounting officer)

/s/Glenda E. Hood 11/21/22
Glenda E. Hood Date
Director

/s/David G. Whalen 11/21/22
David G. Whalen Date
Director

/s/Robert W. Humphreys 11/21/22
Robert W. Humphreys Date
Chairman and Chief Executive Officer
(principal executive officer)

Delta Apparel, Inc. and Subsidiaries

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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 October 1, 2022 and October 2, 2021, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended October 1, 2022, 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 at October 1, 2022 and October 2, 2021, and the results of its operations and its cash flows for each of the two years in the period ended October 1, 2022, 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 October 1, 2022, 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, 2022 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

Inventory Reserve Valuation**Description of the Matter**

As described in Note 4 to the Company's consolidated financial statements, the Company's inventories totaled approximately \$248.5 million as of October 1, 2022, net of approximately \$17.7 million of inventory reserves. As discussed in Note 2 to the consolidated financial statements, the Company states inventories at the lower of cost or net realizable value. In connection with this policy, the Company periodically reviews inventory quantities on hand and records 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. The Company's evaluation of inventory valuation includes consideration of the life cycle of the individual products and historical sales and margin information based on such life cycles.

Auditing management's estimate of certain inventory reserves was complex and required significant judgment due to estimation uncertainty in the assumptions about the life cycle of the individual products. Changes in these assumptions can lead to a material effect of the amount of recorded inventory reserves.

How We Addressed
the Matter in Our Audit

We obtained an understanding, evaluated design, and tested the operating effectiveness of controls over the Company's process to determine the valuation of the Company's inventory reserves. This included internal controls over the Company's review of significant assumptions underlying the inventory reserve estimate.

To test the adequacy of the Company's inventory reserve, our substantive audit procedures included, among others, assessing methodologies and assumptions used, testing the accuracy and completeness of the underlying data used in management's estimation calculations, including aging of inventory and historical margins, and performing sensitivity analysis on the significant assumptions used.

/s/ Ernst & Young, LLP

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

Atlanta, Georgia
November 21, 2022

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

	September 2022	September 2021
Assets		
Cash and cash equivalents	\$ 300	\$ 9,376
Accounts receivable, less allowances of \$109 and \$251, respectively	68,215	66,973
Other receivables	1,402	761
Income tax receivable	1,969	356
Inventories, net	248,538	161,703
Prepaid expenses and other current assets	2,755	3,794
Total current assets	323,179	242,963
Property, plant and equipment, net	74,109	67,564
Goodwill	37,897	37,897
Intangible assets, net	24,026	26,291
Deferred income taxes	1,342	1,854
Operating lease assets	50,275	45,279
Equity method investment	9,886	10,433
Other assets	2,967	2,007
Total assets	<u>\$ 523,681</u>	<u>\$ 434,288</u>
Liabilities and Equity		
Liabilities:		
Accounts payable	\$ 83,553	\$ 52,936
Accrued expenses	27,414	29,949
Income taxes payable	379	379
Current portion of finance leases	8,163	6,621
Current portion of operating leases	8,876	8,509
Current portion of long-term debt	9,176	7,067
Total current liabilities	137,561	105,461
Long-term income taxes payable	2,841	3,220
Long-term finance leases, less current maturities	16,776	15,669
Long-term operating leases, less current maturities	42,721	38,546
Long-term debt, less current maturities	136,750	101,680
Long-term contingent consideration	—	1,897
Deferred income taxes	4,310	1,520
Other liabilities	—	2,101
Total liabilities	<u>\$ 340,959</u>	<u>\$ 270,094</u>
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 6,915,663 and 6,974,660 shares outstanding as of September 2022, and September 2021, respectively	96	96
Additional paid-in capital	61,961	60,831
Retained earnings	166,600	146,860
Accumulated other comprehensive gain (loss)	141	(786)
Treasury stock—2,731,309 and 2,672,312 shares as of September 2022, and September 2021, respectively	(45,420)	(42,149)
Equity attributable to Delta Apparel, Inc.	183,378	164,852
Equity attributable to non-controlling interest	(656)	(658)
Total equity	182,722	164,194
Total liabilities and equity	<u>\$ 523,681</u>	<u>\$ 434,288</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended	
	September 2022	September 2021
Net sales	\$ 484,859	\$ 436,750
Cost of goods sold	376,016	334,870
Gross profit	108,843	101,880
Selling, general and administrative expenses	79,455	70,743
Other income, net	(2,393)	(1,574)
Operating income	31,781	32,711
Interest expense	7,732	6,844
Earnings before provision for income taxes	24,049	25,867
Provision for income taxes	4,307	5,705
Consolidated earnings, net	\$ 19,742	\$ 20,162
Net income (loss) attributable to non-controlling interest	2	(134)
Net earnings attributable to shareholders	19,740	20,296
Basic earnings per share	\$ 2.84	\$ 2.92
Diluted earnings per share	\$ 2.80	\$ 2.86
Weighted average number of shares outstanding	6,953	6,961
Dilutive effect of stock options and awards	94	132
Weighted average number of shares assuming dilution	7,047	7,093

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
(Amounts in thousands)

	Year Ended	
	September 2022	September 2021
Net earnings attributable to shareholders	\$ 19,740	\$ 20,296
Other comprehensive income related to unrealized gain on derivatives, net of income tax	927	536
Consolidated comprehensive income	<u>\$ 20,667</u>	<u>\$ 20,832</u>

See accompanying Notes to Consolidated Financial Statements

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

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Non-	Total
	Shares	Amount	Paid-In	Earnings	Other	Shares	Amount	Controlling	
			Capital		Comprehensive			Interest	
					Income (Loss)				
Balance at September 2020	9,646,972	\$ 96	\$ 61,005	\$ 126,564	\$ (1,322)	2,756,854	\$ (43,133)	\$ (524)	\$ 142,686
Net earnings	—	—	—	20,296	—	—	—	—	20,296
Other comprehensive income	—	—	—	—	536	—	—	—	536
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(134)	(134)
Vested stock awards	—	—	(2,117)	—	—	(84,542)	984	—	(1,133)
Stock based compensation	—	—	1,943	—	—	—	—	—	1,943
Balance at September 2021	<u>9,646,972</u>	<u>\$ 96</u>	<u>\$ 60,831</u>	<u>\$ 146,860</u>	<u>\$ (786)</u>	<u>2,672,312</u>	<u>\$ (42,149)</u>	<u>\$ (658)</u>	<u>\$ 164,194</u>
Net earnings	—	—	—	19,740	—	—	—	—	19,740
Other comprehensive income	—	—	—	—	927	—	—	—	927
Net income attributable to non-controlling interest	—	—	—	—	—	—	—	2	2
Stock buyback	—	—	—	—	—	136,181	(3,957)	—	(3,957)
Vested stock awards	—	—	(1,783)	—	—	(77,184)	686	—	(1,097)
Stock based compensation	—	—	2,913	—	—	—	—	—	2,913
Balance at September 2022	<u>9,646,972</u>	<u>\$ 96</u>	<u>\$ 61,961</u>	<u>\$ 166,600</u>	<u>\$ 141</u>	<u>2,731,309</u>	<u>\$ (45,420)</u>	<u>\$ (656)</u>	<u>\$ 182,722</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended	
	September 2022	September 2021
Operating activities:		
Consolidated net earnings	\$ 19,742	\$ 20,162
Adjustments to consolidated net earnings attributable to net cash (used in) provided by operating activities:		
Depreciation	12,636	11,913
Amortization of intangibles	2,396	1,841
Amortization of deferred financing fees	336	325
Provision for deferred income taxes	2,988	3,542
Provision for market reserves	1,804	898
Non-cash stock compensation	2,913	1,943
Loss (gain) on disposal of equipment	354	(54)
Contingent consideration earn out adjustment	(1,897)	(2,413)
Other, net	(848)	(615)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(1,438)	(6,734)
Inventories, net	(88,639)	(17,086)
Prepaid expenses and other current assets	1,593	(1,307)
Other non-current assets	624	1,368
Accounts payable	30,435	3,030
Accrued expenses	(415)	8,039
Change in net operating lease liabilities	342	493
Income taxes	(1,992)	248
Other liabilities	(1,049)	(126)
Net cash (used in) provided by operating activities	(20,115)	25,467
Investing activities:		
Purchases of property and equipment	(12,378)	(5,586)
Proceeds from sale of property and equipment	40	453
Proceeds from equipment under financed leases	—	2,312
Cash paid for intangible asset	(131)	(6,567)
Cash paid for business	(583)	(3,665)
Net cash used in investing activities	(13,052)	(13,053)
Financing activities:		
Proceeds from long-term debt	542,613	453,830
Repayment of long-term debt	(504,851)	(463,092)
Payment of capital financing	(7,732)	(6,991)
Payment of contingent consideration	—	(2,110)
Repurchase of common stock	(3,957)	—
Payment of deferred financing costs	(890)	—
Payment of withholding taxes on stock awards	(1,092)	(1,133)
Net cash provided by (used in) financing activities	24,091	(19,496)
Net decrease in cash and cash equivalents	(9,076)	(7,082)
Cash and cash equivalents at beginning of period	9,376	16,458
Cash and cash equivalents at end of period	\$ 300	\$ 9,376
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 7,404	\$ 6,554
Cash paid during the period for income taxes, net of refunds received	\$ 3,044	\$ 1,759

See accompanying Notes to Consolidated Financial Statements.

Delta Apparel, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 2022

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 8,600 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®, Soffe®, and Delta. We are a market leader in the on-demand, digital print and fulfillment industry, bringing DTG2Go's proprietary technology and innovation to our customers' supply chains. 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, department stores and mid-tier retailers, mass merchants and eRetailers, the U.S. military, and through our business-to-business digital platform. Our products are also made available direct-to-consumer on our ecommerce sites and in our branded retail stores. Our diversified go-to-market strategies allow 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, with more than 90% of the apparel that we sell sewn in our own 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"). 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 "2022" and "2021" relate to the 52-week fiscal year ended on September 2022, and the 52-week fiscal year ended on September 2021.

(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, income tax assets, and their related valuation allowance. Our actual results may differ from our estimates.

(d) Cash and Cash Equivalents: Cash and cash equivalents consist 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 collectability 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 the twelve months ended September 2022 and 2021.

(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 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. Our evaluation includes consideration of the life cycle of individual products and historical sales and margin information based on such life cycle.

(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. Right of use assets that we acquire under non-cancelable leases that meet the criteria of finance 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 expensed as 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 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 and whenever events or changes in circumstances indicate the carrying value may not be recoverable utilizing the one-step qualitative assessment. We assess the value of our goodwill under either a qualitative or quantitative approach. Under a qualitative approach, the Company evaluates various market and other factors to determine whether it is more likely than not that the Company's goodwill has been impaired. In performing the qualitative assessment, the Company considers the carrying value of its reporting units compared to its fair value as well as events and changes in circumstances that could include, but are not limited to, a significant adverse change in customer demand or business climate, an adverse action or assessment by a regulator, and significant adverse changes in the price of the Company's common stock. If such qualitative assessment indicates that impairment may have occurred, an additional quantitative assessment is performed by comparing the carrying value of the assets to their respective estimated fair values. If the recorded carrying value of goodwill exceeds its estimated fair value, an impairment charge is recorded to write the asset down to its estimated fair value.

During the third quarter of fiscal 2022, the Company qualitatively assessed whether it was more likely than not that goodwill was impaired. Based on this assessment, the Company determined that its goodwill was not impaired as of April 3, 2022. No events or changes in circumstances have occurred since the date of the Company's most recent annual impairment test that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company's goodwill impairment loss calculations contain uncertainties because they require management to make significant judgments in estimating the fair value of the Company's reporting units, including the projection of future cash flows and the selection of discount rates. These calculations contain uncertainties because they require management to make assumptions such as estimating economic factors, including the profitability of future business operations and, if necessary, the fair value of the reporting unit's assets and liabilities. Further, the Company's ability to realize the future cash flows used in its fair value calculations is affected by factors such as changes in economic conditions, changes in the Company's operating performance, and changes in the Company's business strategies. Significant changes in any of the assumptions involved in calculating these estimates could affect the estimated fair value of the Company's reporting units and could result in impairment charges in a future period.

(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 DTG2Go acquisition in March 2018. We remeasure contingent consideration in accordance with ASC 805, *Business Combinations* based on historical operating results and projections for the future. At September 2022, no amount was accrued for contingent consideration related to the acquisition of DTG2Go, compared to the accrual of \$1.9 million at September 2021. See Note 15—Commitments and Contingencies for further details.

(m) Revenue Recognition: Revenue is recognized when performance obligations under the terms of the contracts are satisfied. Our performance obligation primarily consists of transferring control of our 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 three 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 due to the resolution of variable uncertainties at the time of sale. 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 2022, and September 2021, there was \$1.1 million and \$1.0 million, respectively, in refund liabilities for customer returns, allowances, markdowns and discounts included 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.

(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, manufacturing labor 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 \$22.2 million and \$20.5 million in 2022 and 2021, 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 \$5.6 million and \$3.7 million in 2022 and 2021, respectively. In 2022 and 2021, cooperative advertising costs of \$0.7 million and \$0.6 million, respectively, were included in these advertising costs.

(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 awards, 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 as well as operating loss, interest deduction limitations, 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"). 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. Potentially dilutive shares consist of common stock issuable under the assumed exercise of outstanding stock 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 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 income contained in the shareholders' equity section of the Consolidated Balance Sheets related to interest rate swap agreements and was a gain as of September 2022 of \$0.1 million and a loss as of September 2021 of \$0.8 million.

(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, 2024. 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. 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 2022 or September 2021.

(z) Equity Method Accounting: As of September 2022, 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. In January 2018, Delta Apparel, Inc. established Salt Life Beverage, LLC, ("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.

(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) Recently Adopted Accounting Pronouncements: In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes, eliminates certain exceptions within Accounting Standards Codification ("ASC") 740, *Income Taxes*, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We adopted ASU 2019-12 as of the beginning of fiscal 2022, and the provisions did not have a material effect on our financial condition, results of operations, cash flows, or disclosures.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional guidance for a limited period of time to ease potential accounting and financial reporting impacts of reference rate reform, including the expected transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. This new guidance includes temporary optional practical expedients and exceptions for applying U.S. GAAP to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships and the sale or transfer of debt securities classified as held-to-maturity. Entities may apply the provisions of the new standard at the beginning of the reporting period when the election is made. This guidance may be applied through December 31, 2022. The Company transitioned their LIBOR based loans to an alternative reference rate during the fiscal year. This change did not have a material effect on our financial condition, results of operations, cash flows or disclosures. See Note 8—Long-Term Debt for further information.

(ad) Recently Issued Accounting Pronouncements Not Yet Adopted: In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires an entity to assess impairment of its financial instruments based on the entity's estimate of expected credit losses. Since the issuance of ASU 2016-13, the FASB released several amendments to improve and clarify the implementation guidance. These standards have been collectively codified within ASC Topic 326, *Credit Losses* ("ASC 326"). As a smaller reporting company as defined by the SEC, the provisions of ASC 326 are effective as of the beginning of our fiscal year 2024. We are currently evaluating the impacts of the provisions of ASC 326 on our financial condition, results of operations, cash flows, and disclosures.

Note 3—Revenue Recognition

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):

	Year Ended			
	September 2022		September 2021	
	\$	%	\$	%
Retail	\$ 13,970	3%	\$ 11,222	3%
Direct-to-consumer ecommerce	4,647	1%	6,662	2%
Wholesale	466,242	96%	418,866	95%
Net Sales	<u>\$ 484,859</u>	<u>100%</u>	<u>\$ 436,750</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:

	Year Ended September 2022			
	Net Sales	Retail	Direct-to-Consumer ecommerce	Wholesale
Delta Group	\$ 424,799	0.1%	0.3%	99.6%
Salt Life Group	60,060	22.6%	5.6%	71.8%
Total	<u>\$ 484,859</u>			

	Year Ended September 2021			
	Net Sales	Retail	Direct-to-Consumer ecommerce	Wholesale
Delta Group	\$ 387,015	0.2%	0.3%	99.5%
Salt Life Group	49,735	20.8%	11.0%	68.2%
Total	<u>\$ 436,750</u>			

Note 4—Inventories

Inventories, net of reserves of \$17.7 million and \$15.9 million as of September 2022, and September 2021, respectively, consist of the following (in thousands):

	September 2022	September 2021
Raw materials	\$ 22,603	\$ 17,204
Work in process	23,501	20,954
Finished goods	202,434	123,545
	<u>\$ 248,538</u>	<u>\$ 161,703</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 2022	September 2021
Land and land improvements	25	\$ 636	\$ 605
Buildings	20	4,002	3,741
Machinery and equipment	10	128,937	113,193
Computers and software	3-10	24,420	24,373
Furniture and fixtures	7-25	12,410	11,493
Leasehold improvements	3-10	7,876	7,366
Vehicles and related equipment	5	494	587
Construction in progress	N/A	3,899	5,477
		182,674	166,835
Less accumulated depreciation and amortization		(108,565)	(99,271)
Total property, plant and equipment, net		\$ 74,109	\$ 67,564

Note 6—Goodwill and Intangible Assets

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

	September 2022			September 2021			Economic Life
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	
Goodwill	\$ 37,897	\$ —	\$ 37,897	\$ 37,897	\$ —	\$ 37,897	N/A
Intangibles:							
Tradename/trademarks	\$ 16,000	\$ (4,851)	\$ 11,149	\$ 16,000	\$ (4,317)	\$ 11,683	20 - 30 yrs
Customer relationships	7,400	(3,213)	4,187	7,400	(2,473)	4,927	20 yrs
Technology	10,083	(2,610)	7,473	9,952	(1,715)	8,237	10 yrs
License agreements	2,100	(940)	1,160	2,100	(837)	1,263	15 - 30 yrs
Non-compete agreements	1,657	(1,600)	57	1,657	(1,476)	181	4 – 8.5 yrs
Total intangibles, net	\$ 37,240	\$ (13,214)	\$ 24,026	\$ 37,109	\$ (10,818)	\$ 26,291	

Goodwill represents the acquired goodwill net of the cumulative impairment losses recorded in fiscal year 2011 of \$0.6 million. As of September 2022, the Delta Group segment assets include \$18.0 million of goodwill, and the Salt Life Group segment assets include \$19.9 million of goodwill.

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 \$2.4 million for the year ended September 2022, and \$1.8 million for the year ended September 2021. Amortization expense is estimated to be approximately \$2.3 million for the years ended September 2023, 2024, and 2025, and approximately \$2.2 million for the years ended September 2026 and 2027.

Note 7—Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 2022	September 2021
Accrued employee compensation and benefits	\$ 18,550	\$ 17,374
Taxes accrued and withheld	1,856	2,960
Refund liabilities	1,067	991
Accrued freight	2,272	1,662
Accrued capital expenditures	174	2,299
Deferred purchase price (1)	500	1,500
Accrued interest	613	506
Other	2,382	2,657
	<u>\$ 27,414</u>	<u>\$ 29,949</u>

(1) Unsecured liability associated with the purchase of intangible technology, of which the final quarterly installment of \$500 was paid in the first quarter of fiscal 2023.

Note 8—Long-Term Debt

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

	September 2022	September 2021
Revolving U.S. credit facility, interest at base rate or adjusted SOFR rate plus an applicable margin (interest at 5.3% on September 2022) due June 2027	\$ 129,024	\$ 98,575
Revolving credit facility with Banco Ficohsa, a Honduran bank, interest at 7.25% as of September 2022 and 7.7% as of September 2021, due August 2025	3,300	667
Term loan with Banco Ficohsa, a Honduran bank, interest at 7.5%, quarterly installments beginning September 2021 through December 2025	6,593	8,621
Term loan with Banco Ficohsa, a Honduran bank, interest at 7.5%, quarterly installments beginning March 2023 through May 2027	3,656	—
Term loan with Banco Ficohsa, a Panamanian bank, interest at the prevailing market rate within the Panamanian Banking Market (interest at 8.6% on September 2022), monthly installments beginning October 2022 through August 2027	3,000	—
DTG2Go, LLC acquisition promissory note, interest at 6.0%, quarterly payments beginning January 2019 through October 2021	—	583
Salt Life Beverage, LLC promissory note, interest at 4.0%	353	301
	<u>145,926</u>	<u>108,747</u>
Less current portion of long-term debt	<u>(9,176)</u>	<u>(7,067)</u>
Long-term debt, excluding current maturities	<u>\$ 136,750</u>	<u>\$ 101,680</u>

Credit Facility

On May 10, 2016, we entered into a Fifth Amended and Restated Credit Agreement (as further amended, 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. The Borrowers entered into amendments to the Amended Credit Agreement with Wells Fargo and the other lenders on November 27, 2017, March 9, 2018, October 8, 2018, November 19, 2019, April 27, 2020, August 28, 2020 and June 2, 2022.

On November 19, 2019, the Borrowers entered into a Consent and Fourth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the “Fourth Amendment”). The Fourth Amendment, among other things, (i) increased the borrowing capacity under the Amended Credit Agreement from \$145 million to \$170 million (subject to borrowing base limitations), (ii) extended the maturity date from May 21, 2021 to November 19, 2024, (iii) reduced pricing on the revolver and first-in last-out “FILO” borrowing components by 25 basis points, and (iv) added 25% of the fair value of eligible intellectual property to the borrowing base calculation. In addition, the Fourth Amendment amended 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 their distribution facility located within the Town of Clinton, Anderson County, Tennessee.

On April 27, 2020, the Borrowers entered into a Fifth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo Bank (the “Agent”) and the other lenders set forth therein (the “Fifth Amendment”). The Fifth Amendment amends the financial covenant provisions from the amendment date through September 2020, including effectively lowering the minimum availability thresholds and removing the requirement that our Fixed Charge Coverage Ratio (“FCCR”) for the preceding 12-month period must not be less than 1.1 to 1.0. The Fifth Amendment also, among other things, (i) allowed for an additional 30 days of aged receivables from customers in the borrowing base through August 1, 2020, (ii) ceased amortization of real estate and machinery and equipment assets in the borrowing base through August 1, 2020, (iii) postponed amortization of trademark assets in the borrowing base until October 4, 2020; (iv) amends the definition of Fixed Charge Coverage Ratio to reference the monthly amortization of the borrowing bases that were amended as part of the Fourth Amendment to the Fifth Amended and Restated Credit Agreement on November 19, 2019, (v) amends the LIBOR rate definition to include a floor rate of 1.0%, and (vi) required weekly reporting of accounts receivable to the Agent through October 3, 2020.

On August 28, 2020, the Borrowers entered into a Sixth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo Bank (the “Agent”) and the other lenders set forth therein (the “Sixth Amendment”). The Sixth Amendment, (i) maintained lower minimum availability thresholds from the amendment date through July 3, 2021, (ii) allowed for an additional 30 days of aged receivables from customers in the borrowing base through April 3, 2021, (iii) increased the advance rate to 70% of real estate assets in the borrowing base and commences amortization on October 4, 2020, (iv) ceased amortization of machinery and equipment assets in the borrowing base through April 3, 2021, (v) postponed amortization of trademark assets in the borrowing base until April 4, 2021, (vi) required the Applicable Margin to be set at Level III through July 3, 2021 and increased the Applicable Margin by 50 basis points across all Levels within the Applicable Margin table for the remaining term of the Amended Credit Agreement, and (vii) required continued weekly reporting of accounts receivable to the Agent through July 3, 2021.

On June 2, 2022, the Borrowers entered into a Seventh Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo Bank (the “Agent”) and the other lenders set forth therein (the “Seventh Amendment”). The Seventh Amendment, (i) removes obsolete LIBOR based borrowing and replaces it with SOFR (Secured Overnight Financing Rate) as an alternative elective pricing structure, (ii) amends the pricing structure based on SOFR plus a CSA (Credit Spread Adjustment) defined as 10 bps for 1 month and 15 bps for 3-month tenors, (iii) sets the SOFR floor to 0 bps, (iv) reloads the fair market value of real estate and intellectual property within the borrowing base calculation and resets their respective amortization schedules, (v) sets the maturity date to 5 years from the closing date, and (vi) reduces our Fixed Charge Coverage Ratio (“FCCR”) for the preceding 12-month period, if and when applicable, from 1.1 to 1.0.

The Amended Credit Agreement allows us to borrow up to \$170 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 Amended Credit Agreement contains a subjective acceleration clause and a “springing” lockbox arrangement (as defined in ASC 470, Debt) 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. We classify borrowings under the Amended Credit Agreement as long-term debt with consideration of current maturities.

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 SOFR rate, subject to a floor of 0%, plus an applicable margin or (b) a base rate plus an applicable margin, with the base rate equal to the greater of (i) the Floor, (ii) the federal funds rate plus 0.5%, (iii) the Adjusted Term SOFR for a one month tenor in effect on such day plus 1.0%, or (iii) the prime rate announced by Wells Fargo, National Association. The facility requires monthly installment payments of approximately \$0.2 to \$0.3 million beginning October 4, 2020, in connection with fixed asset and intellectual property 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 \$170 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 2022, we had \$129.0 million outstanding under our U.S. revolving credit facility at an average interest rate of 5.3%. Our cash on hand combined with the availability under the U.S. credit facility totaled \$34.6 million.

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 1.0. Our availability at September 2022, was above the minimum thresholds specified in our credit agreement, and we were above the 1.0 FCCR for the preceding 12-month period.

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 2022, and September 2021, there was \$24.9 million and \$19.0 million, respectively, of retained earnings free of restrictions to make cash dividends or stock repurchases.

Promissory Notes

On October 8, 2018, we acquired substantially all of the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services. 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 paid October 4, 2021. As of September 2022, there was no amount outstanding for this note.

Honduran Debt

Since March 2011, we have entered into term loans and a revolving credit facility with Banco Ficohsa, a Honduran bank, to finance both the operations and capital expansion of our Honduran facilities. In December 2020, we entered into a new term loan and revolving credit facility with Banco Ficohsa, both with five-year terms, and simultaneously settled the prior term loans and revolving credit facility with outstanding balances at the time of settlement of \$1.1 million and \$9.5 million, respectively. In May 2022, we entered into a new term loan with a five-year term with a principal amount of \$3.7 million. Each of these loans are 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 its fair value. Information about these loans and the outstanding balance as of September 2022, is listed as part of the long-term debt schedule above.

El Salvador Debt

In September 2022 we entered into a new term loan with a five-year term with a principal amount of \$3.0 million with Banco Ficohsa, a Panamanian bank, to finance our El Salvador operations. This loan is secured by a first-priority lien on the assets of our El Salvador operations and is not guaranteed by our U.S. entities. The loan is denominated in U.S. dollars, and the carrying value of the debt approximates its fair value. Information about this loan and the outstanding balance as of September 2022, is listed as part of the long-term debt schedule above.

Total Debt

The aggregate maturities of debt at September 2022, are as follows (in thousands):

September	Amount
2023	\$ 9,176
2024	7,702
2025	6,853
2026	5,450
2027	116,745
Thereafter	—
	<u>\$ 145,926</u>

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 or 30% of the taxpayer’s adjusted taxable income. 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.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which was enacted on March 27, 2020, provided temporary changes to income and non-income-based tax laws, including some provisions which were previously enacted under the New Tax Legislation. The CARES Act revised the U.S. corporate income tax code on a temporary basis by, among other things, eliminating the 80% of taxable income limitation on net operating loss (“NOL”) carryforwards, allowing NOL carrybacks, and increasing the Section 163(j) interest limitation deduction from 30% to 50% of adjusted taxable income. We have included the estimated impact of these provisions in our effective tax rate calculation.

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

	Year Ended	
	September 2022	September 2021
Current:		
Federal	\$ 921	\$ 1,579
State	203	449
Foreign	195	135
Total current	\$ 1,319	\$ 2,163
Deferred:		
Federal	\$ 2,532	\$ 3,327
State	456	215
Total deferred	2,988	3,542
Provision for income taxes	\$ 4,307	\$ 5,705

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

	Year Ended	
	September 2022	September 2021
United States, net of (income) loss attributable to non-controlling interest	\$ 10,746	\$ 15,505
Foreign	13,301	10,496
	\$ 24,047	\$ 26,001

Our effective income tax rate on operations for 2022 was 17.9% compared to a rate of 21.9% in the prior year. We generally 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. As such, 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 CARES Act and New Tax Legislation may differ from historical amounts, possibly materially, due to, among other things, changes in interpretations and assumptions made regarding the CARES Act and New Tax Legislation, guidance that may be issued, and actions we may take as a result of the CARES Act and New Tax Legislation.

A reconciliation between the actual provision for income taxes and the provision for income taxes computed using the federal statutory income tax rate of 21.0% for fiscal years 2022 and 2021 is as follows (in thousands):

	Year Ended	
	September 2022	September 2021
Income tax expense at the statutory rate of 21.0%	\$ 5,050	\$ 5,460
State income tax benefits, net of federal income tax benefit	553	653
Impact of foreign earnings in tax-free zone	(2,598)	(2,070)
GILTI inclusion	1,237	1,063
Other permanent differences	(179)	(69)
Impact of state rate changes	10	(70)
Permanent reinvestment of foreign earnings	178	728
Other	56	10
Provision for income taxes	\$ 4,307	\$ 5,705

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

	September 2022	September 2021
Deferred tax assets:		
State net operating loss carryforwards	\$ 1,997	\$ 2,239
Receivable allowances and reserves	300	314
Inventories and reserves	1,649	883
Accrued compensation and benefits	2,948	3,002
Operating lease liabilities	10,039	8,801
Other	4,670	4,258
Gross deferred tax assets	\$ 21,603	\$ 19,497
Less valuation allowance — state net operating loss carryforwards	(640)	(586)
Net deferred tax assets	\$ 20,963	\$ 18,911
Deferred tax liabilities:		
Depreciation	\$ (7,242)	\$ (4,647)
Goodwill and intangibles	(6,038)	(4,943)
Operating lease assets	(9,720)	(8,367)
Other	(931)	(620)
Gross deferred tax liabilities	\$ (23,931)	\$ (18,577)
Net deferred tax (liabilities) assets	\$ (2,968)	\$ 334

As of September 2022, we had state net operating losses of approximately \$41.6 million, with deferred tax assets of \$2.0 million related to these state NOLs, and related valuation allowances against them of approximately \$0.6 million. These state net loss carryforwards expire at various intervals from 2027 through 2040. 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* 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 2022 or September 2021.

As of September 2022, we are indefinitely reinvested in the cumulative undistributed earnings of and original investments in our foreign subsidiaries, with the exception of our equity method investment, which has been properly accounted for. Future remittances could be subject to additional foreign withholding taxes, U.S. state taxes, and certain tax impacts relating to foreign currency exchange effects. It is not practicable to estimate the amount of any unrecognized tax effects on these reinvested earnings and original investments in foreign subsidiaries.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Tax years 2018, 2019, 2020, and 2021, according to statute and with few exceptions, remain open to examination by various federal, state, local, and foreign jurisdictions.

Note 10—Leases

We lease property and equipment under operating lease arrangements, most of which relate to distribution centers and manufacturing facilities in the U.S., Honduras, El Salvador, and Mexico. We also lease machinery and equipment in the U.S. under finance lease arrangements. We include both the contractual term as well as any renewal option that we are reasonably certain to exercise in the determination of our lease terms. For leases with a term of greater than 12 months, we value lease liabilities and the related assets as the present value of the lease payments over the related term. We apply the short-term lease exception to leases with a term of 12 months or less and exclude such leases from our Condensed Consolidated Balance Sheet. Payments related to these short-term leases are expensed on a straight-line basis over the lease term and are reflected as a component of lease cost within our Condensed Consolidated Statements of Operations. Our operating lease agreements for buildings generally include provisions for the payment of our proportional share of operating costs, property taxes, and other variable payments. These incremental payments are excluded from our calculation of operating lease liabilities and right of use assets. We have elected to use the practical expedient present in ASC 842 to not separate lease and non-lease components for all significant underlying asset classes and instead account for them together as a single lease component in the measurement of our lease liabilities.

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Generally, the rate implicit in our operating leases is not readily determinable. Therefore, we discount future lease payments using our estimated incremental borrowing rate at lease commencement. We determine this rate based on a credit-adjusted risk-free rate, which approximates a secured rate over the lease term. The weighted average discount rate for operating leases was 4.6% and 4.3% as of September 2022 and September 2021, respectively. We discount our finance lease payments based on the rate implicit and stated in the lease. The weighted average discount rate for finance leases was 5.7% and 5.8% as of September 2022 and September 2021, respectively.

The following table presents the future undiscounted payments due on our operating and finance lease liabilities as well as a reconciliation of those payments to our operating and finance lease liabilities, recorded as of September 2022 (in thousands):

	Operating Leases	Finance Leases
2023	\$ 10,919	\$ 9,339
2024	9,891	7,859
2025	9,855	5,944
2026	8,195	3,342
2027	6,589	881
Thereafter	14,368	-
Undiscounted fixed lease payments	\$ 59,817	\$ 27,365
Discount due to interest	(8,220)	(2,426)
Total lease liabilities	\$ 51,597	\$ 24,939
Less current maturities	(8,876)	(8,163)
Lease liabilities, excluding current maturities	\$ 42,721	\$ 16,776

As of September 2022, we have entered into certain operating leases that have not yet commenced, but the annual fixed lease payments are not significant.

Our Ceiba Textiles manufacturing facility is leased under an operating lease arrangement with a Honduran company, of which we own 31% of the outstanding capital stock of the lessor at September 2022. During 2022 and 2021, we paid approximately \$1.8 million respectively in lease payments under this arrangement.

As of September 2022, and September 2021, we had \$50.3 million and \$45.3 million, respectively, of operating lease ROU assets which were reflected within Operating lease assets in our Consolidated Balance Sheet, and \$32.1 million and \$26.7 million, respectively, of finance lease ROU assets, which were reflected within Property, plant, and equipment, net in our Consolidated Balance Sheet.

The weighted average remaining lease terms for our operating leases and finance leases were approximately 6 years and 3 years, respectively, as of September 2022. As of September 2021, the average remaining lease terms were 7 years and 3 years, respectively.

The components of total lease expense were as follows for the period ended September 2022 (in thousands):

Operating lease fixed expense	\$ 11,568
Operating lease variable cost expense	2,536
Finance lease amortization of ROU assets expense	4,468
Finance lease interest expense	1,391
Total lease expense	\$ 19,963

Cash outflows for operating lease payments were \$12.0 million during 2022 and \$11.0 million during 2021. Cash outflows for interest payments on finance leases were \$1.4 million and \$1.2 million during 2022 and 2021, respectively. These outflows are classified within net cash provided by (used in) operating activities on the Consolidated Statement of Cash Flows. Cash outflows for finance lease payments during 2022 and 2021 were \$7.7 million and \$7.0 million, respectively, and are classified within net cash used in financing activities on the Consolidated Statement of Cash Flows.

ROU assets obtained in exchange for operating lease liabilities during 2022 and 2021 were \$13.9 million and \$1.2 million, respectively. ROU assets obtained in exchange for finance lease liabilities during 2022 and 2021 were \$10.4 million and \$12.3 million, respectively.

We do not have significant leasing transactions in which we are the lessor.

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. We contributed \$0.9 million to the 401(k) Plan during 2022 and 2021, respectively.

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 2022 and 2021. The following table presents the benefit obligation, which is included in accrued expenses in the accompanying balance sheets (in thousands).

	September 2022	September 2021
Balance at beginning of year	\$ 271	\$ 289
Interest expense	—	—
Benefits paid	(7)	(18)
Balance at end of year	<u>\$ 264</u>	<u>\$ 271</u>

Note 12—Stock-Based Compensation

On February 6, 2020, our shareholders approved the Delta Apparel, Inc. 2020 Stock Plan (“2020 Stock Plan”) to replace the 2010 Stock Plan, which was previously re-approved by our shareholders on February 4, 2015, and was scheduled to expire by its terms on September 14, 2020. The 2020 Stock Plan is substantially similar in both form and substance to the 2010 Stock Plan. The purpose of the 2020 Stock Plan is to continue to give our Board of Directors and its Compensation Committee the ability to offer a variety of compensatory awards designed to enhance the Company’s long-term success by encouraging stock ownership among its executives, key employees and directors. Under the 2020 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 under the plan consist of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units, and other stock and cash awards. If a participant dies or becomes disabled (as defined in the 2020 Stock Plan) while employed by the Company 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 2020 Stock Plan, to establish, amend and rescind any rules and regulations relating to the 2020 Stock Plan, and to make any other determinations that it deems necessary. The aggregate number of shares of common stock that may be delivered under the 2020 Stock Plan is 449,714 plus any shares of common stock subject to outstanding awards under the 2010 Stock Plan that are subsequently forfeited or terminated for any reason before being exercised. Similar to the 2010 Stock Plan, the 2020 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 a given calendar year. The 2010 Stock Plan terminated and the 2020 Stock Plan became effective on February 6, 2020, the date of shareholders’ approval.

Shares are generally issued from treasury stock upon the vesting of the restricted stock units, performance units or other awards under the 2020 Stock Plan.

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 2022 and 2021 was \$3.2 million and \$2.5 million, respectively. Associated with the compensation cost are income tax benefits recognized of \$0.6 million for 2022 and \$0.6 million for 2021.

The following table summarizes the restricted stock unit and performance unit award activity during the periods ended September 2022 and September 2021:

	Year Ended			
	September 2022		September 2021	
	Number of Units	Weighted average grant date fair value	Number of Units	Weighted average grant date fair value
Units outstanding, beginning of fiscal period	260,000	\$ 20.38	406,000	\$ 20.16
Units granted	319,950	\$ 30.09	12,000	\$ 30.80
Units issued	(144,700)	\$ 19.42	(116,000)	\$ 18.96
Units forfeited	(50,000)	\$ 27.72	(42,000)	\$ 25.17
Units outstanding, end of fiscal period	385,250	\$ 27.85	260,000	\$ 20.38

During 2022, performance units and restricted stock units representing 47,700 and 95,000 shares of our common stock, respectively, vested upon the filing of our Annual Report on Form 10-K for the year ended September 2021, and were issued in accordance with their respective agreements. Of these vested units, 96,350 were paid in common stock and 46,350 were paid in cash.

During 2022, restricted stock units and performance units representing 1,000 and 1,000 shares of our common stock, respectively, anticipated to vested upon the filing of our Annual Report on Form 10-K for the year ended September 2022, vested immediately due to a change in employee status and were issued. Of these units, 1,000 were paid in common stock and 1,000 were paid in cash. Additionally, during the fiscal year, previously issued restricted stock awards representing 50,000 shares of our common stock were forfeited due to the failure to achieve the performance criteria specified in the award agreement.

During 2021, restricted stock units representing 12,000 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 year ended September 2022. These restricted stock units are payable in common stock.

During 2022, restricted stock units representing 15,000 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 year ended September 2022. These restricted stock units are payable in common stock.

During 2022, restricted stock units and performance units representing 110,625 and 68,625 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 year ended September 2023. These restricted stock units and performance units are payable one-half in common stock and one-half in cash.

During 2022, restricted stock units and performance units representing 52,000 and 10,000 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 year ended September 2024. These restricted stock units and performance units are payable one-half in common stock and one-half in cash. In addition, restricted stock units representing 59,000 shares were granted and are eligible to vest upon the filing of our Annual Report on Form 10-K for the year ended September 2024. These restricted stock units are payable in common stock.

As of September 2022, there was \$4.7 million of total unrecognized compensation cost related to unvested restricted stock units and performance units under the 2020 Stock Plan. This cost is expected to be recognized over a period of 2.2 years.

The following table summarizes information about the unvested restricted stock units and performance units as of September 2022.

Restricted Stock Units/Performance Units	Number of Units	Average Market Price on Date of Grant	Vesting Date*
Fiscal Year 2022 Restricted Units	105,000	\$ 21.04	November 2022
Fiscal Year 2023 Restricted Units	98,126	\$ 30.07	November 2023
Fiscal Year 2023 Performance Units	61,124	\$ 27.94	November 2023
Fiscal Year 2024 Restricted Units	111,000	\$ 30.07	November 2024
Fiscal Year 2024 Performance Units	10,000	\$ 30.15	November 2024
	385,250		

* 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.

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 the following business units, which are primarily focused on core activewear styles: DTG2Go and Delta Activewear.

DTG2Go is a market leader in the on-demand, direct-to-garment digital print and fulfillment industry, bringing technology and innovation to the supply chains of our many customers. Our ‘On-Demand DC’ digital solution provides retailers and brands with immediate access to utilize DTG2Go’s broad network of print and fulfillment facilities, while offering the scalability to integrate digital fulfillment within the customer’s own distribution facilities. 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. Via our eight fulfillment facilities throughout the United States, DTG2Go offers a robust digital supply chain, shipping custom graphic products within 24 to 48 hours to consumers in the United States and to over 100 countries worldwide. DTG2Go has made significant investments in its “digital-first” retail model providing digital graphic prints that meet the high-quality standards required for brands, retailers and intellectual property holders. In fiscal 2022, we continued to invest in our proprietary software, new digital print equipment, and research and development initiatives related to the setups, formulas and processes needed to serve our customers. Through integration with Delta Activewear, DTG2Go also services the eRetailer, ad-specialty, promotional and screen print marketplaces, among others.

Delta Activewear is a preferred supplier of activewear apparel to regional and global brands as well as direct to retail and wholesale markets. The Activewear business is organized around three key customer channels – Delta Direct, Global Brands, and Retail Direct – that are distinct in their go-to-market strategies and how their respective customer bases source their various apparel needs. Our Delta Direct channel services the screen print, promotional, and eRetailer markets as well as retail licensing customers that sell through to many mid-tier and mass market retailers. Delta Direct products include a broad portfolio of apparel and accessories under the Delta, Delta Platinum, and Soffe brands as well as sourced items from select third party brands. Our fashion basics line includes our Platinum Collection, which offers fresh, fashionable silhouettes with a luxurious look and feel, as well as versatile fleece offerings. We offer innovative apparel products, including the Delta Dri line of performance shirts built with moisture-wicking material to keep athletes dry and comfortable; ringspun garments with superior comfort, style and durability; and Delta Soft, a collection with an incredible feel and price. We also offer our heritage, mid- and heavier-weight Delta Pro Weight® and Magnum Weight® tee shirts.

The iconic Soffe brand offers activewear for spirit makers and record breakers and is widely known for the original "cheer short" with the signature roll-down waistband. Soffe carries a wide range of activewear for the entire family. 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 Soffe 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." Complementing the Delta and Soffe brand apparel, we provide our customers with a broad range of product categories with nationally recognized branded products including polos, outerwear, headwear, bags and other accessories. Our Soffe products are also available direct to consumers at www.soffe.com.

Our Global Brands channel serves as a key supply chain partner to large multi-national brands, major branded sportswear companies, trendy regional brands, and all branches of the United States armed forces, providing services ranging from custom product development to shipment of branded products with “retail-ready” value-added services including embellishment, hangtags, and ticketing.

Our Retail Direct channel serves brick and mortar and online retailers by providing our portfolio of Delta, Delta Platinum, and Soffe products directly to the retail locations and ecommerce fulfillment centers of a diversified customer base including sporting goods and outdoor retailers, specialty and resort shops, farm and fleet stores, department stores, and mid-tier retailers.

As a key element of the integrated Delta Group segment, each of Activewear’s primary channels offer a seamless solution for small-run decoration needs with on-demand digital print services, powered by DTG2Go.

The Salt Life Group is comprised of our Salt Life business, which is built on the authentic, aspirational Salt Life lifestyle brand that represents a passion for the ocean, the salt air, and, more importantly, a way of life 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 has continued to provide the cotton graphic tees and logo decals that originally drove awareness for the brand, and expanded into performance apparel, swimwear, board shorts, sunglasses, bags, and accessories. In fiscal 2022, Salt Life grew its retail footprint to include 21 stores across the U.S. coastline from Southern California to Key West and up the eastern seaboard to Rehoboth Beach, Delaware. Consumers can also seamlessly experience the Salt Life brand through retail partners including surf shops, specialty stores, department stores, and outdoor merchants or by accessing our Salt Life ecommerce site at www.saltlife.com.

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).

	Year Ended	
	September 2022	September 2021
Segment net sales:		
Delta Group	\$ 424,799	\$ 387,015
Salt Life Group	60,060	49,735
Total net sales	<u>\$ 484,859</u>	<u>\$ 436,750</u>
Segment operating income:		
Delta Group	\$ 38,045	\$ 39,956
Salt Life Group	8,187	5,793
Total segment operating income	<u>\$ 46,232</u>	<u>\$ 45,749</u>
Purchases of property, plant and equipment:		
Delta Group	\$ 8,400	\$ 5,115
Salt Life Group	3,978	471
Total purchases of property, plant and equipment	<u>\$ 12,378</u>	<u>\$ 5,586</u>
Depreciation and amortization:		
Delta Group	\$ 13,376	\$ 12,133
Salt Life Group	1,656	1,621
Total depreciation and amortization	<u>\$ 15,032</u>	<u>\$ 13,754</u>

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

	Year Ended	
	September 2022	September 2021
Segment operating income	\$ 46,232	\$ 45,749
Unallocated corporate expenses	14,451	13,038
Unallocated interest expense	7,732	6,844
Consolidated income before provision for income taxes	<u>\$ 24,049</u>	<u>\$ 25,867</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. Sales to foreign customers represented less than 1% of our consolidated net sales for both fiscal years 2022 and 2021.

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

	As of	
	September 2022	September 2021
Total assets by segment:		
Delta Group	\$ 426,406	\$ 366,518
Salt Life Group	90,580	63,184
Corporate	6,695	4,586
Total assets	\$ 523,681	\$ 434,288
Equity investment in joint venture:		
Delta Group	\$ 9,886	\$ 10,433
Salt Life Group	—	—
Total equity investment in joint venture	\$ 9,886	\$ 10,433

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 2022	September 2021
United States	\$ 54,200	\$ 50,945
Honduras	13,366	12,247
El Salvador	5,381	3,253
Mexico	1,162	1,119
All foreign countries	19,909	16,619
Total property, plant and equipment, net	\$ 74,109	\$ 67,564

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 2022, we purchased 136,181 shares of our common stock for a total cost of \$4.0 million. There were no purchases of our common stock during 2021. As of September 2022, we have purchased 3,735,114 shares of common stock for an aggregate of \$56.4 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 2022, \$3.6 million remained available for future purchases under our Stock Repurchase Program, which does not have an expiration date.

Note 15—Commitments and Contingencies

(a) Litigation

At times, we are party to various legal claims, actions and complaints. We believe that, as a result of legal defense, insurance arrangements, and indemnification provisions with parties believed to be financially capable, such actions should not have a material adverse 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 2022, minimum payments under these contracts were as follows (in thousands):

Yarn	\$	23,677
Finished fabric		7,823
Finished products		31,580
	\$	<u>63,080</u>

(c) Letters of Credit

As of September 2022, 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 2022:

	Effective Date	Notional Amount	LIBOR Rate	Maturity Date
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. No such cotton contracts were outstanding as of September 2022, or September 2021.

ASC 820, *Fair Value Measurements and Disclosures* 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 2022	\$ 189	\$ —	\$ 189	\$ —
September 2021	\$ (1,052)	\$ —	\$ (1,052)	\$ —
Contingent Consideration				
September 2022	\$ —	\$ —	\$ —	\$ —
September 2021	\$ (1,897)	\$ —	\$ —	\$ (1,897)

The fair value of the interest rate swap agreements was derived from a 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. At September 2022 and September 2021, book value for fixed rate debt approximates fair value 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 2022, and September 2021.

	September 2022	September 2021
Deferred tax asset	\$ (48)	\$ 266
Other assets	189	—
Other liabilities	—	(1,052)
Accumulated other comprehensive gain (loss)	<u>\$ 141</u>	<u>\$ (786)</u>

The DTG2Go acquisition purchase price consisted of additional payments contingent on the combined businesses' achievement of certain performance targets related to sales and earnings before interest, taxes, depreciation and amortization for the period from April 1, 2018, through September 29, 2018, as well as for fiscal years 2019, 2020, 2021 and 2022. At September 2022, no amount was accrued for contingent consideration related to the acquisition of DTG2Go, compared to the accrual of \$1.9 million at September 2021.

Note 16—Subsequent Events

None.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement"), dated September 6, 2022, and effective November 2, 2022, is by and between Delta Apparel, Inc., a Georgia corporation ("Company"), and JUSTIN M. GROW ("Executive").

WHEREAS, Executive and the Company desire to enter into a separate written agreement providing for the terms of Executive's employment by the Company during the Term (as defined below).

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

1. **Employment.** Executive agrees to be employed with the Company, and the Company agrees to employ Executive, during the Term and on the terms and conditions set forth in this Agreement. Executive agrees during the term of this Agreement to devote substantially all of Executive's business time, efforts, skills and abilities to the performance of Executive's duties to the Company and to the furtherance of the Company's business.

Executive's job title will be Executive Vice President and Chief Administrative Officer, and Executive's duties will be those as are determined by the Company's Chief Executive Officer. The principal place of Executive's employment shall be the Company's offices currently located in Greenville, South Carolina; recognizing that Executive will be required to travel on Company business, as business needs dictate.

2. **Compensation.**

- a. **Base Salary.** During the term of Executive's employment with the Company pursuant to this Agreement, the Company shall pay to Executive as compensation for Executive's services an annual base salary of not less than \$375,000 ("Base Salary"). Executive's Base Salary will be payable in arrears in accordance with the Company's normal payroll procedures and will be reviewed annually and subject to upward adjustment from Executive's then-current base salary at the discretion of the Company's Chief Executive Officer and subject to the approval of the Compensation Committee of the Company's Board of Directors.

Nothing in this Agreement entitles Executive to an annual base salary of more than the above-referenced Base Salary amount.

- b. **FY23 Cash Bonus.** For the Company's 2023 fiscal year ending September 30, 2023 ("Fiscal Year 2023"), Executive shall be entitled to receive payment of the greater of the following amounts: (i) the Incentive Compensation (as defined in subsection 2(c), below) payable to Executive under the Company's Short-Term Incentive Compensation Plan for Fiscal Year 2023; or (ii) \$150,000, with the greater of such amounts payable to Executive as soon as practicable following the date the Company files with the U.S. Securities and Exchange Commission its annual report on Form 10-K for Fiscal Year 2023, provided that Executive is employed by the Company on such filing date.
- c. **Incentive Compensation.** During the term of this Agreement, Executive shall be entitled to participate in the Company's Short-Term Incentive Compensation Plan as in effect from time to time. Any cash compensation payable under this paragraph shall be referred to as "Incentive Compensation" in this Agreement. The Company reserves the right to amend and/or terminate its Short-Term Incentive Compensation Plan and nothing in this Agreement entitles Executive to any particular level of participation in the Company's Short-Term Incentive Compensation Plan. Notwithstanding anything to the contrary herein, Executive is entitled to the same level of participation as other similarly-situated Executives, and for Fiscal Year 2023, Executive's base Incentive Compensation will be \$150,000, which will be adjusted up or down depending on the Company's actual earnings before interest and taxes ("EBIT") for Fiscal Year 2023 per the terms of the Delta Apparel, Inc. Short-Term Incentive Compensation Plan.

In addition, during the term of this Agreement, Executive shall be entitled to participate in the Company's equity award program and, on or before January 6, 2023, Executive will be awarded: (i) five thousand (5,000) restricted stock units and five thousand

THIS AGREEMENT IS SUBJECT TO ARBITRATION

(5,000) performance units specified in a Restricted Stock Unit and Performance Unit Award Agreement effective on or before January 6, 2023 (the "Award Agreement"), and eligible to vest in connection with Fiscal Year 2023; and (ii) five thousand (5,000) restricted stock units and five thousand (5,000) performance units specified in the Award Agreement and eligible to vest in connection with the Company's 2024 fiscal year, with all such awards made under the Delta Apparel, Inc. 2020 Stock Plan (the "Plan"). Any conflict or inconsistency between this Agreement and the terms of the Award Agreement or the Plan will be governed by the terms of the Award Agreement or the Plan. Notwithstanding anything to the contrary above or herein, in the event that Executive's employment is terminated by the Company other than for Cause as defined in Section 4(b) of the Agreement, the full equity award eligible to vest in connection with the fiscal year in which the Executive's employment is terminated will immediately vest.

- d. Executive Fringe Benefits. During the term of Executive's employment with the Company pursuant to this Agreement, Executive shall be entitled to receive such executive fringe benefits as are provided to the executives in comparable positions under any of the Company's plans and/or programs in effect from time to time for which Executive is eligible to participate and to participate in such other benefit programs as are customarily available to executives of the Company, including, without limitation, paid time off and life, health and disability benefits. Nothing herein will alter or affect the right of Company, consistent with the applicable benefit plan documents, to alter, amend, or terminate such programs in its sole discretion at whatever time it chooses.
- e. Tax Withholding and Offset. Executive's compensation is subject to such deductions and withholdings as are authorized by Executive or required by law and/or policies of the Company in effect from time to time. The Company, in its sole discretion, may offset any sum due from Executive to the Company (at the end of the term of this Agreement or otherwise) against any amount which would otherwise be due to the Executive to the maximum extent permitted by law.
- f. Expense Reimbursements. The Company shall pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the course of performing Executive's duties hereunder, including, but not limited to, reasonable travel expenses for Executive. The Company's practice is to make such reimbursements on a monthly basis and, in any event, no later than the last day of the year immediately following the year in which Executive incurs the reimbursable expense. The amount of reimbursable expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. No right to reimbursement is subject to liquidation or exchange for other benefits. As a condition to such payment or reimbursement, however, Executive shall maintain and provide to the Company reasonable documentation and receipts for such expenses.
- 3. Term. Unless sooner terminated pursuant to Section 4 of this Agreement, and subject to the provisions of Section 5 and 6 hereof, the term of this Agreement (the "Term") shall commence as of November 2, 2022, and shall continue until December 31, 2024. Any employment of Executive by the Company following the expiration of the Term will be at-will and not subject to any termination benefits set forth herein.
- 4. Termination. Notwithstanding the provisions of Section 3 hereof, but subject to the provisions of Section 5 hereof, Executive's employment shall terminate as follows:

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

(6) months after the date of Executive's death if Executive is employed by the Company on the date of Executive's death.

- b. Termination for Cause. The Company may terminate Executive's employment at any time for "Cause" (as hereinafter defined) by delivering a written termination notice to Executive. For purposes of this Agreement, "Cause" shall mean any of the following: (i) Executive's commission of fraud; (ii) Executive's commission of embezzlement; (iii) Executive's conviction of a felony; (iv) the willful or continued failure or refusal by Executive to perform and discharge Executive's duties, responsibilities and obligations under this Agreement; (v) any act of moral turpitude or willful misconduct by Executive intended to result in personal enrichment of Executive at the expense of the Company, or any of its affiliates or which has a material adverse impact on the business or reputation of the Company or any of its affiliates (such determination to be made by the Company's Chief Executive Officer in his or her reasonable judgment); (vi) gross negligence or intentional misconduct resulting in damage to the property, reputation or business of the Company; (vii) the ineligibility of Executive to perform Executive's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company; or (viii) Executive's failure to correct or cure any material breach of or default under this Agreement within thirty (30) days after receiving written notice of such breach or default from the Company.
- c. Termination Without Cause. The Company may terminate Executive's employment at any time for any or no reason by delivering thirty (30) days prior written termination notice to Executive. Upon providing notice of termination pursuant to this Paragraph, the Company may determine, in its sole discretion, the extent of Executive's duties during the notice period. Executive shall be entitled to receive his Base Salary and benefits through the termination date, less applicable taxes and other deductions. Without in any way impacting either party's rights or obligations under Section 4 below, if the Company does not intend to continue the employment relationship beyond the Term, the Company will provide Executive notice at least ninety (90) days before the conclusion of the Term.
- d. Termination by Executive. Executive may terminate Executive's employment at any time by delivering sixty (60) days prior written notice to the Company; provided, however, that the terms, conditions and benefits specified in Section 5 hereof shall apply or be payable to Executive only if such termination occurs as a result of a material breach by the Company of any provision of this Agreement for which the Executive provides written notice to the Company within ninety (90) days of the initial existence of the alleged material breach and which is not cured by the Company within thirty (30) days of Executive's notice to the Company.
- e. Termination Following Disability. In the event Executive becomes "disabled" (as defined below), the Company may terminate Executive's employment by delivering a written termination notice to Executive. Notwithstanding the foregoing, Executive shall continue to receive Executive's full Base Salary and benefits to which Executive is entitled under this Agreement for a period of six (6) months after the effective date of such termination. For purposes of this section, the Executive shall be considered disabled if the Executive (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three (3) months under the Company's disability insurance policy and/or salary continuation policy as in effect on the date of such disability.
- f. Non-Disparagement. Executive agrees that during and following the termination of Executive's employment Executive will not publicly (or in a manner Executive reasonably should have expected to be made public) disparage or otherwise make negative comments regarding the Company, its employees or its affiliates, provided, however, that the foregoing shall in no way restrict the Executive from accurate and good faith responses to a legal subpoena or reporting any concerns that Executive may have to (i) any authority within the Company designated to receive complaints or concerns from employees, including, without limitation, the Company's Board of Directors, Board of Managers or a committee thereof, or (ii) any regulator or other governmental authority with supervisory responsibility for the Company (including, without limitation, the Securities and Exchange Commission) or the Company's independent auditors.

5. Certain Termination Benefits. Executive shall be entitled to certain enumerated post-termination benefits if and only if the following events occur:

- i. the provisions of Section 6 do not apply;
- ii. either the Company terminates Executive's employment without Cause pursuant to Section 4(c) or does not extend the employment relationship beyond the Term, or Executive terminates Executive's employment pursuant to Section 4(d) as a result of an uncured material breach by the Company of a material provision of this Agreement; and
- iii. the Executive executes and delivers the release contemplated in Section (e) below, and any revocation period therein expires, on or before the 30th day after the date of Executive's termination from employment;

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

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

Base Salary	Incentive Compensation	Payout Period
12 months	100% of the Short-Term Incentive Compensation Plan award for the 12 months most recent full fiscal year prior to termination	

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

- b. Group Life and Disability Insurance. If and to the extent that: (i) the Company's plans in effect from time to time permit such coverage and Executive has elected and is participating in such coverage as of the date of Executive's termination from employment; and (ii) it is permitted under Code Section 409A, the Company shall continue to provide Executive with group life and disability insurance coverage for the applicable Payout Period described above in (a) following termination at coverage levels and rates equal to those applicable to Executive immediately prior to such termination or, if different, as offered to other executive level employees during such applicable period.
- c. Medical Insurance. Upon termination of employment, Executive shall be entitled to all COBRA continuation benefits available under the Company's group health plans to similarly situated employees. To the extent permitted under Code Section 409A and the terms of the applicable benefit plans, and to the extent Executive affirmatively elects to continue participation in the Company's group health plans under COBRA, during the Payout Period, the Company shall subsidize the amounts Executive is required to pay for such COBRA continuation benefits such that the Executive will only be required to pay the rates that active, similarly situated employees must pay for such benefits. Upon the expiration of such Payout Period, the Executive will be responsible for timely paying the full COBRA premiums for the remaining COBRA continuation period.
- d. Offset. To the extent permitted by law, any benefits received by Executive in connection with any other employment accepted by Executive that are reasonably comparable, even if not necessarily as beneficial to Executive, to the fringe benefits then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5, shall be deemed to be the equivalent of such benefits, and shall terminate the Company's responsibility to continue providing the benefits then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5. The Company agrees that if Executive's employment with the

Company is terminated, Executive shall otherwise have no duty to mitigate damages to obtain the benefits set forth in this Section

5.

- e. General Release. Acceptance by Executive of any amounts pursuant to this Section 5 shall constitute a full and complete release by Executive of any and all claims Executive may have against the Company, its officers, directors, employees or affiliates or its affiliates' officers, directors, or employees, including, but not limited to, claims Executive might have relating to Executive's employment with the Company and cessation thereof; provided, however, that there may properly be excluded from the scope of such general release the following: (i) claims that Executive may have against the Company for reimbursement of ordinary and necessary business expenses incurred by Executive during the course of Executive's employment; (ii) claims that may be made by the Executive for payment of Base Salary, bonuses, fringe benefits, stock upon vesting of incentive stock awards, stock upon exercise of stock options properly due to Executive, or other amounts or benefits due to Executive under this Agreement; (iii) claims respecting any matters for which the Executive is entitled to be indemnified under the Company's Articles of Incorporation, By-laws, similar organizational documents, or applicable law, respecting third party claims asserted or third party litigation pending or threatened against the Executive; and (iv) any claims prohibited by applicable law from being included in the release.

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

6. Effect of Change of Control.

- a. If within one (1) year following a "Change of Control" (as hereinafter defined), Executive terminates Executive's employment with the Company for "Good Reason" (as hereinafter defined) or the Company or its successor terminates Executive's employment for any reason other than Cause, death or disability (as defined in Section 4(e)), the Company or its successor shall pay to Executive in a lump sum within thirty (30) days following Executive's termination of employment: (i) an amount equal to one times the Executive's Base Salary as of the date of termination; and (ii) the greater of an amount equal to one times the Executive's base incentive amount for the Incentive Compensation for Fiscal Year 2023 or an amount equal to the Incentive Compensation amount payable to or received by the Executive for the most recent fiscal year prior to Executive's termination. The Company shall also provide the Executive with out-placement assistance. In addition, to the extent permitted under Code Section 409A and the terms of the applicable benefit plans, and, with respect the Company's group health plans, to the extent Executive affirmatively elects to continue participation in such group health plans under COBRA, for the period equal to twelve (12) months from the date of termination, the Company shall continue to provide Executive with coverage under the Company's various benefit plans in which Executive participates at the time of termination at coverage levels and rates substantially equal to those applicable immediately prior to such termination. A condition to Executive's receipt of any amounts pursuant to this Section 6(a) shall be Executive's execution and delivery of a general release as described in Section 5(e) above, and the expiration of any revocation period therein, on or before the 30th day after the date of Executive's termination from employment.
- b. "Change of Control" means, with respect to the Executive, a "change in the ownership of a corporation," a "change in the effective control of a corporation," or a "change in the ownership of a substantial portion of a corporation's assets" as defined below and further defined in and interpreted in accordance with Treasury Regulations Section 1.409A-3(i)(5) (which events are collectively referred to herein as "Change of Control events") after the effective date of this Agreement. To constitute a Change of Control with respect to Executive, the Change of Control event must involve and relate to a Change of Control of Delta Apparel, Inc.
- i. A "change in the ownership of a corporation" occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of such corporation. However, if any one person, or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in ownership of the corporation (or to cause a change in the effective control of the corporation (within the meaning of paragraph (ii) below)).
- ii. Notwithstanding that a corporation has not undergone a change in ownership under paragraph (i) above, a "change in the effective control of a corporation" occurs on the date that either: (A) Any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing 35 percent or more of the total voting power of the stock of such corporation; or (B) A majority of members of Delta Apparel, Inc.'s Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of Delta Apparel, Inc.'s Board of Directors prior to the date of the appointment or election.
- iii. A "change in the ownership of substantial portion of a corporation's assets" occurs on the date that any one person, or more than one person acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the corporation immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.
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For purposes of paragraphs (i), (ii) and (iii) immediately above, the term corporation refers solely to the relevant corporation identified in the opening paragraph of this Section 6(b) for which no other corporation is a majority shareholder.

- c. "Good Reason" shall mean any of the following actions taken by the Company without Executive's written consent after a Change of Control:
- i. the assignment to Executive by the Company of duties inconsistent with, or the reduction of the powers and functions associated with, Executive's position, duties, and responsibilities immediately prior to a Change of Control or Potential Change of Control (as defined below), or an adverse change in Executive's titles or offices as in effect immediately prior to a Change of Control or Potential Change of Control, or any removal of the Executive from or any failure to re-elect Executive to any of such positions, except in connection with the termination of Executive's employment for disability (as provided in Section 4(e)) or Cause or as a result of Executive's death, except to the extent that a change in duties relates to the elimination of responsibilities attendant to the Company or its parent company, as applicable, no longer being a publicly traded company;
 - ii. a reduction by the Company in the Executive's Base Salary as in effect on the date of a Change of Control or Potential Change of Control, or as the same may be subsequently increased from time to time during the term of this Agreement;
 - iii. the Company shall require the Executive to be based anywhere other than at or within a 25-mile radius of the location where the Executive is based on the date of a Change of Control or Potential Change of Control, or if Executive agrees to such relocation, the Company fails to reimburse the Executive for moving and all other expenses reasonably incurred in connection with such move;
 - iv. a significant increase in Executive's required travel on behalf of the Company;
 - v. the Company shall fail to continue in effect any Company-sponsored plan or benefit that is in effect on the date of a Change of Control or Potential Change of Control (other than the Company's Incentive Stock Award Plan or the Company's Stock Option Plan) and pursuant to which Executive has received awards or benefits and is participating and that provides (A) incentive or bonus compensation, (B) fringe benefits such as paid time off, medical benefits, life insurance and accident insurance, (C) reimbursement for reasonable expenses incurred by the Executive in connection with the performance of duties with the Company, or (D) retirement benefits such as an Internal Revenue Code Section 401(k) plan, except to the extent that such plans taken as a whole are replaced with substantially comparable plans;
 - vi. any material breach by the Company of any provision of this Agreement for which the Executive provides written notice to the Company within ninety (90) days of the initial existence of the alleged material breach and which is not cured by the Company within thirty (30) days of Executive's notice to the Company; and
 - vii. any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company effected in accordance with the provisions of Section 12.
- d. "Potential Change of Control" shall mean the date, which must be within twelve (12) months preceding a Change of Control, as of which (i) the Company enters into an agreement the consummation of which, or the approval by shareholders of which, would constitute a Change of Control; (ii) proxies for the election of directors of Delta Apparel, Inc.'s Board of Directors are solicited by anyone other than Delta Apparel, Inc. which solicitation, if successful, would result in a Change of Control; (iii) any person (including, but not limited to, any individual, partnership, joint venture, corporation, association or trust) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change of Control; or (iv) any other event occurs which is deemed to be a Potential Change of Control by Delta Apparel, Inc.'s Board of Directors and Delta Apparel, Inc.'s Board of Directors adopts a resolution to the effect that a Potential Change of Control has occurred.
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- e. In the event that (i) Executive would otherwise be entitled to the compensation and benefits described in Section 5 or 6(a) hereof (“Compensation Payments”), and (ii) the Company determines, based upon the advice of tax counsel, that, as a result of such Compensation Payments and any other benefits or payments required to be taken into account under Code Section 280G(b)(2) (collectively, “Parachute Payments”), any of such Parachute Payments would be reportable by the Company as an “excess parachute payment” under Code Section 280G, such Compensation Payments shall be reduced to the extent necessary to cause the aggregate present value (determined in accordance with Code Section 280G and applicable regulations promulgated thereunder) of the Executive’s Parachute Payments to equal 2.99 times the “base amount” as defined in Code Section 280G(b)(3) with respect to such Executive. However, such reduction in the Compensation Payments shall be made only if, in the opinion of such tax counsel, it would result in a larger Parachute Payment to the Executive than payment of the unreduced Parachute Payments after deduction in each case of tax imposed on and payable by the Executive under Section 4999 of the Code (“Excise Tax”). The value of any non-cash benefits or any deferred payment or benefit for purposes of this paragraph shall be determined by a firm of independent auditors selected by the Company.
 - f. The parties hereto agree that the payments provided under Section 6(a) above are reasonable compensation in light of Executive’s services rendered to the Company and that neither party shall assert that the payment of such benefits constitutes an “excess parachute payment” within the meaning of Section 280G(b)(1) of the Code.
 - g. Unless the Company determines that any Parachute Payments made hereunder must be reported as “excess parachute payments” in accordance with Section 6(e) above, neither party shall file any return taking the position that the payment of such benefits constitutes an “excess parachute payment” within the meaning of Section 280G(b)(1) of the Code.
7. Non-Competition. During the Term and for an additional period of time (i) beginning as of the earlier of the expiration of the Term or the termination of Executive’s employment with the Company for any reason whatsoever, and (ii) extending for four (4) calendar months, Executive will not, directly or indirectly, compete with the Company by “Working” (as defined below) for a “Competing Business” (as defined below) in the “Restricted Territory” (as defined below). For purposes of Sections 7, 8 and 9 of this Agreement, “Company” shall be defined to include the Company as identified in the initial paragraph of this Agreement and all of such entity’s parent companies, subsidiaries, affiliates and other related companies or entities.

“Working” shall be limited to employment for, contracting with, or otherwise providing direct or indirect assistance as a proprietor, partner, investor, shareholder (other than as a passive investor owning less than a 5% equity interest), director, officer, employee, consultant, independent contractor, or other similar capacity for or on Executive’s own behalf, or for or on behalf of any other person, partnership, association, corporation or business entity of any type (collectively a “Person”) that (i) is performed in a position that is the same or similar to any position that Executive held with the Company in the 24 months prior to the termination of Executive’s employment with the Company; (ii) involves performing similar duties or services for such Person as Executive provided or performed for the Company in the 24 months prior to the termination of Executive’s employment with the Company; or (iii) involves the sale of Products or products similar to the Products or the supervision of persons selling Products.

“Competing Business” shall be defined as any business that engages, in whole or in part, in: (i) the manufacturing, producing, sourcing, marketing, selling, distributing, fulfilling and/or providing of activewear, casual, athletic and/or lifestyle apparel or garments; or (ii) the manufacturing, producing, sourcing, marketing, selling, distributing, fulfilling and/or providing of (A) direct-to-garment printed apparel or other fabric-based items or products, (B) print-to-order, made-to-order or on-demand printed paper, poster, or sticker items/products, and/or (C) other promotional items or products.

“Products” shall be defined as (i) the activewear, casual, athletic and/or lifestyle apparel or garments; direct-to-garment printed apparel or other fabric-based items or products; print-to-order, made-to-order or on-demand printed paper, poster, or sticker items/products; and/or other promotional items or products that are either actively being manufactured, produced, sourced, marketed, sold, distributed, fulfilled and/or provided by the Company at the time that Executive is terminated from the Company or (ii) any items, products or goods that are subject to any confidential prospective business opportunity of the Company of which Executive is knowledgeable about or has responsibilities for pursuing or developing on behalf of the Company at the time that Executive is terminated from the Company.

“Restricted Territory” shall be limited to the following discrete, severable, geographic areas: (A) the United States of America and its territories, possessions and military bases and installations; (B) any country or other jurisdiction throughout the world where the Company’s Products are sold, offered for sale and/or delivered as of the date hereof or where the Company licenses or otherwise permits the sale or delivery of Products as of the date hereof; (C) any country or other jurisdiction throughout the world where the Company applied for trademark registration or similar intellectual property rights with respect to any of its intellectual property assets as of the date hereof; and (D) if the foregoing subsections (A), (B) or (C) are finally determined to be too broad by a court of competent jurisdiction, the states throughout the United States where Products or services are sold, offered for sale, delivered and/or provided by the Company.

8. Non-Solicitation of Employees, Customers and Vendors. During the Term and for an additional period of one year that commences from the earlier of the expiration of the Term or the termination of Executive's employment with the Company for any reason whatsoever, Executive shall not, on Executive's own behalf or for or on behalf of any other Person: (a) solicit or hire any employee of the Company to join a Competing Business; (b) attempt to influence or induce any employee of the Company to leave the employment of the Company (other than through general advertisements not directed at any particular employee or group of employees); (c) use or disclose the names and addresses of the Company's employees; (d) Solicit any Customer of the Company for the purpose of (i) providing Products or services to such Customer that are competitive with the Products on behalf of a Competing Business; (ii) providing Products to a Customer in competition with the Company; (iii) diverting or attempting to divert from the Company the business of any Customer, including but not limited to any actions that cause such Customer to reduce the level or amount of Products provided by Company to such Customer; or (iv) otherwise intentionally interfering with the Company's business relationship with any Customer that would cause such Customer to cease doing business with the Company or reduce the amount of Products the Customer purchases from the Company; or (e) intentionally interfere with the Company's business relationships with its suppliers or vendors or take any other action that would cause such suppliers or vendors to cease doing business with the Company or reduce the amount of goods, materials or services a supplier or vendor provides to the Company.

"Customer" shall be limited to any Person to which the Company has sold Products, Solicited for the sale of Products or has plans or intentions to Solicit for the sale of Products. If the foregoing definition of "Customer" is finally determined to be too broad by a court of competent jurisdiction, the following definition of "Customer" will apply: any Person to which the Company has sold Products, Solicited for the sale of Products or has plans or intentions to Solicit for the sale of Products and (i) of whom Executive Solicited during Executive's employment with the Company; (ii) of whom employees of the Company supervised by Executive Solicited during Executive's employment with the Company; (iii) about whom Executive was exposed to Company Data or Trade Secrets in the ordinary course of business as a result of Executive's association with the Company; (iv) about whom Executive had access to the pricing, advertising and/or marketing schemes developed by Executive or the Company for such customer; or (v) with whom Executive had material contacts during Executive's employment with the Company.

"Solicit" shall mean directly or indirectly soliciting, working on a bid, influencing, contacting, contracting with, selling, accepting sales from, seeking sales or other business opportunities from, purchasing, buying, servicing, or other similar dealings with a Customer (or providing information or assistance to a Competing Business that would enable or help such Competing Business Solicit a Customer) as it relates to the purchase of Products (or material components of the Products) or the sale of the Products.

9. Non-Disclosure of Company Data and Trade Secrets; Inventions. The Company has a proprietary interest in Trade Secrets and Company Data that require secrecy.
- a. Except as may be necessary to perform Executive's duties for the Company, Executive shall hold Trade Secrets in confidence and shall not use, misappropriate, or divulge Trade Secrets of the Company at any time during the course of Executive's employment with the Company and after Executive's employment with the Company ends. Except as may be necessary to perform Executive's duties for the Company, Executive shall hold Company Data in confidence and shall not use, misappropriate, or divulge Company Data to any Person at any time during Executive's employment with the Company and for a period of five (5) years after Executive's employment with the Company ends.
 - b. Nothing in this Agreement is intended to interfere with or discourage a good faith disclosure to any governmental entity related to a suspected violation of the law. Executive is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that Executive will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a Trade Secret that: (A) is made: (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If the Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, the Executive may disclose the Company's Trade Secrets to the Executive's attorney and use the Trade Secret information in the court proceeding if the Executive: (A) files any document containing the Trade Secret under seal; and (B) does not disclose the Trade Secret, except pursuant to court order.
 - c. "Trade Secrets" and "Company Data".
 - i. "Trade Secrets" are Company information, in any medium or form, including, but not limited to, (i) a formula, pattern, compilation, program, device, method, technique, product, system, or process, design, prototype, procedure, or code that (a) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, the public or any other person who can obtain economic value from its disclosure or use, and (b) is the subject of Company efforts that are reasonable under the circumstances to maintain its secrecy; and/or (ii) any Company information that could otherwise come under the definition of Trade Secret under the South Carolina Trade Secrets Act, the federal Defend Trade Secrets Act or other applicable law in the jurisdiction where Executive works.
 - ii. "Company Data" is defined as information, in any medium or form, related to the Company's business, products or services that (i) is competitively sensitive information; (ii) is important or valuable to the Company; (iii) is kept in confidence by the Company; (iv) becomes known to or exposed to Executive through Executive's employment with the Company; and (v) does not fall within the definition of Trade Secret above.
 - d. Inventions. Executive will promptly disclose to the Company in writing and assign and transfer to the Company: (i) all inventions and improvements, and all right, title and interest therein, made or conceived by Executive solely or jointly with others in the course of Executive's employment or on the Company's time or at its expense or using the Company's material or facilities; and (ii) all inventions and improvements, and all right, title and interest therein, relating to the Company's business made or conceived by Executive solely or jointly with others during the Executive's employment with the Company.
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10. Remedies and Representations Relating to the Protective Covenants.

- a. In the event that Executive breaches any of the “Protective Covenants” (paragraphs 7, 8 or 9 hereof), the parties hereto recognize that irreparable damage will result to the Company. The parties therefore agree that the Company shall be entitled, in addition to any other remedies or damages available to it under the South Carolina Trade Secrets Act, the federal Defend Trade Secrets Act, or other statutory or common law, to obtain injunctive relief without bond in order to restrain the violation of such covenants by Executive. The prevailing party in any such action involving the Protective Covenants shall be liable to the Company for all of its costs and expenses, including, without limitation, reasonable attorney fees and expert witness fees.
 - b. In addition to the remedies set forth above, and to the extent applicable, Company shall be entitled to receive from Executive the profits, if any, received by Executive upon exercise and/or sale of any Company granted stock options or incentive stock awards or upon the vesting of or lapse of the restrictions on any grant of any stock awards to the extent such options or rights were exercised, or such vesting occurred or restrictions lapsed, within the six-month period prior to the termination of Executive's employment
 - c. If any court should construe any Protective Covenant, or any clause or portion of these Protective Covenants, to be too broad to prevent enforcement to its fullest extent, then such restrictions shall be enforced to the maximum extent that the court finds reasonable and enforceable. In the event that any of these provisions or any clause or portion of these provisions shall be held to be invalid or unenforceable, the remaining provisions, or any clause or portion of these provisions, hereof shall nevertheless continue to be valid and enforceable as though the invalid or unenforceable provisions, or clauses or portions of these provisions, had not been included therein. If any provision, or any clause or portion of these Protective Covenants or in this Agreement is unlawful, against public policy, or otherwise declared void or unenforceable, such provision, or clause or portion of these provisions, shall be deemed excluded from this Agreement, which shall in all other respects remain in effect. Upon a determination that any provision, clause, portion of any provision, or portion of any clause of the Protective Covenants shall be held to be unlawful, against public policy, invalid, or otherwise void or unenforceable, the court may modify such provision, clause, portion of any provision, or portion of any clause and grant only the relief reasonably necessary to (i) protect Company's legitimate business interest or interests and (ii) achieve the original intent of the parties to the extent possible.
 - d. Executive acknowledges and confirms that the Protective Covenants contained in this Agreement (including without limitation the length of the term and geographic scope of the Protective Covenants) are reasonably necessary to protect the legitimate business interests of the Company, are not overbroad or unfair, and are not the result of overreaching, duress or coercion of any kind. Executive further acknowledges and confirms that the compensation paid to Executive for work done for and on behalf of the Company is sufficient, fair and reasonable and supports these covenants.
 - e. The Protective Covenants may be enforced in a court of competent jurisdiction in Greenville County, South Carolina, and Executive agrees to submit to jurisdiction in Greenville County, South Carolina, whether or not Executive is then residing in South Carolina. In addition, the Company, in its sole discretion, may institute a proceeding in the location of Executive's residence or where Executive is working to remedy a violation of this Agreement. Enforcement of the Protective Covenants is specifically excluded from the arbitration procedures set forth in this Agreement.
 - f. Executive acknowledges that the obligations of this Agreement survive Executive's termination of employment and, if relevant, any subsequent employment with the Company, no matter how such employment is ended or terminated. In the event that Executive breaches any of the Protective Covenants, the corresponding restricted period shall be extended by the amount of time Executive was in violation of the covenant.
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11. Compliance With Section 409A. To the extent a payment hereunder is, or shall become, subject to the application of Section 409A of the Code and related Treasury Regulations, the following shall apply:
- a. This Agreement is intended to comply with the requirements of Section 409A and the Treasury Regulations and other guidance issued thereunder, as in effect from time to time, and to avoid any additional tax thereunder. To the extent a provision of this Agreement is contrary to or fails to address the requirements of Code Section 409A and related Treasury Regulations, this Agreement shall be construed and administered as necessary to comply with such requirements to the extent allowed under applicable law and this Agreement is appropriately amended to comply with such requirements.
 - b. The time or schedule of payment hereunder may be accelerated or delayed only upon such events and conditions as the Internal Revenue Service ("IRS") may permit in generally applicable published regulatory or other guidance under Code Section 409A.
 - c. For purposes of this Agreement, all references to "termination of employment" or similar phrases shall be construed to require a "separation from service" (as defined in Treasury Regulation Section 1.409A-1(h)).
 - d. To the extent compliance with the requirements of Treasury Regulation Section 1.409A-3(i)(2) (or any successor provision) is necessary to avoid the application of an additional tax under Code Section 409A to payments due to Executive upon Executive's separation from service at a time when Executive is determined to be a "specified employee" under Treasury Regulation Section 1.409A-1(i) and any stock of the Company or any of its affiliates or related entities is publicly traded on an established securities market or otherwise, then notwithstanding any other provision of this Agreement, any such payments that are otherwise due within six (6) months following Executive's separation from service will be deferred without interest and paid to Executive in a lump sum immediately following that six (6) month period.
 - e. Neither the Company nor its affiliates, subsidiaries or related entities, nor any of the Company's or such entities' directors, officers or agents will be liable to Executive or anyone else if the Internal Revenue Service or any court or other authority determines that any payments or benefits to be provided under this Agreement are subject to taxes, penalties or interest as a result of failing to comply with or be exempt from Section 409A.
12. Miscellaneous.
- a. Notices. Any notices, consents, demands, requests, approvals and other communications to be given under this Agreement by either party to the other must be in writing and must be either (i) personally delivered, (ii) mailed by registered or certified mail, postage prepaid with return receipt requested, or (iii) delivered by reputable overnight express delivery service or reputable same-day local courier service, with confirmed receipt, to the address set forth below, or to such other address as may be designated by the parties from time to time in accordance with this Section 13(a):
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If to the Company:
Delta Apparel, Inc.
201 West McBee Avenue, Suite 320
Greenville, SC 29601
Attention: Deputy General Counsel

If to Executive:
Justin M. Grow
10 Club Forest Lane
Greenville, SC 29605

Notices delivered personally or by overnight express delivery service or by local courier service are deemed given as of actual receipt. Mailed notices are deemed given three (3) business days after mailing.

- b. Entire Agreement. This Agreement supersedes any and all other agreements, either oral or written, between the parties with respect to the subject matter of this Agreement as applicable to the Term and contains all of the covenants and agreements between the parties with respect to the subject matter of this Agreement as applicable to the Term.
 - c. Modification. No change or modification of this Agreement is valid or binding upon the parties, nor will any waiver, termination or discharge of any term or condition of this Agreement be so binding, unless confirmed in writing and signed by the parties to this Agreement.
 - d. Governing Law and Venue. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of South Carolina without regard to the choice of law principles.
 - e. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement, and all of which, when taken together, shall be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile or e-mail transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original agreement for all purposes. Signatures of the parties transmitted by facsimile or e-mail shall be deemed to be their original signatures for any purpose whatsoever.
 - f. Costs. Except as otherwise specifically set forth herein, if any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, each party shall bear its own costs and expenses (including, without limitation, attorneys' fees); provided, however, that in the event Executive incurs costs or expenses in connection with successfully enforcing this Agreement following a Change of Control, the Company shall reimburse the Executive for all such reasonable costs and expenses (including, without limitation, attorneys' fees).
 - g. Estate. If Executive dies prior to the expiration of the term of employment or during a period when monies are owing to Executive, any monies that may be due Executive from the Company under this Agreement as of the date of Executive's death shall be paid to Executive's estate as and when otherwise payable.
 - h. Assignment. The rights, duties and benefits to Executive hereunder are personal to Executive, and no such right, duty or benefit may be assigned by Executive without the prior written consent of the Company. The rights and obligations of the Company shall inure to the benefit and be binding upon it and its successors and assigns, which assignment shall not require the consent of Executive. Company may assign this Agreement to any Person, including without limitation any parent company, affiliate or related company, at its discretion.
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- i. Binding Effect. This Agreement is binding upon and shall inure to the benefit of the parties hereto, their respective executors, administrators, successors, personal representatives, heirs and assigns permitted under subsection 12(h) above.
- j. Third-Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or entity (other than affiliates of the Company as provided herein) any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.
- k. Waiver of Breach. The waiver by the Company or Executive of a breach of any provision of this Agreement by Executive or the Company may not operate or be construed as a waiver of any subsequent breach.
- xx. Construction. The parties agree that this Agreement was freely negotiated among the parties and that Executive has had the opportunity to consult with an attorney in negotiating its terms. Accordingly, the parties agree that this Agreement shall not be construed in favor of any party or against any party. The parties further agree that the headings and subheadings are for convenience of the parties only and shall not be given effect in the construction of this Agreement.

13. Arbitration.

- a. Any legal claim (other than those excepted below) arising out of or in any way relating to this Agreement or Executive's employment or the termination of Executive's employment shall be subject to binding and final arbitration in Greenville County, South Carolina, pursuant to the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association, the cost of which shall be equally shared between the parties. Unless otherwise provided herein, the arbitration shall be conducted by a single arbitrator in accordance with the Employment Arbitration Rules and Mediation Procedures published by the American Arbitration Association. The arbitrator shall be selected by mutual agreement of the parties. If the parties cannot agree on an arbitrator within thirty (30) days after written request for arbitration is made by one party to the controversy, a neutral arbitrator shall be appointed according to the procedures set forth in the American Arbitration Association Employment Arbitration Rules and Mediation Procedures. In rendering the award, the arbitrator shall have the authority to resolve only the legal dispute between the parties, shall not have the authority to abridge or enlarge substantive rights or remedies available under existing law, and shall determine the rights and obligations of the parties according to the substantive and procedural laws of South Carolina. In addition, the arbitrator's decision and award shall be in writing and signed by the arbitrator, and accompanied by a concise written explanation of the basis of the award. The award rendered by the arbitrator shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. The arbitrator is authorized to award any party a sum deemed proper for the time, expense, and trouble of arbitration, including arbitration fees and attorneys' fees.
- b. Types of Claims. All legal claims brought by Executive against Company related to this Agreement, the employment relationship, terms and conditions of employment, and/or termination from employment are subject to this dispute resolution procedure. The above terms notwithstanding, any legal claim brought by Executive or Company for or relating to workers' compensation, unemployment compensation benefits, misappropriation of Company's Trade Secrets, breach or violation of the provisions of any confidentiality agreements or noncompete agreements or other restrictive covenants (including but not limited to the Protective Covenants), and claims alleging status or membership with regard to any employment benefit plan governed by the Employee Retirement Income Security Act, and/or charges filed with the National Labor Relations Board, U.S. Department of Labor, or Equal Employment Opportunity Commission, are not subject to this arbitration procedure.
- c. Class Action. Executive expressly agrees not to commence or file any class action, including any class arbitration against Company, or join or serve in any representative capacity in any class action, including class arbitration, against or involving the Company.

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

Delta Apparel, Inc.

By: /s/ Robert W. Humphreys
Name: Robert W. Humphreys

Title: Chairman & Chief Executive Officer

"Executive"

By: /s/ Justin M. Grow Name: Justin M. Grow

**DELTA APPAREL, INC. 2020 STOCK PLAN
RESTRICTED STOCK UNIT AND PERFORMANCE UNIT AWARD AGREEMENT**

THIS RESTRICTED STOCK UNIT AND PERFORMANCE UNIT AWARD AGREEMENT ("Agreement") is dated this _____, 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. 2020 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 September 30, 2023 ("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 September 30, 2023 ("PSU Vesting Date"):

Granted Units Earned based on Average Return on Capital Employed	Fiscal Years 2022 and 2023 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 2022 and 2023 fiscal years by the sum of Delta Apparel, Inc.'s consolidated annual average capital employed for the 2022 and 2023 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. 2020 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

**DELTA APPAREL, INC. 2020 STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT**

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT ("Agreement") by and between DELTA APPAREL, INC., a Georgia corporation ("Company"), and _____ ("Participant") is dated _____.

WHEREAS, the Board of Directors of the Company has, pursuant to the Delta Apparel, Inc. 2020 Stock Plan ("Plan"), made an Award of the grant of Restricted Stock 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

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, which are subject to the terms and conditions set forth in this Agreement and the Plan. The value of each Restricted Stock 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 U.S. Securities and Exchange Commission its annual report on Form 10-K for the Company's 2024 fiscal year ending September 28, 2024 ("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 condition(s) imposed upon vesting are not met.

Section 3. 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 Awards granted hereby covering the Restricted Stock Units shall vest, the Restricted Stock 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 4. PAYMENT UPON VESTING OF RESTRICTED STOCK 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 the aggregate number of Restricted Stock Units that became vested on the RSU Vesting Date.

Upon payment by the Company, the Restricted Stock Units shall therewith be cancelled. The delivery of Shares under this Section 4 shall be subject to applicable employment and income tax withholding and the terms of Section 6 herein.

Section 5. 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.

Section 6. WITHHOLDING TAXES; SECTION 83(b) ELECTION

- (a) No shares will be payable upon the vesting of a Restricted Stock 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 such number of shares as is equal in value to the Company's withholding obligations with respect to the income recognized by the Participant upon such vesting. The withholding obligations are based on statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such income and will not exceed the maximum statutory withholding rates in the applicable jurisdictions. 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.
- (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 7. ENFORCEMENT; INCORPORATION OF PLAN PROVISIONS

The participant acknowledges receipt of the Delta Apparel, Inc. 2020 Stock Plan (the "Plan"), of the Company. The Restricted Stock Units Award evidenced hereby is made under and pursuant to the Plan, and incorporated herein by reference, and such Award is 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 8. MISCELLANEOUS

- (a) No Representations or Warranties. Neither the Company nor the Compensation Committee of the Board of Directors (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 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.
- (8) Delta Campeche, S.A. de C.V., a Mexican sociedad anónima de capital variable.
- (9) Delta Cortes, S.A., a Honduran sociedad anónima.
- (10) Campeche Sportswear, S. de R.L. de C.V., a Mexican sociedad de responsabilidad limitada de capital variable.
- (11) Textiles La Paz, LLC, a North Carolina limited liability company.
- (12) Ceiba Textiles, S. de R.L., a Honduran sociedad de responsabilidad limitada.
- (13) Atled Holding Company Honduras, S. de R.L., a Honduran sociedad de responsabilidad limitada.
- (14) 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. 333-237938) pertaining to the Delta Apparel, Inc. 2020 Stock Plan, and
- (2) Registration Statement (Form S-3 No. 333-235578) of Delta Apparel, Inc.;

of our reports dated November 21, 2022, 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 October 1, 2022.

Atlanta, Georgia
November 21, 2022

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, 2022

/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, Simone Walsh, 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, 2022

/s/Simone Walsh
Chief Financial Officer

EXHIBIT 32.1

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

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

1. The Annual Report on Form 10-K for the fiscal year ended October 1, 2022, 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, 2022

/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, Simone Walsh, 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 October 1, 2022, 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, 2022

/s/Simone Walsh

Simone Walsh

Chief Financial 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.