UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 29, 2001

OR

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

For the transition period from _____ to _____

Commission File number 1-15583

DELTA APPAREL, INC.

(Exact name of registrant as specified in its charter)

GEORGIA	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)

(678) 775-6900

(Registrant's telephone number, including area code)

(Not Applicable)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ].

As of January 25, 2002, there were outstanding 1,974,206 shares of the registrant's common stock, par value of $0.01, which is the only class of the outstanding common or voting stock of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

DELTA APPAREL, INC. AND SUBSIDIARIES

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

Assets	December 29, 2001	June 30, 2001
Current assets:		
Cash	$ 5,754	$ 165
Accounts receivable, net	13,531	22,042
Inventories	39,581	41,619
Prepaid expenses and other current assets	1,119	1,597
Deferred income taxes	981	925
Income tax receivable	—	1,086
Total current assets	60,966	67,434
Property, plant and equipment, net	21,771	23,750
Other assets	81	139
Total assets	$82,818	$91,323
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$11,495	$12,627
Income tax payable	125	—
Current portion of long-term debt	2,000	8,435
Total current liabilities	13,620	21,062
Long-term debt	4,667	5,667
Deferred income taxes	761	375
Other liabilities	1,038	736
Total liabilities	20,086	27,840
Stockholders' equity:		
Preferred stock—2,000,000 shares authorized; none issued and outstanding	—	—
Common stock—par value $.01 a share, 7,500,000 shares authorized, 2,411,743 and 2,411,743 shares issued, and 2,312,349 and 2,388,823 shares outstanding as of December 29, 2001 and June 30, 2001, respectively	24	24
Additional paid-in capital	53,889	53,889
Retained earnings	10,689	9,971
Treasury stock—99,397 and 22,920 shares as of December 29, 2001 and June 30, 2001, respectively	(1,870)	(401)
Total stockholders' equity	62,732	63,483
Total liabilities and stockholders' equity	$82,818	$91,323

See accompanying notes to condensed consolidated financial statements.

DELTA APPAREL, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 29, 2001	December 30, 2000	December 29, 2001	December 30, 2000
Net sales	$24,337	$26,370	$55,351	$57,019
Cost of goods sold	20,596	21,653	48,643	45,062
Gross profit	3,741	4,717	6,708	11,957
Selling, general and administrative expenses	2,595	2,345	5,239	4,789
Provision for bad debts	80	417	101	633
Other income	(147)	(8)	(175)	(14)
Operating income	1,213	1,963	1,543	6,549
Interest expense, net	139	261	367	556
Income before income taxes	1,074	1,702	1,176	5,993
Income tax expense	396	305	434	1,079
Net income	$ 678	$ 1,397	$ 742	$ 4,914
Earnings per share				
Basic	$ 0.29	$ 0.58	$ 0.32	$ 2.04
Diluted	$ 0.28	$ 0.56	$ 0.30	$ 2.01
Weighted average number of shares outstanding	2,319	2,411	2,353	2,409
Dilutive effect of stock options	110	66	106	39
Weighted average number of shares assuming dilution	2,429	2,477	2,459	2,448

See accompanying notes to condensed consolidated financial statements.

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DELTA APPAREL, INC. AND SUBSIDIARIES

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

	Six Months Ended	
	December 29, 2001	December 30, 2000
Operating activities:		
Net income	$ 742	$ 4,914
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,219	3,312
Deferred income taxes	330	(494)
Loss (gain) on sale of property and equipment	(127)	1
Changes in operating assets and liabilities:		
Accounts receivable	8,511	3,925
Inventories	2,038	(11,301)
Prepaid expenses and other current assets	338	(45)
Other noncurrent assets	58	107
Accounts payable and accrued expenses	(1,108)	(756)
Income taxes	1,211	(930)
Other liabilities	302	202
Net cash provided by (used in) operating activities	15,514	(1,065)
Investing activities:		
Purchases of property, plant and equipment	(1,125)	(1,096)
Proceeds from sale of property, plant and equipment	152	43
Net cash used in investing activities	(973)	(1,053)
Financing activities:		
Proceeds from (repayment of) revolving credit facility, net	(6,435)	2,975
Repayment of long-term financing	(1,000)	(1,000)
Repurchase of common stock	(1,540)	(52)
Proceeds from exercise of stock options	23	—
Dividends paid	—	(2)
Net cash provided by (used in) financing activities	(8,952)	1,921
Increase (decrease) in cash	5,589	(197)
Cash at beginning of period	165	415
Cash at end of period	$ 5,754	$ 218
Supplemental cash flow information:		
Cash paid during the period for interest	$ 292	$ 537
Cash paid during the period for income taxes	$ 94	$ 2,503
Noncash financing activity—issuance of common stock	$ 24	$ 110

See accompanying notes to condensed consolidated financial statements.

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DELTA APPAREL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A—Basis of Presentation

The interim condensed consolidated financial statements for the three months and six months ended December 29, 2001 and December 30, 2000, included herein, have been prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended December 29, 2001 are not necessarily indicative of the results that may be expected for the year ending June 29, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2001, filed with the Securities and Exchange Commission.

Note B—Inventories

Inventories consist of the following:

	December 29, 2001	June 30, 2001
Raw materials	$ 2,834	2,631
Work in process	11,487	12,513
Finished goods	25,260	26,475
	$39,581	41,619

Note C—Income Taxes

The effective income tax rate on pretax income for the six months ended December 29, 2001 was 36.9%, compared to 9.0% for the fiscal year ended June 30, 2001. The low tax rate for the year ended June 30, 2001 was the result of the utilization of federal and state net operating loss carryforwards and valuation allowance adjustments. The Company expects its annualized effective tax rate to more closely approximate statutory rates for fiscal year 2002.

Note D—Purchase Contracts

The Company has entered into agreements, and has fixed prices, to purchase cotton and natural gas for use in its manufacturing operations. At December 29, 2001, minimum payments under these contracts with non-cancelable contract terms were $10.4 million and $0.3 million, respectively.

Note E—Computation of Basic and Diluted Net Earnings per Share (EPS)

Basic net earnings per share is calculated by dividing the net earnings by the weighted average common shares outstanding of Delta Apparel, Inc. For the purposes of diluted earnings per share, the diluted weighted average common shares outstanding includes the shares covered by options or awards granted under the Company's Stock Option Plan and the Company's Incentive Stock Award Plan.

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

Note F—Stockholders' Equity

On November 1, 2000, the Board of Directors authorized the repurchase by the Company in open market transactions of up to $3.0 million of Delta Apparel common stock ("Stock Repurchase Program"). All purchases are made at the discretion of management in accordance with IRS guidelines for share repurchases after a spin-off. In connection with the Stock Repurchase Program, during the three months ended December 29, 2001, the Company purchased 33,100 shares of Delta Apparel common stock for an aggregate of $0.6 million. Since the inception of the Stock Repurchase Program, the Company has purchased 115,000 shares of Delta Apparel common stock for an aggregate of $2.1 million.

On November 19, 2001, the Board of Directors authorized the repurchase by the Company of 350,000 shares of the Delta Apparel common stock at a price not to exceed $22.00 but no less than $19.00 per share, pursuant to a Dutch Tender Offer. The Tender Offer commenced on December 7, 2001, and expired on January 10, 2002. A total of 338,143 shares were validly tendered, not properly withdrawn, and accepted for purchase by the Company at a purchase price of $22 per Share.

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

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

The forward-looking statements in this Quarterly Report are based on the Company's expectations and are necessarily dependent upon assumptions, estimates and data that the Company believes are reasonable and accurate but may be incorrect, incomplete or imprecise. Forward-looking statements are also subject to a number of business risks and uncertainties, any of which could cause actual results to differ materially from those set forth in or implied by the forward-looking statements. The risks and uncertainties include, among others, changes in the retail demand for apparel products, the cost of raw materials, competitive conditions in the apparel and textile industries, the relative strength of the United States dollar as against other currencies, changes in United States trade regulations and the discovery of unknown conditions (such as with respect to environmental matters and similar items). Accordingly, any forward-looking statements do not purport to be predictions of future events or circumstances and may not be realized.

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

RESULTS OF OPERATIONS

Net sales for the second quarter of fiscal year 2002 were $24.3 million, a decrease of $2.0 million, or 7.7%, from net sales of $26.4 million for the second quarter of the prior year. The decrease in net sales was the result of decreased unit sales (down 4.2%, accounting for $1.1 million) and depressed average unit prices (down 3.7%, accounting for $0.9 million). Lower average prices were the result of price decreases in certain basic styles and changes in the product mix. In addition, the drop in retail demand negatively impacted the Company's private label volume for the quarter. Net sales for the first six months of fiscal year 2002 were $55.4 million, a decrease of $1.7 million, or 2.9%, from net sales of $57.0 million for the first six months of the prior year. The decrease in net sales was the result of lower average unit prices (down 9.1%, accounting for $5.5 million) partially offset by increased unit sales (up 6.8%, accounting for $3.9 million). Lower average prices were the result of price decreases in certain basic styles, changes in the product mix and lower shipments in the private label segment.

Gross profit as a percentage of net sales decreased to 15.4% for the second quarter of fiscal year 2002 from 17.9% for the second quarter of the prior year. For the first six months of fiscal year 2002, gross profit as a percentage of net sales decreased to 12.1% from 21.0% for the first six months of the prior year. The decreased gross profit percentage for the second quarter and first six months of fiscal year 2002 was primarily the result of lower selling prices, higher raw material costs flowing through cost of sales and reduced production schedules. The Company also expensed additional costs associated with the build in production in the Mexican sewing facility. These increased costs were offset slightly by cost reduction programs and the elimination of duty on products sewn in the Caribbean basin.

Selling, general and administrative expenses (including the provision for bad debts) for the second quarter of fiscal year 2002 were $2.7 million, or 11.0% of net sales, a decrease of $0.1 million from $2.8 million, or 10.5% of net sales, in the second quarter of the prior year. The decrease is mainly the result of a $0.3 million decrease in bad debt expense related to a Chapter 11 filing of a customer in the second quarter of fiscal year 2001. This decrease was offset by an increase of $0.2 million in distribution expenses, resulting from the opening in June 2001 of the West Coast Distribution Center. Selling, general and administrative expenses (including the provision for bad debts) for the first six months of fiscal year 2002 were $5.3 million, or 9.6% of net sales, a decrease of $0.1 million from $5.4 million, or 9.5% of net sales, in the first six months of the prior year. The decrease is the result of lower bad debt expense of $0.5 million, due to the Chapter 11 filing of a customer in fiscal year 2001, offset by an increase of $0.4 million distribution expenses related to the West Coast distribution center.

Other income for the second quarter of fiscal year 2002 was $0.1 million, an increase of $0.1 million from the second quarter of the prior year. Other income for the first six months of fiscal year 2002 was $0.2 million, an increase of $0.2 million from the first six months of the prior year. The increase relates to the Company's gain on the sale of its building in Washington, Georgia in November 2001.

Operating income for the second quarter of fiscal year 2002 was $1.2 million, a decrease of $0.8 million, or 38.2%, from $2.0 million for the second quarter of the prior year. Operating income for the first six months of fiscal year 2002 was $1.5 million, a decrease of $5.0 million, or 76.4%, from $6.5 million for the first six months of the prior year. The lower operating income was the result of the decreased gross profit.

Net interest expense for the second quarter of fiscal year 2002 was $0.1 million, a decrease of $0.1 million, or 46.7%, from $0.3 million for the first quarter of the prior year. Net interest expense for the first six months of fiscal year 2002 was $0.4 million, a decrease of $0.2 million, or 34.0%, from $0.6 million for the first six months of the prior year. The reduction in interest expense resulted from a decrease in interest rates of over 300 basis points and lower average outstanding debt.

The effective tax rate for the second quarter of fiscal year 2002 was 36.9% compared to 17.9% for the second quarter of the prior year and 9.0% for the fiscal year ended June 30, 2001. The low tax rate for the year ended June 30, 2001 was the result of the utilization of federal and state net operating loss carryforwards and valuation allowance adjustments. The Company expects its annualized effective tax rate to more closely approximate statutory rates for fiscal year 2002.

Net income for the second quarter of fiscal year 2002 was $0.7 million, a decrease of $0.7 million, or 51.5%, from net income of $1.4 million for the second quarter of the prior year. Net income for the first six months of fiscal year 2002 was $0.7 million, a decrease of $4.2 million, or 84.9%, from net income of $4.9 million for the first six months of the prior year. The decrease in net income was due to the factors described above.

Inventories at December 29, 2001 totaled $39.6 million compared to $41.6 million at June 30, 2001. The decrease in inventory is primarily the result of the reduced production schedules at the Company's manufacturing facilities. The Company will build its inventory levels over the next quarter to allow it to meet its projected sales in the second half of the fiscal year.

Capital expenditures in the second quarter of fiscal year 2002 were $0.4 million compared to $0.7 million in the second quarter of the prior year. Capital expenditures in the first six months of fiscal year 2002 were $1.1 million, which is consistent with the first six months of the prior year. In the prior year, capital expenditures primarily related to the Company's expansion into Mexico. The Company expects to make expenditures during fiscal year 2002 for improvements to its existing facilities. In addition, the Company is exploring increasing its textile capacity. The Company is currently negotiating the potential purchase of an idle textile facility in the Southeastern United States. The Company estimates that it could purchase the facility for approximately $2.5 million, and that an additional $1.0 to $1.5 million would be required to start up the facility. Consummation of the acquisition would be subject to several contingencies outside of the Company's control. The acquisition, if completed, would increase the Company's textile capacity by approximately 25%. There can be no assurance that this transaction will be consummated or that, if consummated, the Company would be able to successfully integrate use of the assets in its business.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are working capital and capital expenditures. The Company has financed its working capital and capital expenditure requirements through its operating profits and its credit agreement. The credit agreement provides Delta Apparel with a 5-year $10 million term loan and a 3-year $25 million revolving credit facility. All loans under the credit agreement bear interest at rates based on an adjusted LIBOR rate plus an applicable margin or a bank's prime rate plus an applicable margin. Delta Apparel granted the lender a first mortgage lien on or security interest in substantially all of its assets. The Company has the option to increase the revolving credit facility from $25 million to $30 million, provided that no event of default exists under the facility.

Delta Apparel's operating activities provided cash of $15.5 million in the first six months of fiscal year 2002 and used cash of $1.1 million in the first six months of the prior year. The cash provided in the first six months of fiscal year 2002 was primarily the result of net income and a reduction in accounts receivable and inventory. The cash used in the first six months of the prior year was primarily the result of an increase in inventory and a decrease in accrued expenses, offset by net income and a reduction in receivables.

At December 29, 2001, the Company did not have an outstanding balance under its revolving credit facility. The interest rate on its term loan at December 29, 2001 was 4.16%.

Delta Apparel believes that its $25 million revolving credit facility should be sufficient to satisfy its foreseeable working capital needs, and that the cash flow generated by its operations and funds available under its revolving credit line should be sufficient to service its debt payment requirements, to satisfy its day-to-day working capital needs and to fund its planned capital expenditures. Any material deterioration in Delta Apparel's results of operations, however, may result in Delta Apparel losing its ability to borrow under its revolving credit facility and to issue letters of credit to suppliers or may cause the borrowing availability under that facility to be insufficient for the Company's needs.

Purchases by Delta Apparel of its Own Shares

Delta Apparel's credit agreement permitted up to an aggregate of $3.0 million of purchases by Delta Apparel of its own stock provided that no event of default existed or would result from that action and after the purchase at least $3.0 million remained available to borrow under the revolving credit facility. On October 17, 2001, the credit agreement was amended to increase from $3.0 million to $11.0 million the aggregate amount permitted for share repurchases.

In connection with the Company's Stock Repurchase Program, during the second quarter of fiscal year 2002, the Company purchased 33,100 shares of Delta Apparel common stock for an aggregate of $0.6 million. Since the inception of the program, the Company has purchased 115,000 shares of its stock for a total cost of $2.1 million. The Company has authorization from the Board of Directors to spend up to $3.0 million for share repurchases under the Stock Repurchase Program. All purchases are made at the discretion of management in accordance with IRS guidelines for share repurchases after a spin-off.

On November 19, 2001, the Board of Directors authorized the repurchase by the Company of 350,000 shares of the Delta Apparel common stock at a price not to exceed $22.00 but no less than $19.00 per share, pursuant to a Dutch Tender Offer. The Tender Offer commenced on December 7, 2001, and expired on January 10, 2002. A total of 338,143 shares were validly tendered, not properly withdrawn, and accepted for purchase by the Company at a purchase price of $22 per Share. The Company paid the total purchase price of $7,439,146 on January 16, 2002.

NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) 141, Business Combinations, and SFAS 142, Goodwill and Other Intangible Assets, which supersede Accounting Principles Board Opinion No. 17, Intangible Assets. The Company adopted SFAS 141 and 142 in its first quarter of fiscal year 2002. The adoption of SFAS 141 and SFAS 142 had no impact on the Company’s financial statements.

In August 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. The Company is required and plans to adopt the provisions of SFAS No. 143 for the quarter ending September 28, 2002. The Company does not believe that the adoption of SFAS 143 will have a material impact on the Company’s financial statements.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. The Company is required and plans to adopt the provisions of SFAS No. 144 for the quarter ending September 28, 2002. The Company does not believe that the adoption of SFAS 144 will have a material impact on the Company’s financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

COMMODITY RISK SENSITIVITY

The Company purchases cotton from approximately eleven established merchants with whom it has long standing relationships. The majority of the Company’s purchases are executed using “on-call” contracts. These on-call arrangements are used to insure that an adequate supply of cotton is available for the Company’s requirements. Under on-call contracts, the Company agrees to purchase specific quantities for delivery on specific dates, with pricing to be determined at a later time. Prices are set according to prevailing prices, as reported by the New York Cotton Exchange, at the time of the Company’s election to fix specific contracts.

Cotton on-call with a fixed price at December 29, 2001 was valued at $10.4 million, and is scheduled for delivery between January 2002 and September 2002. At December 29, 2001, the Company had unpriced contracts for deliveries between January 2002 and September 2002. Based on the prevailing price at December 29, 2001, the value of these unpriced commitments is approximately $3.0 million. Daily price fluctuations are minimal, yet long-term trends in price movement can result in unfavorable pricing of cotton for Delta Apparel. The Company is currently considering purchasing cotton options in order to hedge commodity price risk and reduce its reliance on fixed contracts. At December 29, 2001, the Company had not entered into any hedge transactions. At December 29, 2001, a 10% decline in the market price of the cotton covered by Delta Apparel’s fixed price contracts would have had a negative impact of approximately $1.0 million on the value of the contracts.

INTEREST RATE SENSITIVITY

Delta Apparel’s credit agreement provides that the interest rate on outstanding amounts owed shall bear interest at variable rates. If the amount of outstanding indebtedness at December 29, 2001 under the term loan had been the amount outstanding during the entire three months ended December 29, 2001 and the interest rate on this outstanding indebtedness had been increased by 100 basis points, Delta Apparel’s expense would have been approximately $17,000, or 12.0%, higher during the quarter. The actual increase in interest expense resulting from a change in interest rates would depend on the magnitude of the increase in rates and the average principal balance outstanding.

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PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The following summarizes the votes at the Annual Meeting of the Company's shareholders held on November 19, 2001:

Election of Directors	For	Against	Withheld	Abstentions	Broker Nonvotes
William F. Garrett	2,237,150	N/A	3,946	N/A	N/A
C.C. Guy	2,237,674	N/A	3,422	N/A	N/A
Robert W. Humphreys	2,237,673	N/A	3,423	N/A	N/A
Dr. James F. Kane	2,237,683	N/A	3,413	N/A	N/A
Dr. Max Lennon	2,237,264	N/A	3,832	N/A	N/A
E. Erwin Maddrey, II	2,237,669	N/A	3,427	N/A	N/A
Buck A. Mickel	2,237,255	N/A	3,841	N/A	N/A
Approval of the Company's Short Term Incentive Compensation Plan	1,505,093	42,792	N/A	170,661	522,550

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.8.6. Amendment to Loan and Security Agreement dated October 17, 2001 between Congress Financial Corporation (Southern) and Delta Apparel, Inc.

(b) No reports on Form 8-K were filed by the Company during the fiscal quarter ended December 29, 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELTA APPAREL, INC.
(Registrant)

February 6, 2001	By: /s/ Herbert M. Mueller
Date	Herbert M. Mueller Vice President, Chief Financial Officer and Treasurer

EXHIBIT 10.8.6

AMENDMENT NO. 1 TO
LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 1 to LOAN SECURITY AGREEMENT ("Amendment"), dated as of October 17, 2001 by and among Congress Financial Corporation (Southern), a Georgia corporation ("Lender"), and Delta Apparel, Inc., a Georgia Corporation ("Borrower").

WITNESSETH

WHEREAS, Borrower has entered into financing arrangements with Lender pursuant to which Lender may make loans and provide other financial accommodations to Borrower as set forth in the Loan and Security Agreement, dated May 16, 2000, by and between Borrower, and Lender (as the same now exists and is amended hereby and may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced, the "Loan Agreement") and the other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including this Amendment (all of the foregoing, together with the Loan Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, being collectively referred to herein as the "Financing Agreements");

WHEREAS, Borrower has requested that Lender agree to certain amendments to the Loan Agreement and Lender is willing to agree to such amendments, subject to the terms and conditions contained herein; and

WHEREAS, by this Amendment, Borrower, and Lender intend to evidence such amendments.

NOW, THEREFORE, in consideration of the foregoing, and the agreements and covenants contained herein, the parties hereto agree as follows:

1. Definitions.

2.

2.1 Interpretation. For purposes of this Amendment, unless otherwise defined herein, all terms used herein, including, but not limited to, those terms used and/or defined in the recitals above, shall have the respective meanings assigned to such terms in the Loan Agreement.

2.2

3. Dividends and Redemptions. Clause (E) of Section 9.11(c) (i) is hereby deleted in its entirety and the following substituted therefor:

4.

> "(E) the aggregate amount of all payments for such repurchases during the term of this Agreement shall not exceed $11,000,000."

1. Representations, Warranties and Covenants. Borrower represents, warrants and covenants with and to Lender as follows, which representations, warranties and covenants are continuing and shall survive the execution and delivery hereof, the truth and accuracy of, or compliance with each, together with the representations, warranties and covenants in the other Financing Agreements, being a continuing condition of the making or providing of any Loans or Letter of Credit Accommodations by Lender to Borrower.

2.

2.1 This Amendment has been duly authorized, executed and delivered by Borrower and the agreements and obligations of Borrower contained herein constitute legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their terms.

2.2

(a) Neither the execution and delivery of this Amendment, or any other agreements, documents or instruments in connection herewith, nor the consummation of the transactions herein or therein contemplated, nor compliance with the provisions hereof or thereof are in contravention of any law or regulation or any order or decree of any court or governmental instrumentality applicable to Borrower or any of its Subsidiaries in any respect, or conflicts with or result in the breach of, or constitutes a default in any respect under any mortgage, deed of trust, security agreement, agreement or instrument to which Borrower is a party or may be bound, or violates any provision of the Certificate of Incorporation or By-Laws of Borrower.

(b)

2.3 After giving effect to the provisions of this Amendment, no Event of Default or act, condition or event which with notice or passage or time or both would constitute an Event of Default, exists or has occurred and is continuing.

2.4

3. Conditions Precedent. The effectiveness of the terms and conditions of this Amendment shall be subject to the receipt by Lender of an original of this Amendment, duly authorized, executed and delivered by Borrower.

4.

5. General.

6.

6.1 Effect of this Amendment. Except as modified pursuant hereto, no other changes or modifications to the Financing Agreements are intended or implied and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by all parties hereto as of the date hereof. To the extent of conflict between the terms of this Amendment and the Financing Agreements, the terms of this Amendment shall control.

1.1 Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary to effectuate the provisions and purposes of this Amendment.

1.2

1.3 Governing Law. The rights and obligations hereunder of each of the parties hereto shall be governed by and interpreted and determined in accordance with the internal laws of the State of Georgia (without giving effect to principles of conflict of laws).

1.4

1.5 Binding Effect. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns.

1.6

1.7 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original but all of which when taken together shall constitute one and the same instrument. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto.

1.8

1.9 IN WITNESS WHEREOF, Lender and Borrower have caused this Amendment to be duly executed as of the day and year first above written.

1.10

1.11

CONGRESS FINANCIAL CORPORATION
(SOUTHERN)

By:

Title:

DELTA APPAREL, INC.

By:

Title:
