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

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

For the quarterly period ended December 28, 2002

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 ☒ No ☐.

As of January 17, 2003, there were outstanding 4,055,730 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)

	December 28, 2002	June 29, 2002
Assets		
Current assets:		
Cash	$ 127	$ 4,102
Accounts receivable, net	17,738	22,812
Inventories	50,165	35,483
Prepaid expenses and other current assets	729	1,835
Income tax receivable	730	—
Deferred income taxes	682	1,119
Total current assets	70,171	65,351
Property, plant and equipment, net	21,632	22,992
Other assets	83	3
Total assets	$91,886	$88,346
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable and accrued expenses	$12,782	$17,718
Income tax payable	—	1,860
Current portion of long-term debt	2,000	2,000
Total current liabilities	14,782	21,578
Long-term debt	11,531	3,667
Deferred income taxes	295	700
Other liabilities	1,321	1,123
Total liabilities	27,929	27,068
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, 4,823,486 shares issued, and 4,055,730 and 4,029,302 shares outstanding as of December 28, 2002 and June 29, 2002, respectively.	48	48
Additional paid-in capital	53,889	53,889
Retained earnings	18,465	15,912
Treasury stock * —767,756 and 794,184 shares as of December 28, 2002 and June 29, 2002, respectively.	(8,445)	(8,571)
Total stockholders’ equity	63,957	61,278
Total liabilities and stockholders’ equity	$91,886	$88,346

* Adjusted to reflect 2-for-1 stock split effective as of September 20, 2002

See accompanying notes to condensed consolidated financial statements.

DELTA APPAREL, INC. AND SUBSIDIARIES

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

	Three Months Ended		Six Months Ended	
	December 28, 2002	December 29, 2001	December 28, 2002	December 29, 2001
Net sales	$30,002	$24,337	$58,885	$55,351
Cost of goods sold	24,881	20,596	47,760	48,643
Gross profit	5,121	3,741	11,125	6,708
Selling, general and administrative expenses	2,863	2,595	5,835	5,239
Provision for bad debts	169	80	32	101
Other expense (income)	34	(147)	142	(175)
Operating income	2,055	1,213	5,116	1,543
Interest expense, net	171	139	319	367
Income before income taxes	1,884	1,074	4,797	1,176
Income tax expense	729	396	1,851	434
Net income	$ 1,155	$ 678	$ 2,946	$ 742
Earnings per share				
Basic	$ 0.28	$ 0.15	$ 0.73	$ 0.16
Diluted	$ 0.27	$ 0.14	$ 0.70	$ 0.15
Weighted average number of shares outstanding *	4,062	4,638	4,057	4,705
Dilutive effect of stock options*	158	220	156	213
Weighted average number of shares assuming dilution*	4,220	4,858	4,213	4,918

* Adjusted to reflect 2-for-1 stock split effective as of September 20, 2002

See accompanying notes to condensed consolidated financial statements.

DELTA APPAREL, INC. AND SUBSIDIARIES

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

	Six Months Ended	
	December 28, 2002	December 29, 2001
Operating activities:		
Net income	$ 2,946	$ 742
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,369	3,219
Deferred income taxes	32	330
Loss (gain) on sale of property and equipment	30	(127)
Changes in operating assets and liabilities:		
Accounts receivable	5,074	8,511
Inventories	(14,682)	2,038
Prepaid expenses and other current assets	1,106	338
Other noncurrent assets	(80)	58
Accounts payable and accrued expenses	(4,227)	(1,108)
Income taxes	(2,590)	1,211
Other liabilities	198	302
Net cash (used in) provided by operating activities	(8,824)	15,514
Investing activities:		
Purchases of property, plant and equipment	(2,039)	(1,125)
Proceeds from sale of property, plant and equipment	—	152
Net cash used in investing activities	(2,039)	(973)
Financing activities:		
Proceeds from (repayment of) revolving credit facility, net	8,864	(6,435)
Repayment of long-term financing	(1,000)	(1,000)
Repurchase of common stock	(687)	(1,540)
Proceeds from exercise of stock options	121	23
Dividends paid	(410)	—
Net cash provided by (used in) financing activities	6,888	(8,952)
Increase (decrease) in cash	(3,975)	5,589
Cash at beginning of period	4,102	165
Cash at end of period	$ 127	$ 5,754
Supplemental cash flow information:		
Cash paid during the period for interest	$ 217	$ 292
Cash paid during the period for income taxes	$ 4,419	$ 94
Noncash financing activity—issuance of common stock	$ 710	$ 24

See accompanying notes to condensed consolidated financial statements.

DELTA APPAREL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A—Basis of Presentation

The interim condensed consolidated financial statements for the three and six months ended December 28, 2002 and December 29, 2001, 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 accounting principles generally accepted in the United States 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 and six months ended December 28, 2002 are not necessarily indicative of the results that may be expected for the year ending June 28, 2003. 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 29, 2002, filed with the Securities and Exchange Commission.

All references in the financial statements and related notes with regard to the number of shares or average number of shares of common stock and related prices, dividends and per share amounts have been restated to reflect the 2-for-1 stock split effective as of September 20, 2002.

Note B—Inventories

Inventories consist of the following:

	December 28, 2002	June 29, 2002
Raw materials	$ 7,668	$ 4,644
Work in process	16,837	10,510
Finished goods	25,660	20,329
	$50,165	$35,483

Note C—Income Taxes

The effective income tax rate on pretax income for the six months ended December 28, 2002 was 38.6%, compared to 33.0% for the fiscal year ended June 29, 2002. In fiscal year 2002, the Company reversed the valuation allowance against its state net operating loss carryforwards, resulting in the effective tax rate of 33.0%. Based upon its assessment of current results and future outlooks, the Company believes these state net operating losses will be used in the upcoming years. The Company expects its annualized effective tax rate to more closely approximate statutory rates for fiscal year 2003.

Note D—Purchase Contracts

The Company has entered into agreements, and has fixed prices, to purchase cotton for use in its manufacturing operations. At December 28, 2002, minimum payments under these contracts with non-cancelable contract terms were $6.8 million.

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

Basic net earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share includes the dilutive effect of stock options and non-vested stock 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

Stock Repurchase Program
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. On September 13, 2002, the Board of Directors authorized the repurchase by the Company in open market transactions of up to an additional $3.0 million of Delta Apparel common stock pursuant to its Stock Repurchase Program, bringing the total amount authorized to $6.0 million. During the three months ended December 28, 2002, the Company purchased 30,100 shares of Delta Apparel common stock for an aggregate of $0.4 million. Since the inception of the Stock Repurchase Program, the Company has purchased 278,704 shares of Delta Apparel common stock pursuant to the program for an aggregate of $2.8 million.

Quarterly Dividend Program
On October 21, 2002, the board declared a cash dividend pursuant to the Company's quarterly dividend program of five cents per share of common stock. The dividend was paid on November 18, 2002 to shareholders of record as of the close of business on November 6, 2002. On January 16, 2003, the board declared a cash dividend of five cents per share of common stock payable February 17, 2003 to shareholders of record as of the close of business on February 5, 2003. Although the Board may terminate or amend the program at any time, the Company currently expects to continue the quarterly dividend program of five cents 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) and other risks described from time to time in the Company's reports filed with the Securities and Exchange Commission. 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.

BUSINESS OUTLOOK

During the quarter ended December 28, 2002, Delta Apparel established a record for sales in the second quarter of the fiscal year. This was also the first time that second quarter sales exceeded sales in the first quarter of the fiscal year. In addition to record sales for the second fiscal quarter, the Company also established a new record for operating profit for its second fiscal quarter.

Price deterioration in basic tees that began at the end of the first quarter of fiscal year 2003 continued into the beginning of the second fiscal quarter. The deepest discounting occurred in November and prices began to stabilize in December. The Company is encouraged with the pricing in January and expects stable pricing through the spring selling season. While Delta Apparel is disappointed in the price declines on the basic products, it continued to have strong margins on its specialty products. The Company has begun new private label programs and expects to begin shipping these orders in the third fiscal quarter and for these shipments to increase through the fourth quarter of fiscal year 2003. Delta Apparel expects these new private label programs to continue into the next fiscal year.

The Company expects to open its new Florida distribution center in the third quarter and expects it to be fully operational to support the spring selling season. During the second quarter of 2003, Delta Apparel introduced its pick and pack operations, which allows its customers to order products by the piece or by the dozen, in addition to full case quantities. The Company believes this will allow it to service a new segment of customers and looks forward to growing its business in this area.

Delta Apparel's manufacturing operations continued to perform well during the second quarter of the fiscal year. Lower raw material prices and reduced manufacturing cost allowed the Company to increase its gross margin during the quarter despite price deterioration in basic tees. The Company continued its cost reduction programs in the facilities and expects to see more of the benefit of these during the second half of the fiscal year.

The Company believes that inventories in the activewear market are balanced with demand and that demand will continue to improve throughout the spring selling season. Delta Apparel expects this demand will allow it to have good production schedules for its facilities in the second half of fiscal year 2003. In addition, the Company is evaluating the need to increase production at the Fayette facility ahead of its original plans. The Company believes it can increase output from the facility with only minor capital investment.

Overall, Delta Apparel expects to see continued sales growth and improved operating profits for the remainder of fiscal year 2003.

RESULTS OF OPERATIONS

Net sales for the second quarter of fiscal year 2003 were $30.0 million, an increase of $5.7 million, or 23.3%, from net sales of $24.3 million for the second quarter of the prior year. The increase in net sales was the result of higher unit sales (up 38.9%, accounting for $9.5 million) partially offset by lower average selling prices (down 11.2%, accounting for $3.8 million). Sales of basic and heavyweight adult and youth short sleeve tees drove the volume increase for the quarter. Price promotions in the marketplace resulted in lower average selling prices in the basic tee styles. Net sales for the first six months of fiscal year 2003 were $58.9 million, an increase of $3.5 million, or 6.4%, from net sales of $55.4 million for the first six months of the prior year. The increase in net sales was the result of higher unit sales (up 10.9%, accounting for $6.0 million) partially offset by lower average selling prices (down 4.1%, accounting for $2.5 million). Although the Company expects its sales during fiscal year 2003 to exceed its fiscal year 2002 sales, there can be no assurance that the Company will achieve this expected sales growth.

Gross profit as a percentage of net sales increased to 17.1% for the second quarter of fiscal year 2003 from 15.4% for the second quarter of the prior year. For the first six months of fiscal year 2003, gross profit as a percentage of net sales increased to 18.9% from 12.1% for the first six months of the prior year. The higher gross profit percentage was primarily the result of lower raw material prices and lower manufacturing cost, partially offset by the lower selling prices. Lower manufacturing cost was driven by improvements in efficiencies at the Company's Edgefield, Maiden and Honduras facilities and cost reduction programs.

Selling, general and administrative expenses, including the provision for bad debts, for the second quarter of fiscal year 2003 were $3.0 million, or 10.1% of sales, an increase of $0.4 million from $2.7 million, or 11.0% of sales, in the second quarter of the prior year. Distribution expense increased $0.2 million as a result of the increased shipping volume during the quarter and expenses related to the new Florida distribution center that is expected to open in the third quarter of the fiscal year. Bad debt expense increased $0.1 million as a result of the higher accounts receivable balance at December 28, 2002. Selling, general and administrative expenses, including the provision for bad debts, for the first six months of fiscal year 2003 were $5.9 million, or 10.0% of net sales, an increase of $0.5 million from $5.3 million, or 9.6% of net sales, in the first six months of the prior year. The increase is mainly the result of an increase of $0.4 million in general and administrative expenses. The increase was the result of higher incentive compensation expense resulting from the increased operating earnings.

Other income for the second quarter of prior fiscal year was $0.1 million, resulting from the Company's gain on the sale of its building in Washington, Georgia in November 2001. Other expense for the first six months of fiscal year 2003 was $0.1 million compared with other income of $0.2 million for the first six months of the prior year. In July 2002, the Company sold its cotton options, resulting in a loss of $0.1 million. The options had been marked to market, resulting in a $0.3 million gain during the fourth quarter of fiscal year 2002.

Operating income for the second quarter of fiscal year 2003 was $2.1 million, an increase of $0.8 million, or 69.4%, from $1.2 million for the second quarter of the prior year. The increase in operating income was the result of the increased gross profit, partially offset by the higher selling, general and administrative expenses. Operating income for the first six months of fiscal year 2003 was $5.1 million, an increase of $3.6 million, or 231.6%, from $1.5 million for the first six months of the prior year. The increase in operating income was the result of the increased gross profit, partially offset by the higher selling, general and administrative expenses and other expenses.

Net interest expense for the second quarter of fiscal year 2003 was $0.2 million, a 23.0% increase from $0.1 million for the second quarter of the prior year. The increase in interest expense resulted from an increase in average debt outstanding, partially offset by a reduction in the average interest rates of over 100 basis points. Net interest expense for the first six months of fiscal year 2003 was $0.3 million, a 13.1% decrease from $0.4 million for the first six months of the prior year. The reduction in interest expense resulted from a reduction in average interest rates.

The effective tax rate for the second quarter of fiscal year 2003 was 38.7% compared to 36.9% for the second quarter of the prior year and 33.0% for the fiscal year ended June 29, 2002. In fiscal year 2002, the Company reversed the valuation allowance against its state net operating loss carryforwards, resulting in the effective tax rate of 33.0%. Based upon its assessment of current results and future outlooks, the Company believes these state net operating losses will be used in the upcoming years. The Company expects its annualized effective tax rate to more closely approximate statutory rates for fiscal year 2003.

Net income for the second quarter of fiscal year 2003 was $1.2 million, an increase of $0.5 million, or 70.4% from net income of $0.7 million for the second quarter of the prior year. Net income for the first six months of fiscal year 2003 was $2.9 million, an increase of $2.2 million, or 297.0%, from net income of $0.7 million for the first six months of the prior year. The increase in net income was due to the factors described above.

Accounts receivable decreased $5.1 million from June 29, 2002 to $17.7 million on December 28, 2002. The decrease was a result of lower sales during the quarter ended December 28, 2002 compared to the quarter ended June 29, 2002. In addition, days sales outstanding were 50 days at December 28, 2002 compared to 52 days at June 29, 2002.

Inventories at December 28, 2002 totaled $50.2 million compared to $35.5 million at June 29, 2002. The increase in inventory is primarily the result of planned inventory increases to support the opening of the Company's Florida distribution center and the Company's anticipated sales growth for fiscal year 2003. The Company also increased its raw material inventory to take advantage of lower cotton prices and to support its increased textile capacity.

Capital expenditures in the second quarter of fiscal year 2003 were $1.3 million compared to $0.4 million in the second quarter of the prior year. Capital expenditures in the first six months of fiscal year 2003 were $2.0 million compared to $1.1 million in the first six months of the prior year. The expenditures during fiscal year 2003 primarily related to increasing capacity and lowering costs in the Company's Edgefield, Maiden and Fayette facilities. The expenditures during fiscal year 2002 primarily related to increasing capacity and lowering costs in its Edgefield and Maiden plants. The Company is currently evaluating the need to make expenditures during the second half of the fiscal year to increase the production capacity of its Fayette facility.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are for working capital and capital expenditures. In addition, the Company uses cash to fund its share repurchases under its Stock Repurchase Program and, in fiscal 2002, its Dutch Tender Offer. 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. On August 23, 2002, the Company amended its credit agreement to extend the due date of the revolver loan from May 1, 2003 to May 1, 2005. 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 used cash of $8.8 million in the first six months of fiscal year 2003 and provided cash of $15.5 million in the first six months of the prior year. The cash used in the first six months of fiscal year 2003 was primarily the result of increases in inventory and decreases in accrued expenses, offset partially by net income plus depreciation and a reduction in accounts receivable. The cash provided in the first six months of the prior year was primarily due to a reduction in accounts receivable and inventory and net income plus depreciation.

At December 28, 2002, the Company had an $8.9 million outstanding balance under its revolving credit facility at an average interest rate of 3.79%. The interest rate on its term loan at December 28, 2002 was 3.44%.

Based on its expectations, 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, to fund its planned capital expenditures, to fund purchases of its stock as described below and to fund the payment of dividends as described below. 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, as amended on October 17, 2001, permitted up to an aggregate of $11.0 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 August 23, 2002, the credit agreement was amended to increase from $11.0 million to $23.0 million the aggregate amount permitted for share repurchases.

During the second quarter of fiscal year 2003, the Company purchased 30,100 shares of common stock for a total cost of $0.4 million pursuant to its Stock Repurchase Program. Since the inception of the program, the Company has purchased 278,704 shares of its stock under the program for a total cost of $2.8 million. The Company has authorization from the Board of Directors to spend up to an aggregate of $6.0 million for share repurchases under the Stock Repurchase Program. All purchases are made at the discretion of management.

In fiscal year 2002, the Company purchased 676,286 shares of its stock (adjusted to reflect the 2-for-1 stock split effective as of September 20, 2002) at an aggregate cost, including offering expenses, of $7.6 million, pursuant to its Dutch Tender Offer.

Dividend Program

On October 21, 2002, the board declared a cash dividend pursuant to the Company's quarterly dividend program of five cents per share of common stock. The dividend was paid on November 18, 2002 to shareholders of record as of the close of business on November 6, 2002. On January 16, 2003, the board declared a cash dividend of five cents per share of common stock payable February 17, 2003 to shareholders of record as of the close of business on February 5, 2003. Although the Board may terminate or amend the program at any time, the Company currently expects to continue the quarterly dividend program of five cents per share.

CRITICAL ACCOUNTING POLICIES

There have been no changes in our critical accounting policies since the filing of our Annual Report on Form 10-K for the year ended June 29, 2002.

NEW ACCOUNTING STANDARDS

In August 2001, the Financial Accounting Standards Board ("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 Company adopted SFAS 143 in its first quarter of fiscal year 2003. The adoption of SFAS 143 had no 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 Company adopted SFAS 144 in its first quarter of fiscal year 2003. The adoption of SFAS 144 had no impact on the Company's financial statements.

In April 2002, the FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. The Company adopted SFAS 145 in its fourth quarter of fiscal year 2002. The adoption of SFAS 145 had no impact on the Company's financial statements.

In June 2002, the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities. The Company is required and plans to adopt the provisions of SFAS 146 for the quarter ending March 29, 2003. The Company does not believe that the adoption of SFAS 146 will have a material impact on the Company's financial statements.

ENVIRONMENTAL AND REGULATORY MATTERS

Delta Apparel is 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. Delta Apparel's plants generate very small quantities of hazardous waste, which are either recycled or disposed of off-site. Most of its plants are required to possess one or more discharge permits.

On May 27, 2002, the Company received a renewal of its National Pollution Discharge Elimination System ("NPDES") permit from the North Carolina Department of Environment and Natural Resources, Division of Water Quality (the "DWQ") for its Maiden, North Carolina textile plant. Among other things, the new permit requires the Company to reduce its effluent (waste discharge) color to specified color concentration limits. The color concentration limits are gradually lowered over time (one limit for the first 12 months, a lower limit in the next 12 months, and a lower limit thereafter). The Company believes that the DWQ exceeded its authority and jurisdiction and acted arbitrarily in imposing this requirement on the Company under the new permit and on July 23, 2002 filed an appeal with the Office of Administrative Hearings of Catawba County, North Carolina. On January 21, 2003, the Company and DWQ began a hearing on the matter before an Administrative Law Judge ("ALJ")(any decision of the ALJ is not binding on the DWQ or the Company, and either party can further appeal an unfavorable decision to the DWQ decision-maker, and if necessary, to the North Carolina Superior Court). The parties have reached a tentative settlement of the dispute and have stayed the hearing for 30 days so that they have an opportunity to finalize in writing the agreement. The tentative agreement, in relevant part, provides as follows: (1) Delta Apparel would have one year to research and test alternative color removal technologies; (2) Delta Apparel would select and implement one of these alternative color removal technologies during the following year; and (3) the amount of measurable color permitted in the Company's influent would be increased for the two year period during which the Company must identify and implement alternative color removal technologies, after which the limit on color in the Company's effluent for the remainder of the permit period would be the current limit contained in Delta Apparel's NPDES permit.

The Company does not currently have an estimate of the amount of additional annual expenses, if any, that the Company may incur in the future in order to comply with the new permit, and there can be no assurance that the cost of compliance will not be material to the financial condition of the Company.

Delta Apparel incurs capital and other expenditures each year that are aimed at achieving compliance with current and future environmental standards. Generally, the environmental rules applicable to Delta Apparel are becoming increasingly stringent. Delta Apparel does not expect that the amount of these expenditures in the future will have a material adverse effect on its 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, the extent of Delta Apparel's liability, if any, for past failures to comply with laws, regulations and permits applicable to its operations cannot be determined.

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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 ensure 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 28, 2002 was valued at $6.8 million, and is scheduled for delivery January 2003 and March 2003. At December 28, 2002, the Company had unpriced contracts for deliveries between January 2003 and March 2004. Based on the prevailing price at December 28, 2002, the value of these unpriced commitments is approximately $14.7 million. At December 28, 2002, 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 $0.7 million on the value of the contracts. At June 29, 2002, cotton on-call with a fixed price was valued at $15.0 million. At June 29, 2002, 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 $1.5 million. The effect of a 10% decline in the market price of cotton on Delta Apparel's fixed price contracts would have been less at December 28, 2002 than at June 29, 2002 because the value of Delta Apparel's fixed price cotton on-call contracts was less on December 28, 2002. Daily price fluctuations are minimal, yet long-term trends in price movement can result in unfavorable pricing of cotton for Delta Apparel.

The Company uses derivatives, including cotton option contracts, to manage its exposure to movements in commodity prices. On December 28, 2002, Delta Apparel did not own any cotton options.

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 28, 2002 under the revolver and term loan had been the amount outstanding during the entire three months ended December 28, 2002 and the interest rate on this outstanding indebtedness had been increased by 100 basis points, Delta Apparel's interest expense would have been approximately $34,000, or 19.8%, higher during the quarter. This compares to an increase of $57,000 or 8.4% for the 2002 fiscal year, or an average of $14,250 per quarter, based on the outstanding indebtedness at June 29, 2002. The increase is due to the amount outstanding under the Company's revolver and term loan being higher at December 28, 2002 than at June 29, 2002. 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.

Item 4: Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us 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 required to be disclosed by us 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On May 27, 2002, the Company received a renewal of its National Pollution Discharge Elimination System ("NPDES") permit from the North Carolina Department of Environment and Natural Resources, Division of Water Quality (the "DWQ") for its Maiden, North Carolina textile plant. Among other things, the new permit requires the Company to reduce its effluent (waste discharge) color to specified color concentration limits. The color concentration limits are gradually lowered over time (one limit for the first 12 months, a lower limit in the next 12 months, and a lower limit thereafter). The Company believes that the DWQ exceeded its authority and jurisdiction and acted arbitrarily in imposing this requirement on the Company under the new permit and on July 23, 2002 filed an appeal with the Office of Administrative Hearings of Catawba County, North Carolina. On January 21, 2003, the Company and DWQ began a hearing on the matter before an Administrative Law Judge ("ALJ")(any decision of the ALJ is not binding on the DWQ or the Company, and either party can further appeal an unfavorable decision to the DWQ decision-maker, and if necessary, to the North Carolina Superior Court). The parties have reached a tentative settlement of the dispute and have stayed the hearing for 30 days so that they have an opportunity to finalize in writing the agreement. The tentative agreement, in relevant part, provides as follows: (1) Delta Apparel would have one year to research and test alternative color removal technologies; (2) Delta Apparel would select and implement one of these alternative color removal technologies during the following year; and (3) the amount of measurable color permitted in the Company's influent would be increased for the two year period during which the Company must identify and implement alternative color removal technologies, after which the limit on color in the Company's effluent for the remainder of the permit period would be the current limit contained in Delta Apparel's NPDES permit.

The Company does not currently have an estimate of the amount of additional annual expenses, if any, that the Company may incur in the future in order to comply with the new permit, and there can be no assurance that the cost of compliance will not be material to the financial condition of the Company.

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 12, 2002:

Election of Directors	For	Withheld	Abstentions	Broker Nonvotes
David S. Fraser	3,997,215	0	8,184	N/A
William F. Garrett	3,997,495	0	7,904	N/A
C.C. Guy	4,003,733	0	1,666	N/A
Robert W. Humphreys	4,003,779	0	1,620	N/A
Dr. James F. Kane	3,998,167	0	7,232	N/A
Dr. Max Lennon	4,002,959	0	2,440	N/A
E. Erwin Maddrey, II	4,003,575	0	1,824	N/A
Buck A. Mickel	4,002,355	0	3,044	N/A

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

99.1 Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Robert W. Humphreys, President and Chief Executive Officer.

99.2 Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Herbert M. Mueller, Vice President and Chief Financial Officer.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the fiscal quarter ended December 28, 2002.

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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)

January 28, 2003	By: /s/ Herbert M. Mueller
Date	Herbert M. Mueller Vice President, Chief Financial Officer and Treasurer

CERTIFICATIONS

I, Robert W. Humphreys, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delta Apparel, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 27, 2003

/s/ Robert W. Humpheys

President and Chief Executive Officer

CERTIFICATIONS

I, Herbert M. Mueller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delta Apparel, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 28, 2003

/s/ Herbert M. Mueller

Vice President and Chief Financial Officer

EXHIBIT 99.1

CERTIFICATE 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 Company's Form 10-Q for the quarterly period ended December 28, 2002 (the "Report") fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

The foregoing certification is made solely for the purpose of complying with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350) and may not be relied upon by anyone for any other purpose. The undersigned expressly disclaims any undertaking to update such certifications except as required by law.

Date: January 27, 2003

/s/ Robert W. Humphreys

Robert W. Humphreys
President & Chief Executive Officer

EXHIBIT 99.2

CERTIFICATE PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Herbert M. Mueller, the Chief Financial Officer of Delta Apparel, Inc. (the "Company"), hereby certifies that to the best of his knowledge:

1. The Company's Form 10-Q for the quarterly period ended December 28, 2002 (the "Report") fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

The foregoing certification is made solely for the purpose of complying with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350) and may not be relied upon by anyone for any other purpose. The undersigned expressly disclaims any undertaking to update such certifications except as required by law.

Date: January 28, 2003

/s/ Herbert M. Mueller

Herbert M. Mueller
Vice President & Chief Financial Officer