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 31, 2005

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 ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑.

As of February 1, 2006, there were outstanding 8,621,298 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 31, 2005	July 2, 2005
Current assets:		
Cash	$ 948	$ 298
Accounts receivable, net	32,161	36,611
Income taxes receivable	1,662	—
Inventories	114,779	99,026
Prepaid expenses and other current assets	2,098	1,968
Deferred income taxes	2,619	1,252
Total current assets	154,267	139,155
Property, plant and equipment, net	20,692	19,950
Goodwill and other intangibles, net	19,717	—
Other assets	1,855	409
Total assets	$ 196,531	$ 159,514
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 39,588	$ 36,700
Income taxes payable	—	480
Current portion of long-term debt	3,683	15,065
Total current liabilities	43,271	52,245
Long-term debt	58,689	17,236
Deferred income taxes	1,111	171
Other liabilities	19	3,398
Total liabilities	103,090	73,050
Stockholders' equity:		
Preferred stock—2,000,000 shares authorized; none issued and outstanding	—	—
Common stock—par value $.01 a share, 15,000,000 shares authorized, 9,646,972 shares issued, and 8,621,298 and 8,522,052 shares outstanding as of December 31, 2005 and July 2, 2005, respectively	96	96
Additional paid-in capital	54,348	53,867
Retained earnings	45,019	39,106
Treasury stock—1,025,674 and 1,124,920 shares as of December 31, 2005 and July 2, 2005, respectively	(6,022)	(6,605)
Total stockholders' equity	93,441	86,464
Total liabilities and stockholders' equity	$ 196,531	$ 159,514

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 31, 2005	January 1, 2005	December 31, 2005	January 1, 2005
Net sales	$ 57,702	$ 49,195	$ 118,275	$ 103,495
Cost of goods sold	39,433	38,379	81,312	81,102
Gross profit	18,269	10,816	36,963	22,393
Selling, general and administrative expenses	13,768	8,094	26,468	16,540
Other income (expense)	433	(15)	404	(5)
Operating income	4,934	2,707	10,899	5,848
Interest expense, net	997	835	1,682	1,538
Income before income taxes	3,937	1,872	9,217	4,310
Provision for income taxes	1,561	718	3,464	1,712
Net income	$ 2,376	$ 1,154	$ 5,753	$ 2,598
Earnings per share				
Basic	$ 0.28	$ 0.14	$ 0.67	$ 0.31
Diluted	$ 0.27	$ 0.13	$ 0.67	$ 0.30
Weighted average number of shares outstanding	8,621	8,292	8,577	8,288
Dilutive effect of stock options	60	270	44	271
Weighted average number of shares assuming dilution	8,681	8,562	8,621	8,559
Cash dividends declared per common share	$ 0.04	$ 0.35	$ 0.08	$ 0.07

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 31, 2005	Six Months Ended January 1, 2005
Operating activities:		
Net income	$ 5,753	$ 2,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,392	2,383
Deferred income taxes	(384)	(101)
(Gain) loss on sale of property and equipment	(68)	30
Noncash compensation	1,758	828
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in connection with business acquisitions:		
Accounts receivable	15,133	10,871
Inventories	(12,029)	(1,014)
Prepaid expenses and other current assets	61	159
Other noncurrent assets	(21)	(253)
Accounts payable and accrued expenses	(3,579)	(3,869)
Income taxes	(2,143)	(2,623)
Other liabilities	(3,378)	(2,994)
Net cash provided by operating activities	3,495	6,015
Investing activities:		
Purchases of property, plant and equipment	(2,691)	(5,439)
Proceeds from sale of property, plant and equipment	124	92
Acquisition of business	(28,237)	—
Cash invested in joint venture	(1,425)	—
Net cash used in investing activities	(32,229)	(5,347)
Financing activities:		
Repayment of Soffe revolving credit facility, net	(11,781)	(3,969)
Proceeds from long-term debt	84,951	24,476
Repayment of long-term debt	(43,100)	(20,910)
Proceeds from exercise of stock options	—	35
Dividends paid	(686)	(580)
Net cash provided by (used in) financing activities	29,384	(948)
Increase (decrease) in cash	650	(280)
Cash at beginning of period	298	333
Cash at end of period	$ 948	$ 53
Supplemental cash flow information:		
Cash paid during the period for interest	$ 1,538	$ 1,200
Cash paid during the period for income taxes	$ 5,974	$ 4,804
Noncash financing activity—common stock issued under option plan	$ 1,428	$ 59

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

We prepared the accompanying interim condensed consolidated financial statements 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 U.S. generally accepted accounting principles for complete financial statements. We believe these condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation. Operating results for the three and six months ended December 31, 2005 are not necessarily indicative of the results that may be expected for the year ending July 1, 2006. For more information regarding our results of operations and financial position refer to the consolidated financial statements and footnotes included in our Form 10-K for the year ended July 2, 2005, filed with the Securities and Exchange Commission.

"Delta Apparel," the "Company," and "we," "us" and "our" are used interchangeably to refer to Delta Apparel, Inc. together with our wholly-owned subsidiaries, M. J. Soffe Co. ("M. J. Soffe", or "Soffe"), Junkfood Clothing Company ("Junkfood"), and our other subsidiaries, as appropriate to the context.

Note B—Accounting Policies

Our accounting policies are consistent with those described in our Summary of Significant Accounting Policies in our Form 10-K for the year ended July 2, 2005 filed with the Securities and Exchange Commission.

Note C—New Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") Nos. 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act* of 2004 ("FSP 109-1"), and 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* ("FSP 109-2"). The American Jobs Creation Act of 2004 (the "Jobs Creation Act") was enacted on October 22, 2004. Under guidance in FSP 109-1, the qualified production activities deduction will be treated as a "special deduction" as described in FASB Statement No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date of the Jobs Creation Act. We have determined that our production activities will qualify under the Jobs Creation Act and expect the benefit of this deduction could have up to a 1% reduction on our effective income tax rate for fiscal year 2006. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Creation Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. Although we have not finalized our evaluation of the impact of the repatriation provisions, based on our analysis to date, we do not expect to repatriate any foreign earnings pursuant to the Jobs Creation Act.

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment* ("Statement 123(R)"), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("Statement 123"). Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and amends FASB Statement No. 95, *Statements of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) *requires* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted for annual periods beginning after June 15, 2005. Accordingly, effective July 3, 2005, we adopted the fair-value recognition provisions of Statement 123(R). See Note I, Stock Options and Incentive Stock Awards, for further information on the implementation of Statement 123(R).

On November 10, 2005, the FASB issued Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. This provides for a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of share-based compensation. Since our adoption of Statement 123, we have not recorded any excess tax benefits associated with our stock options and therefore we have no initial pool of excess tax benefits upon adoption of Statement 123(R).

Note D—Acquisitions

Intensity Athletics, Inc.
On October 3, 2005, our wholly-owned subsidiary, M. J. Soffe Company, purchased substantially all of the assets of Intensity Athletics, Inc. and its business of designing, manufacturing, and marketing of athletic apparel pursuant to an Asset Purchase Agreement among M. J. Soffe Company, Intensity Athletics, Inc. ("Seller"), and the shareholder of the Seller, Tim Maloney Sales, Inc.

The aggregate consideration paid to Seller for substantially all of the assets of the Seller was a cash payment of $0.8 million. Additional amounts are payable to Seller in cash during each of fiscal years 2007, 2008, 2009 and 2010 if specified financial performance targets are met by Intensity Athletics, Inc. during annual periods beginning on October 3, 2005 and ending on September 26, 2009 (the "Earnout Amounts"). The Earnout Amounts are capped at a maximum aggregate amount of $0.6 million. No goodwill was recorded related to this acquisition.

The results of Intensity Athletics operations have been included in the consolidated financial statements since the acquisition date.

Junkfood Clothing Company
On August 22, 2005, we entered into an Asset Purchase Agreement with Liquid Blaino Designs, Inc. d/b/a Junkfood Clothing ("Seller") and the shareholders of Seller, Natalie Grof and Blaine Halvorson, pursuant to which we purchased substantially all of the assets of the Seller and its business of designing, marketing, and selling licensed and branded apparel. The closing of the purchase (the "Closing") occurred simultaneously with the execution of the Asset Purchase Agreement.

The aggregate consideration paid to Seller at Closing for substantially all of the assets of Seller consisted of (1) a cash payment of $20 million; and (2) issuance to Seller of a promissory note in the original principal amount of $2,500,000 (the "Note"). The Note bears interest at 9% and has a three-year term. Pursuant to the Asset Purchase Agreement, on December 1, 2005 we paid the Seller $4.4 million for the Closing Date Working Capital Adjustment, which was based upon the closing date balance sheet of Liquid Blaino Designs, Inc. Additional amounts are payable to Seller in cash during each of fiscal years 2007, 2008, 2009, and 2010 if financial performance targets are met by Junkfood during the period beginning on August 22, 2005 and ending on July 2, 2006 and during each of the three fiscal years thereafter (ending on June 27, 2009).

The acquisition of Junkfood is an important part of our expansion strategy. The addition of the Junkfood business to Delta Apparel keeps with our strategy of acquiring profitable apparel operations that expand our channels of distribution.

The acquisition of Junkfood was accounted for using the purchase method of accounting. The purchase price of the acquisition was allocated to the assets and related liabilities based on their fair values. We have identified certain intangible assets associated with the Junkfood business, including the trade name and trademarks, customer relationships, non-compete agreements and goodwill. Components of intangible assets are as follows:

		Useful Life
Goodwill	$ 10,877	N/A
Intangibles		
Tradename/trademarks	1,530	20 yrs
Customer relationships	7,220	20 yrs
Non-compete agreements	250	5 yrs
Total intangibles	9,000	
Total goodwill and intangibles	$ 19,877	

The $10.9 million of goodwill was assigned to the Retail-Ready Apparel segment of our business. The total amount of goodwill is expected to be deductible for tax purposes.

The results of Junkfood's operations have been included in the consolidated financial statements since the acquisition date. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the acquisition.

Cash consideration paid	$ 24,353
Promissory note issued	2,500
Direct merger costs	582
Total purchase price	$ 27,435

Accounts receivable	$ 10,514
Inventories	2,982
Other current assets	125
Other assets	26
Property, plant and equipment	268
Goodwill and other intangible assets	19,877
Current liabilities	(6,357)
Fair value of net assets acquired	$ 27,435

The unaudited pro forma financial information presented below gives effect to the Junkfood acquisition as if it had occurred as of the beginning of fiscal year 2006 and fiscal year 2005. Amounts are in thousands, except per share amounts. The information presented below is for illustrative purposes only and is not indicative of results that would have been achieved or results that may be achieved in the future.

	Three Months Ended		Six Months Ended	
	December 31, 2005	January 1, 2005	December 31, 2005	January 1, 2005
Net sales	$ 57,702	$ 54,941	$ 129,641	$ 112,885
Net income	2,376	1,556	6,657	3,185
Net income per share				
Basic	$ 0.28	$ 0.19	$ 0.78	$ 0.38
Diluted	$ 0.27	$ 0.18	$ 0.77	$ 0.37

Note E—Intangible Assets

Components of intangible assets are as follows:

	December 31, 2005	Useful Life
Goodwill	$ 10,877	N/A
Intangibles		
Tradename/trademarks	1,530	20 yrs
Customer relationships	7,220	20 yrs
Non-compete agreements	250	5 yrs
Total intangibles	9,000	
Total goodwill and intangibles	19,877	
Less accumulated amortization	(160)	
	$ 19,717	

Amortization expense for intangible assets was $0.2 million for the three months ended December 31, 2005. We estimate amortization expense will be approximately $0.2 million for the remainder of fiscal year 2006 and $0.5 million for each of the five succeeding fiscal years.

Note F—Inventories

Inventories consist of the following:

	December 31, 2005	July 2, 2005
Raw materials	$ 6,048	$ 4,496
Work in process	27,251	21,231
Finished goods	81,480	73,299
	$ 114,779	$ 99,026

Note G—Debt

On August 22, 2005, in conjunction with our acquisition of Junkfood, Delta Apparel, Junkfood, and M. J. Soffe Co. refinanced Delta Apparel's $42.75 million credit facility and consolidated M. J. Soffe Co.'s $38.5 million credit facility with it pursuant to a Second Amended and Restated Loan and Security Agreement (the "Amended Loan Agreement") with Wachovia Bank National Association (the successor by merger to Congress Financial Corporation (Southern)), as Agent, and the financial institutions named in the Amended Loan Agreement as Lenders.

Pursuant to the Amended Loan Agreement, Delta Apparel, Junkfood, and M. J. Soffe Co. became co-borrowers under a single credit facility, the maturity of the loans under the credit facility was extended to August 2008, and the line of credit available to Delta Apparel, Junkfood, and M. J. Soffe Co. was increased to $85 million (subject to borrowing base limitations based on the value and type of collateral provided), which represents an increase of $3.75 million in the aggregate amount that was available under Delta Apparel's credit facility and M. J. Soffe Co.'s credit facility.

The new credit facility is secured by a first-priority lien on substantially all of the real and personal property of Delta Apparel, Junkfood, and M. J. Soffe Co. 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. The facility requires installment payments of approximately $265,000 per month in connection with fixed asset amortizations, and these amounts reduce the amount of availability under the facility.

The new facility contains a subjective acceleration clause and a "springing" lockbox arrangement (as defined in EITF 95-22), whereby remittances from customers will be forwarded to our general bank account and will not reduce the outstanding debt until and unless a specified event or an event of default occurs. Pursuant to EITF 95-22, we classify borrowings under the new facility as noncurrent debt.

In addition to the credit facilities with Wachovia Bank, National Association, we have a seller note payable to the former Junkfood shareholders pursuant to the Asset Purchase Agreement dated as of August 22, 2005. The $2.5 million seller note bears interest at 9% and has a three-year term.

In conjunction with the acquisition of Junkfood and entry into the Amended Loan Agreement, on August 23, 2005, M. J. Soffe Co. paid approximately $5 million to satisfy in full the Promissory Note of M. J. Soffe Co. dated as of October 3, 2003, which was made in connection with our acquisition of M. J. Soffe Co. The Promissory Note was made in favor of the Soffe sellers, James F. Soffe, John D. Soffe, and Anthony M. Cimaglia.

Note H—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. In addition, selling, general and administrative expenses include costs related to sales associates, administrative personnel cost, advertising and marketing expenses and general and administrative expenses. For the second quarter of fiscal years 2006 and 2005, distribution costs included in selling, general and administrative expenses totaled $3.5 million and $1.9 million, respectively. For the first six months of fiscal years 2006 and 2005, distribution costs included in selling, general and administrative expenses totaled $6.5 million and $3.8 million, respectively. The increase in selling, general and administrative expenses is primarily related the acquisition of Junkfood.

Note I—Stock Options and Incentive Stock Awards

We maintain certain stock-based compensation plans that are described in Note 11 to the Consolidated Financials Statements included in our 2005 Annual Report to Shareholders. Under the Delta Apparel Stock Option Plan (the "Option Plan"), we authorized the grant of options for up to 2,000,000 shares of common stock. Options are granted by the compensation grants committee of our board of directors to officers and key and middle level executives for the purchase of our stock at prices not less than the fair market value of the shares on the dates of grant. Under the Delta Apparel Incentive Stock Award Plan (the “Award Plan”), the compensation grants committee of our board of directors has the discretion to grant awards for up to an aggregate maximum of 800,000 shares of common stock. The Award Plan authorizes the compensation grants committee to grant to our officers and key and middle level executives rights to acquire shares at a cash purchase price of $0.01 per share.

Prior to July 2, 2005, we accounted for these plans under Statement 123. As permitted under this standard, compensation cost was recognized using the intrinsic value method described in APB 25 and related Interpretations. Effective July 3, 2005, we adopted the fair-value recognition provisions of Statement 123(R) and the Securities and Exchange Commission Staff Accounting Bulletin No. 107 (“SAB 107”) using the modified-prospective transition method; therefore, prior periods have not been restated. Compensation cost recognized in the three-month period ended October 1, 2005 includes compensation cost for all share-based payments granted, but not yet vested as of July 3, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and compensation cost for all share-based payments granted subsequent to July 3, 2005, based on the grant date fair value estimated in accordance with the provisions of Statement 123(R).

Option Plan

Stock options are granted with exercise prices not less than the fair market value of our common stock at the time of the grant, with an exercise term (as determined by the Compensation Committee) not to exceed 10 years. The Compensation Committee determines the vesting period for our stock options. Generally, such stock options become exercisable over four years. Certain option awards provide for accelerated vesting upon meeting specific retirement, death or disability criteria. No options for shares of our common stock were granted during the three-month period ended December 31, 2005. No stock options were exercised under the Option Plan during the three months ended December 31, 2005 and January 1, 2005.

No stock-based compensation cost related to stock options was recognized in the statements of income for the years ended July 2, 2005 and July 3, 2004, as all options granted in these periods had an exercise price equal to the market price at the date of grant. As a result of adopting Statement 123(R), our operating income for the three-month period ended December 31, 2005 is $0.2 million lower than if we had continued to account for stock-based compensation under APB No. 25. Stock compensation expense is included in our cost of sales and selling, general and administrative expense in our statements of income over the vesting periods.

The table below presents the pro forma effect on net income and earnings per share if we had applied the fair value recognition provision to options granted under our stock option plan for the three and six months ended January 1, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option-pricing model and amortized to expense over the options’ vesting periods. For the three and six month periods ended January 1, 2005, expenses net of tax totaling $0.2 million and $0.3 million, respectively, related to our Stock Award Plan, described below, were included in our net income and earnings per share, as reported.

	Three Months Ended January 1, 2005	Six Months Ended January 1, 2005
Net income, as reported	$ 1,154	$ 2,598
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	155	290
Deduct: Total stock-based employee compensation expense determined under fair value based method for all options and awards, net of related tax effects	(323)	(626)
Pro forma net income	$ 986	$ 2,262
Earnings per share:		
Basic—as reported	$ 0.14	$ 0.31
Basic—pro forma	$ 0.12	$ 0.27
Diluted—as reported	$ 0.13	$ 0.30
Diluted—pro forma	$ 0.12	$ 0.26

A summary of the status of our nonvested shares as of December 31, 2005, and changes during the six months ended December 31, 2005, is presented below:

	Six Months Ended December 31, 2005	
	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at July 2, 2005	158,500	$ 4.23
Granted	734,000	$ 5.18
Vested	(158,500)	$ 4.23
Forfeited	—	—
Expired	—	—
Nonvested at December 31, 2005	734,000	$ 5.18

As of December 31, 2005, there was $3.1 million of total unrecognized compensation cost related to non-vested stock options under the Option Plan. This cost is expected to be recognized over a period of 3.5 years.

In December 2005, the FASB issued FSP FAS No. 123R-3 (“FSP123R”), *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, which provides for a simplified method of calculating the initial pool of excess tax benefits upon adoption of Statement 123R. The Option Plan meets the requirements of IRC Section 422 to qualify as an Incentive Stock Option (“ISO”). We had no knowledge of any disqualifying dispositions, and accordingly, we did not have any tax deductions and there were no excess tax benefits, associated with our Option Plan. As such, we have no initial pool of excess tax benefits upon the adoption of Statement 123R.

During fiscal year 2006, we have recorded expense associated with our Option Plan pursuant to Statement 123R. As our Option Plan qualifies as an ISO, this expense is not tax deductible and results in a permanent tax difference, thus increasing our effective income tax rate. Statement 123R precludes companies from anticipating disqualifying dispositions by employees. Upon the occurrence of any future disqualifying dispositions, we will be able record a tax benefit equal to the lesser of the actual benefit of the tax deduction or the cumulative compensation cost previously recognized in earnings. Any excess benefit will be recognized as an increase to additional paid-in capital.

Award Plan

Under the Award Plan, awards are granted to acquire shares of stock at a cash purchase price of $0.01 per share. The Award Plan contains certain provisions that require it to be accounted for as a liability under Statement 123(R) and previously required it to be accounted for as a variable plan under APB25. In fiscal year 2003, a three-year performance award was granted. These awards vested when we filed our Annual Report on Form 10-K for fiscal year 2005 based on the achievement of performance criteria for the three-year period ended July 2, 2005. In the three months ended October 1, 2005, awards for 125,000 shares of our common stock were granted. These awards will vest upon the filing of our Annual Report on Form 10-K for fiscal year 2007 based on the achievement of performance criteria for the two-year period ended June 30, 2007. Awards provide for accelerated vesting upon meeting specific retirement, death or disability criteria.

Compensation expense recorded under the Award Plan was $0.5 million and $0.4 million in the three months ended December 31, 2005 and January 1, 2005, respectively. Stock compensation expense is included in our cost of sales and selling, general and administrative expense in our statements of income over the vesting periods.

No options for shares of our common stock were granted during the three-month period ended December 31, 2005. No stock options were exercised under the Award Plan during the three months ended December 31, 2005 and January 1, 2005.

A summary of the status of our nonvested shares as of December 31, 2005, and changes during the six months ended December 31, 2005, is presented below:

	Six Months Ended December 31, 2005	
	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at July 2, 2005	94,402	$ 0.01
Granted	125,000	$ 0.01
Vested	(94,402)	$ 0.01
Forfeited	—	—
Expired	—	—
Nonvested at December 31, 2005	125,000	$ 0.01

As of December 31, 2005, there was $3.1 million of total unrecognized compensation cost related to non-vested stock options under the Award Plan. This cost is expected to be recognized over a period of 1.7 years.

Note J—Income Taxes

Our effective income tax rate for the six months ended December 31, 2005 was 37.6%, compared to 34.3% for the fiscal year ended July 2, 2005. During the year ended July 2, 2005, we decided to indefinitely reinvest our foreign earnings in Honduras. Therefore, we reversed the $0.7 million tax liability associated with the foreign earnings, as no provision for the U.S. federal and state tax ramifications of repatriating the earnings is necessary. Our effective income tax rate for the six months ended December 31, 2005 is lower than the statutory tax rate primarily as the result of the manufacturing deduction relating to income attributable to U.S. production activities under the American Jobs Creation Act of 2004, partially offset by the tax implications associated with the expensing of our stock options.

Note K—Purchase Contracts

We have entered into agreements, and have fixed prices, to purchase yarn and finished apparel products for use in our manufacturing operations. At December 31, 2005, minimum payments under these contracts to purchase yarn and finished apparel products with non-cancelable contract terms were $22.3 million and $3.1 million, respectively.

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

We compute basic net earnings per share 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 our Stock Option Plan and our Incentive Stock Award Plan unless such shares would be anti-dilutive. Options to purchase 734 thousand shares of our common stock were excluded from the computation of diluted weighted average common shares outstanding because the assumed proceeds related to these shares would have allowed us to repurchase at the average price during the quarter more shares than could have been exercised, and therefore were anti-dilutive.

Note M—Stockholders' Equity

Stock Split

On April 21, 2005, our Board of Directors approved a 2-for-1 stock split of our common stock. On May 31, 2005, shareholders received one additional share of common stock for each share held of record on May 18, 2005. All references in the financial statements 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.

Stock Repurchase Program

We have authorization from our 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 our management. We did not purchase shares of our common stock during the three months ended December 31, 2005. Since the inception of the Stock Repurchase Program, we have purchased 755,524 shares of our common stock pursuant to the program for an aggregate of $4.5 million.

Quarterly Dividend Program

On October 28, 2005, our Board declared a cash dividend of four cents per share of common stock pursuant to our quarterly dividend program. We paid the dividend on November 28, 2005 to shareholders of record as of the close of business on November 16, 2005. On January 17, 2006, our Board declared a cash dividend of four cents per share of common stock payable on February 27, 2005 to shareholders of record as of the close of business on February 15, 2006. Although the Board may terminate or amend the program at any time, we currently expect to continue the quarterly dividend program.

Note N—Segment Reporting

We operate our business in two distinct segments: Activewear Apparel and Retail-Ready Apparel. Although the two segments are similar in their production processes and regulatory environment, they are distinct in their economic characteristics, products and distribution methods.

The Activewear Apparel segment comprises our business units primarily focused on undecorated garment styles that are characterized by low fashion risk. We market, distribute and manufacture unembellished knit apparel under the brands of "Delta Pro Weight®", "Delta Magnum Weight™" and "Quail Hollow™." The products are primarily sold to screen printing companies. In addition, we manufacture products under private labels for retailers, corporate industry programs and sports licensed apparel marketers.

The Retail-Ready Apparel segment comprises our business units primarily focused on more specialized apparel garments to meet consumer preferences and fashion trends. These embellished and unembellished products are sold through specialty and boutique stores, high-end and mid-tier retail stores and sporting goods stores. In addition to these retail channels, we also supply college bookstores and produce products for the U.S. Military. Our products in this segment are marketed under the "Soffe®", "Junkfood®" and "Sweet and Sour®" labels.

Corporate and Unallocated is a reconciling category for reporting purposes and includes intercompany eliminations and other costs that are not allocated to the operating segments.

Our management evaluates performance and allocates resources based on profit or loss from operations before interest, income taxes and special charges ("Segment Operating Income"). Our Segment Operating Income 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 B. Intercompany transfers between operating segments are transacted at cost and have been eliminated within the segment amounts shown below. Prior year information has been restated so the operating segments are disclosed net of intercompany transfers (with the intercompany elimination removed from the Corporate and Unallocated category.)

Information about our operations as of and for the three months ended December 31, 2005 and January 1, 2005, by operating segment, is as follows (in thousands):

	Activewear Apparel	Retail-Ready Apparel	Corporate and Unallocated	Consolidated
Fiscal Year 2006:				
Net sales	$ 28,501	$ 29,201	$ —	$ 57,702
Segment operating income	2,191	2,673	70	4,934
Segment assets	99,103	97,428	—	196,531
Fiscal Year 2005:				
Net sales	$ 33,872	$ 15,323	$ —	$ 49,195
Segment operating income	1,935	865	(93)	2,707
Segment assets	96,169	67,032	—	163,201

Information about our operations for the six months ended December 31, 2005 and January 1, 2005, by operating segment, is as follows (in thousands):

	Activewear Apparel	Retail-Ready Apparel	Corporate and Unallocated	Consolidated
Fiscal Year 2006:				
Net sales	$ 58,067	$ 60,208	$ —	$ 118,275
Segment operating income	4,200	6,569	130	10,899
Fiscal Year 2005:				
Net sales	$ 66,852	$ 36,643	$ —	$ 103,495
Segment operating income	1,944	3,998	(94)	5,848

The following reconciles the Segment Operating Income to the consolidated income before income taxes for the three and six months ended December 31, 2005 and January 1, 2005.

	Three Months Ended		Six Months Ended	
	December 31, 2005	January 1, 2005	December 31, 2005	January 1, 2005
Segment operating income	$ 4,934	$ 2,707	$ 10,899	$ 5,848
Unallocated interest expense	997	835	1,682	1,538
Consolidated income before taxes	$ 3,937	$ 1,872	$ 9,217	$ 4,310

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

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. All statements, other than statements of historical fact, that address activities, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements. Examples are statements that concern future revenues, future costs, future earnings, 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 our expectations and are necessarily dependent upon assumptions, estimates and data that we believe are reasonable and accurate but may be incorrect, incomplete or imprecise. Forward-looking statements are also subject to a number of business risks and uncertainties, any of which could cause actual results to differ materially from those set forth in or implied by the forward-looking statements. Many of these risks and uncertainties are described under the subheading "Risk Factors" in our Form 10K for the year ended July 2, 2005 filed with the Securities and Exchange Commission and are beyond our control. Accordingly, any forward-looking statements do not purport to be predictions of future events or circumstances and may not be realized.

We do 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

For the second quarter of fiscal 2006, net sales rose 17.3% to a record $57.7 million compared to $49.2 million in the prior year quarter. Gross margins improved 970 basis points to 31.7% compared to 22.0% in the prior year second quarter and improved 80 basis points from the first fiscal quarter of 2006. Selling, general and administrative expenses were 23.9% of sales compared to 16.5% of sales in the prior year quarter, primarily related to higher distribution costs, increased selling costs associated with the Junkfood business, and higher management incentive expenses. The increased distribution costs are primarily related to the addition of the New Jersey distribution center and the move to a new West Coast facility. Operating margin increased 300 basis points to 8.6% compared to 5.5% in the prior year period. Our net income for the quarter ended December 31, 2005 increased 105.9% to $2.4 million, or $0.28 per basic share, compared to the prior year's level of $1.2 million, or $0.14 per basic share.

Sales in our Retail-Ready Apparel segment, which includes our Soffe and Junkfood businesses, increased 90.6% to $29.2 million for the second quarter of fiscal year 2006 from $15.3 million in the prior year quarter. The sales increase was primarily driven by our Junkfood acquisition, which was completed on August 22, 2005, and a slight increase in sales in our Soffe business. We are continuing to focus on increasing our penetration in our four Soffe distribution channels through the enhancement and broadening of our product line. We have an expanded fashion product offering planned for spring, as well as a new outerwear product line that will roll out in the second half of the fiscal year. In the Junkfood business, we continue to take the appropriate steps to position the business for growth ahead. Over the past quarter, we have focused on improving the infrastructure of the business in the areas of management, information technology and distribution. These improvements, along with our focus on product design, should allow us to meet our current demand and continue to increase the number of specialty and department stores carrying our products around the world. Junkfood is currently shipping to over 1,500 customers, and there is considerable interest from business partners in other countries who want to distribute our products. We also believe we can develop new products and new brands to serve the mid-tier department stores. We are encouraged by the sales growth in our Retail-Ready Apparel segment and the strong demand for our product over the broad range of distribution channels we serve.

In the Activewear Apparel segment of our business, sales declined $5.4 million to $28.5 million, from the all time record we achieved for the second quarter of last year. The sales decline was primarily driven by a reduction in our private label business, which had an especially strong quarter last year. Additionally, our long sleeve shirt business did not perform to our expectations due to competitive fleece pricing in the marketplace. Our margins improved in the Activewear segment compared to the prior year due to less expensive raw material cost flowing through cost of sales, combined with manufacturing efficiencies and improvements in quality that were achieved. These improvements were partially offset by higher distribution cost driven by our new capacity in the Northeast, the move to an expanded facility in California and the unbalanced inventories caused by this year's hurricane season. While the changes in our distribution facilities have increased our fixed cost in the short term, we believe we are now well positioned to build future sales with our catalog direct customers in the second half of the fiscal year. In addition, by the end of the third fiscal quarter we plan to have the Soffe business, including Intensity Athletics, and the Activewear segment operating out of the same facility on the west coast, which should lower our distribution costs in the future.

We continue to diversify our customer base in the Activewear segment and are encouraged by the steady growth of our direct customer base, which increased by more than 15% in the first six months of fiscal year 2006. During the second quarter of this year, approximately 86% of our shipments were catalog direct, with private label sales making up the remaining 14%.

While we are pleased with our results for the first six months of fiscal 2006, we are looking forward to the second half of the year in which we intend to build on our accomplishments and position ourselves for further growth in fiscal year 2007. As we enter our third quarter we are encouraged with the direction of both our Retail-Ready and Activewear segments but remain cautious of the high energy costs and its potential impact on consumer spending for apparel products. While we have not seen a slowdown in sales, we consider the high cost of energy to be a risk factor that could negatively affect our sales. We expect the higher energy and transportation costs will have a greater impact on our Activewear segment than our Retail-Ready segment.

We believe each of our business units are well positioned to grow. We currently have a broad range of distribution channels for apparel products and believe this diversity of distribution gives us a strong foundation to continue to build our business for the future.

EARNINGS GUIDANCE

For the third fiscal quarter ending April 1, 2006, we expect sales to be in the range of $66 to $70 million and basic earnings to be in the range of $0.29 to $0.33 per share. This compares to the prior year fiscal third quarter sales of $58.3 million and basic earnings of $0.65 per share. In the prior year third quarter, we recorded a $0.26 per share gain related to the sale of our Edgefield, South Carolina yarn facility in January 2005 as well as a $0.08 per share gain related to the reversal of a foreign earnings tax liability. Excluding both of these one-time items, basic earnings per share in the prior year period would have been $0.31.

For the year ending July 1, 2006, we continue to expect sales to be in the range of $265 to $275 million and basic earnings to be in the range of $1.71 to $1.80 per share. When comparing fiscal 2006 estimates to fiscal 2005 results, the following chart highlights our fiscal year 2005 basic earnings per share, adjusted for the impact of the sale of our Edgefield, South Carolina yarn spinning facility and adjusted for the reversal of the tax liability associated with our decision to permanently reinvest our foreign earnings in Honduras.

Actual FY05 Basic Earnings Per Share	$	1.35
Sale of Edgefield Plant		(0.26)
Reversal of Foreign Earnings Tax Liability		(0.08)
Adjusted FY05 Basic Earnings per Share	$	1.01

The adjusted basic earnings per share, a non-GAAP financial measure, will not be comparable to similarly titled measures reported by other companies. We are presenting adjusted basic earnings per share for the fiscal year ended July 2, 2005 because we believe it provides a more complete understanding of our business results than could be obtained absent this disclosure. The sale of our yarn spinning plant in Edgefield, South Carolina and the reversal of the foreign earnings tax liability are infrequent and unusual transactions. We believe it is a useful tool for investors to assess the operating performance of the business without the effect of these transactions.

RESULTS OF OPERATIONS

Our results for the first six months of fiscal year 2006 included nineteen weeks of operations from Junkfood Clothing Company, which was acquired on August 22, 2005.

Net sales for the second quarter of fiscal year 2006 increased 17.3% to $57.7 million compared to $49.2 million for the second quarter of the prior year. The sales increase resulted from an increase in sales by the Retail-Ready segment, partially offset by a decrease in sales by the Activewear Apparel segment. Retail-Ready Apparel sales increased 90.6% in the second quarter of fiscal year 2006 compared to the prior year primarily related to the Junkfood acquisition and a slight increase in sales in the Soffe business. Sales in the Activewear Apparel segment declined 15.9%, primarily driven by a reduction in our private label business, which had an especially strong quarter last year. Additionally, our long sleeve shirt business did not perform to our expectations due to competitive fleece pricing in the marketplace. For the six months ended December 31, 2005, net sales increased 14.3% to $118.3 million compared to $103.5 million in the prior year. The sales increase primarily relates to the acquisition of Junkfood Clothing Company partially offset by a decrease in sales by the Activewear Apparel segment.

Gross profit as a percentage of net sales increased to 31.7% in the second quarter of fiscal year 2006 from 22.0% in the second quarter of the prior year. The 970 basis point improvement in gross margins is primarily driven by the higher gross margins associated with the Junkfood business, as well as less expensive raw material costs and lower manufacturing costs flowing through cost of sales. Gross profit as a percentage of net sales increased to 31.3% in the first six months of fiscal year 2006 from 21.6% in the same period of the prior year for the same reasons noted above. Our gross margins may not be comparable to other companies, since some entities include costs related to their distribution network in cost of goods sold and we exclude a portion of them from gross margin and include them in selling, general and administrative expenses.

Selling, general and administrative expenses, including the provision for bad debts, for the second quarter of fiscal year 2006 were $13.8 million, or 23.9% of sales, compared to $8.1 million, or 16.5% of sales for the same period in the prior year. The increase in selling, general and administrative expenses was primarily related to higher distribution costs, increased selling costs associated with the Junkfood business, and higher management incentive expenses. The increased distribution costs are primarily related to the addition of the New Jersey distribution center and the move to the new West Coast facility. Selling, general and administrative expenses, including the provision for bad debts, for the first six months of fiscal year 2006 were $26.5 million, or 22.4% of sales, compared to $16.5 million, or 16.0% of sales for the same period in the prior year. The increase was driven by the same items that drove the increase in the second quarter of fiscal year 2006.

Other income for the first six months of fiscal year 2006 was $0.4 million compared to other expense of $5 thousand for the first six months of the prior year. During the three months ended December 31, 2005, we recorded a $0.4 million gain on the insurance recovery associated with inventory damaged during Hurricane Katrina.

Operating income for the second quarter of fiscal year 2006 was $4.9 million, an increase of $2.2 million, or 82.3%, from $2.7 million for the second quarter of the prior year. This increase was primarily the result of the improvement in gross margins and our other income, partially offset by higher selling, general and administrative costs described above. Operating income for the first six months of fiscal year 2006 increased to $10.9 million, or 86.4%, from $5.8 million for the first six months of the prior year.

Net interest expense for the second quarter of fiscal year 2006 was $1.0 million, an increase of $0.2 million, or 19.4%, from $0.8 million for the prior year second quarter. The increase in interest expense was due to an increase in average interest rates of approximately 200 basis points and higher average borrowings during the quarter ended December 31, 2005 as compared to the prior year due to the acquisition of Junkfood Clothing.

Our effective income tax rate for the six months ended December 31, 2005 was 37.6%, compared to 34.3% for the fiscal year ended July 2, 2005. During the year ended July 2, 2005, we decided to indefinitely reinvest our foreign earnings in Honduras. Therefore, we reversed the $0.7 million tax liability associated with the foreign earnings, as no provision for the U.S. federal and state tax ramifications of repatriating the earnings is necessary. Our effective income tax rate for the six months of fiscal year 2006 is lower than the statutory tax rate primarily as the result of the manufacturing deduction relating to income attributable to U.S. production activities under the American Jobs Creation Act of 2004, partially offset by the tax implications associated with the expensing of our stock options.

Net income for the second quarter of fiscal year 2006 was $2.4 million, an increase of $1.2 million, or 105.9%, compared to $1.2 million in the prior year second fiscal quarter. Net income for the first six months of fiscal year 2006 was $5.8 million, an increase of $3.2 million, or 121.4%, compared to $2.6 million in the prior year first six months. The results for the first six months of fiscal year 2006 include nineteen weeks of operations from Junkfood, which was acquired on August 22, 2005.

Accounts receivable decreased $4.5 million from July 2, 2005 to $32.2 million on December 31, 2005. The decrease is primarily related to lower accounts receivable in our Delta and Soffe business, partially offset by the acquisition of Junkfood Clothing. The decrease in accounts receivable was primarily the result of lower sales during the quarter ended December 31, 2005 compared to the quarter ended July 2, 2005.

Inventories increased $15.8 million from July 2, 2005 to $114.8 million on December 31, 2005. The increase in inventory is the result of lower than expected sales in our Activewear Apparel segment and the acquisition of Junkfood Clothing. We closely monitor our inventory and are currently adjusting our production schedules to manage our overall inventory levels. We believe we will lower our overall inventory by approximately $20 million during the second half of fiscal year 2006.

Capital expenditures in the second quarter of fiscal year 2006 were $1.5 million compared to $3.1 million in the second quarter of the prior year. Capital expenditures in the first six months of fiscal year 2006 totaled $2.7 million compared to $5.4 million in the first six months of the prior year. Capital expenditures in fiscal year 2006 primarily related to our new West Coast distribution center and lowering our costs in our manufacturing facilities. The expenditures during fiscal year 2005 primarily related to the acquisition of the distribution center in Tennessee, and upgrading the air filtration system and adding an additional spinning frame at our Edgefield yarn plant, which was sold during fiscal year 2005. In addition to the capital expenditures, during the second quarter of fiscal year 2006 we invested $0.4 million in a joint venture in Honduras. Through our Honduran subsidiary, we have invested a total of $1.5 million with experienced partners in the Green Valley Industrial Park, which will construct and operate an industrial park in San Pedro Sula, Honduras. We have a 15% ownership interest in the Green Valley joint venture. During fiscal year 2006, we expect to spend a total of approximately $8.5 million on capital expenditures, including approximately $2 million on our investment in the Honduran joint venture.

LIQUIDITY AND CAPITAL RESOURCES

Our primary cash needs are for working capital and capital expenditures. In addition, we use cash to fund our dividend payments and share repurchases under our Stock Repurchase Program.

On August 22, 2005, in conjunction with our acquisition of Junkfood, Delta Apparel, Junkfood, and M. J. Soffe Co. refinanced Delta Apparel’s $42.75 million credit facility and consolidated M. J. Soffe Co.’s $38.5 million credit facility with it pursuant to a Second Amended and Restated Loan and Security Agreement (the “Amended Loan Agreement”) with Wachovia Bank National Association (the successor by merger to Congress Financial Corporation (Southern)), as Agent, and the financial institutions named in the Amended Loan Agreement as Lenders.

Pursuant to the Amended Loan Agreement, Delta Apparel, Junkfood, and M. J. Soffe Co. became co-borrowers under a single credit facility, the maturity of the loans under the credit facility was extended to August 2008, and the line of credit available to Delta Apparel, Junkfood, and M. J. Soffe Co. was increased to $85 million (subject to borrowing base limitations based on the value and type of collateral provided), which represents an increase of $3.75 million in the aggregate amount that was available under Delta Apparel’s credit facility and M. J. Soffe Co.’s credit facility.

The new facility contains limitations on, or prohibitions of, cash dividends. We are allowed to make cash dividends in amounts such that the aggregate amount paid to shareholders since May 16, 2000 does not exceed twenty-five percent (25%) of our cumulative net income calculated from May 16, 2000 to the date of determination, provided, among other things, that as of the date of such dividend payment, and after giving effect to the dividend payment, our availability under our revolving credit facility is not less than $6.0 million.

The new credit facility is secured by a first-priority lien on substantially all of the real and personal property of Delta Apparel, Junkfood, and M. J. Soffe Co. 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. The facility requires installment payments of approximately $265,000 per month in connection with fixed asset amortizations, and these amounts reduce the amount of availability under the facility.

The new facility contains a subjective acceleration clause and a "springing" lockbox arrangement (as defined in EITF 95-22), whereby remittances from customers will be forwarded to our general bank account and will not reduce the outstanding debt until and unless a specified event or an event of default occurs. Pursuant to EITF 95-22, we classify our borrowings under the new facility as noncurrent debt.

At December 31, 2005, we had $59.9 million outstanding under our credit facility with Wachovia Bank, National Association, at an average interest rate of 5.9%.

In addition, we have a seller note payable to the former Junkfood shareholders pursuant to the Asset Purchase Agreement dated as of August 22, 2005. The $2.5 million seller note bears interest at 9% and has principal payments due as follows: $500,000 on August 22, 2006; $750,000 on August 22, 2007 and $1,250,000 on August 22, 2008.

In conjunction with the acquisition of Junkfood and entry into the Amended Loan Agreement, on August 23, 2005, M. J. Soffe Co. paid approximately $5 million to satisfy in full the Promissory Note of M. J. Soffe Co. dated as of October 3, 2003, which was made in connection with our acquisition of M. J. Soffe Co. The Promissory Note was made in favor of the Soffe sellers, James F. Soffe, John D. Soffe, and Anthony M. Cimaglia.

Pursuant to the First Amendment to Amended and Restated Stock Purchase Agreement, amounts are payable to the prior shareholders of M. J. Soffe if specified financial performance targets are met by M. J. Soffe Co. during the annual period beginning on October 2, 2005 and ending on September 30, 2006 (the "Earnout Amount".) The Earnout Amount is capped at a maximum aggregate amount of $4.0 million per year and is payable five business days subsequent to the filing of the Form 10-Q for the first fiscal quarter of fiscal year 2007. Based on current projections, we anticipate paying approximately $3.0 million in Earnout Amount in November 2006.

As part of the consideration of the acquisition of Junkfood, additional amounts are payable to the Junkfood Sellers during each of fiscal years 2007, 2008, 2009, and 2010 if financial performance targets are met by Junkfood during the period beginning on August 22, 2005 and ending on July 2, 2006 and during each of the three fiscal years thereafter (ending on June 27, 2009). Based on current projections, we anticipate paying approximately $3.4 million to the former Junkfood shareholders related to the earnout period ending July 1, 2006. Any contingent consideration related to the earnout period ending July 1, 2006 will be accrued on July 1, 2006, when the contingency has been resolved.

Operating Cash Flows

Net cash provided by operating activities was $3.5 million and $6.0 million for the first six months of fiscal years 2006 and 2005, respectively. Our cash flow from operating activities is primarily due to net income plus depreciation and changes in working capital. We monitor changes in working capital by analyzing our investment in accounts receivable and inventories and by the amount of accounts payable. During the first six months of fiscal year 2006, our cash flow provided by operating activities was primarily from net income plus depreciation, and a decrease in accounts receivables, offset partially by an increase in inventory and a decrease in accounts payable and accrued expenses. The cash provided by operating activities in fiscal year 2005 was primarily the result of net income plus depreciation and a reduction in accounts receivable, partially offset by a decrease in accounts payable and accrued expenses.

Investing Cash Flows

During the six months ended December 31, 2005, we acquired the Junkfood business for $27.4 million and Intensity Athletics, Inc. for $0.8 million, inclusive of direct costs associated with the acquisitions. In addition, we used $2.7 million in cash for purchases of property, plant and equipment, and invested $1.4 million in a joint venture in Honduras. Capital expenditures in fiscal year 2006 primarily related to our new West Coast distribution center and lowering our costs in our manufacturing facilities. Through our Honduran subsidiary, we have invested a total of $1.5 million with experienced partners in the Green Valley Industrial Park, which will construct and operate an industrial park in San Pedro Sula, Honduras. We have a 15% ownership interest in the Green Valley joint venture. During fiscal year 2006, we expect to spend a total of approximately $8.5 million on capital expenditures, including approximately $2 million on our investment in the Honduran joint venture. During the six months ended January 1, 2005, investing activities used $5.3 million in cash. The capital expenditures primarily related to the acquisition of the distribution center in Tennessee, and upgrading the air filtration system and adding an additional spinning frame at our Edgefield yarn plant, which was sold during fiscal year 2005.

Financing Activities

For the first six months of fiscal year 2006, financing activities provided us $29.4 million in cash, primarily related to proceeds from our revolving credit facility with Wachovia Bank, National Association. The proceeds were primarily used for the acquisition of Junkfood Clothing on August 22, 2005. For the first six months of fiscal year 2005, we used $0.9 million in cash for financing activities, primarily related to the payment of dividends and repayment of long term debt. We paid dividends to our shareholders totaling $0.7 million and $0.6 million in the first six months of fiscal years 2006 and 2005, respectively.

Based on our expectations, we believe that our $85 million credit facility should be sufficient to satisfy our foreseeable working capital needs, and that the cash flow generated by our operations and funds available under our credit facility should be sufficient to service our debt payment requirements, to satisfy our day-to-day working capital needs, to fund our planned capital expenditures, to fund purchases of our stock as described below and to fund the payment of dividends as described below. Any material deterioration in our results of operations, however, may result in the Company losing its ability to borrow under its credit facility and to issue letters of credit to suppliers or may cause the borrowing availability under the facility to be insufficient for our needs.

Purchases by Delta Apparel of its Own Shares

We have authorization from our 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 our management. We did not purchase shares of our common stock during the three months ended December 31, 2005. Since the inception of the Stock Repurchase Program, we have purchased 755,524 shares of our common stock pursuant to the program for an aggregate of $4.5 million.

Dividend Program

On October 28, 2005, our Board of Directors declared a cash dividend of four cents per share of common stock pursuant to our quarterly dividend program. We paid the dividend on November 28, 2005 to shareholders of record as of the close of business on November 16, 2005. On January 17, 2006, our Board declared a cash dividend of four cents per share of common stock payable on February 27, 2006 to shareholders of record as of the close of business on February 15, 2006. Although the Board may terminate or amend the program at any time, we currently expect to continue the quarterly dividend program.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which were prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant estimates and assumptions relate to the adequacy of receivable and inventory reserves, self-insurance accruals and the accounting for income taxes.

The detailed Summary of Significant Accounting Policies is included in Note B to the Condensed Consolidated Financial Statements.

Revenue Recognition and Accounts Receivable

We consider revenue realized or realizable and earned when the following criteria are met: persuasive evidence of an agreement exists, title has transferred to the customer, the price is fixed and determinable and the collectibility is reasonably assured. Sales are recorded net of discounts and provisions for estimated returns and allowances. We estimate returns and allowances on an ongoing basis by considering historical and current trends. We record these costs as a reduction to net revenue. We estimate the net collectibility of our accounts receivable and establish an allowance for doubtful accounts based upon this assessment. Specifically, we analyze the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms. Significant changes in customer concentration or payment terms, deterioration of customer credit-worthiness or weakening in economic trends could have a significant impact on the collectibility of receivables and our operating results.

Inventories

Our inventory is carried at the lower of FIFO cost or market. We regularly review inventory quantities on hand and record a provision for damaged, excess and out of style or otherwise obsolete inventory based primarily on our historical selling prices for these products and our estimated forecast of product demand for the next twelve months. If actual market conditions are less favorable than those projected, or if liquidation of the inventory is more difficult than anticipated, additional inventory write-downs may be required.

Self Insurance

Our medical, prescription and dental care benefits are primarily self-insured. Our self-insurance accruals are based on claims filed and estimates of claims incurred but not reported. We develop estimates of claims incurred but not reported based upon the historical time it takes for a claim to be reported and historical claim amounts. While the time it takes for a claim to be reported has been declining, if claims are greater than we originally estimate, or if costs increase beyond what we have anticipated, our recorded reserves may not be sufficient, and it could have a significant impact on our operating results.

Income Taxes

We use the liability method of accounting for income taxes, which requires recognition of temporary differences between financial statement and income tax basis of assets and liabilities measured by enacted tax rates. We have recorded deferred tax assets for certain state operating loss carryforwards and nondeductible accruals. We established a valuation allowance related to certain of the state operating loss carryforward amounts in accordance with the provisions of FASB Statement No. 109, *Accounting for Income Taxes*. 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 tax locations. As of December 31, 2005, we had operating loss carryforwards of approximately $7.6 million for state tax purposes. The valuation allowance against the operating loss carryforwards was $146 thousand at December 31, 2005. These carryforwards expire at various intervals through 2020.

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 July 2, 2005.

NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") Nos. 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act* of 2004 ("FSP 109-1"), and 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* ("FSP 109-2"). The American Jobs Creation Act of 2004 (the "Jobs Creation Act") was enacted on October 22, 2004. Under guidance in FSP 109-1, the qualified production activities deduction will be treated as a "special deduction" as described in FASB Statement No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date of the Jobs Creation Act. We have determined that our production activities will qualify under the Jobs Creation Act and expect the benefit of this deduction could have up to a 1% reduction on our effective tax rate for fiscal year 2006. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Creation Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. Although we have not finalized our evaluation of the impact of the repatriation provisions, based on our analysis to date, we do not expect to repatriate any foreign earnings pursuant to the Jobs Creation Act.

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment* ("Statement 123(R)"), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("Statement 123"). Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and amends FASB Statement No. 95, *Statements of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) *requires* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) must be adopted for annual periods beginning after June 15, 2005. Accordingly, effective July 3, 2005, we adopted the fair-value recognition provisions of Statement 123(R). See Note I, Stock Options and Incentive Stock Awards, for further information on the implementation of Statement 123(R).

On November 10, 2005, the FASB issued Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. This provides for a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of share-based compensation. Since our adoption of Statement 123, we have not recorded any excess tax benefits associated with our stock options and therefore we have no initial pool of excess tax benefits upon adoption of Statement 123(R).

Item 3. Quantitative and Qualitative Disclosures about Market Risk

COMMODITY RISK SENSITIVITY

On January 5, 2005, in conjunction with the sale of our yarn spinning facility in Edgefield, South Carolina, we entered into a five-year agreement with Parkdale to supply our yarn requirements. During this five-year period, we will purchase from Parkdale all yarn required by Delta Apparel and our wholly owned subsidiary, M. J. Soffe Co., for use in our manufacturing operations (excluding yarns that Parkdale did not manufacture as of the date of the agreement in the ordinary course of its business or due to temporary Parkdale capacity restraints). 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 with Parkdale, pursuant to the supply agreement, in advance of the shipment of finished yarn from Parkdale. Prices are set according to prevailing prices, as reported by the New York Cotton Exchange, at the time we elect to fix specific cotton prices.

Yarn with respect to which we have fixed cotton prices at December 31, 2005 was valued at $22.3 million, and is scheduled for delivery between January 2006 and September 2006. At December 31, 2005, a 10% decline in the market price of the cotton covered by our fixed price yarn would have had a negative impact of approximately $1.5 million on the value of the yarn. At July 2, 2005, a 10% decline in the market price of the cotton covered by our fixed price yarn would have had a negative impact of approximately $2.6 million on the value of the yarn. The impact of a 10% decline in the market price of the cotton covered by our fixed price yarn would have had a smaller impact at December 31, 2005 than at July 2, 2005 due to having less fixed price yarn at December 31, 2005 than at July 2, 2005.

We may use derivatives, including cotton option contracts, to manage our exposure to movements in commodity prices. We do not designate our options as hedge instruments upon inception. Accordingly, we mark to market changes in the fair market value of the options as other expense (income) in the statements of income. We did not own any cotton options contracts on December 31, 2005.

INTEREST RATE SENSITIVITY

Our credit agreements provide that outstanding amounts bear interest at variable rates. If the amount of outstanding indebtedness at December 31, 2005 under the revolving credit facility had been outstanding during the entire three months ended December 31, 2005 and the interest rate on this outstanding indebtedness were increased by 100 basis points, our interest expense would have increased by approximately $150,000, or 15.0% of actual interest expense, during the quarter. This compares to an increase of $323,000, or 10.7% of actual interest expense, for the 2005 fiscal year, or an average of $80,750 per quarter, based on the outstanding indebtedness at July 2, 2005. The effect of a 100 basis point increase in interest rates has a larger impact as of December 31, 2005 than during fiscal year 2005 due to the higher debt levels outstanding on December 31, 2005, resulting from the acquisition of the Junkfood business. 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

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 December 31, 2005 and, based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective.

Disclosure controls and procedures are our controls and other procedures that 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 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.

There was no change in our internal control over financial reporting during the second quarter of fiscal year 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, we are currently evaluating the internal control over financial reporting at Junkfood Clothing Company and expect that we will take action to strengthen the internal control over financial reporting at Junkfood Clothing Company in a manner consistent with the Company’s overall internal control over financial reporting during fiscal year 2006.

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 10, 2005:

Election of Directors	For	Against	Withheld	Abstentions	Broker Non-votes
David S. Fraser	7,275,788	N/A	4,215	N/A	N/A
William F. Garrett	7,267,440	N/A	12,563	N/A	N/A
Robert W. Humphreys	7,275,828	N/A	4,175	N/A	N/A
Dr. Max Lennon	7,275,840	N/A	4,163	N/A	N/A
E. Erwin Maddrey, II	7,268,900	N/A	11,103	N/A	N/A
Philip J. Mazzilli	7,275,728	N/A	4,275	N/A	N/A
Buck A. Mickel	7,275,460	N/A	4,543	N/A	N/A
David Peterson	7,276,004	N/A	3,999	N/A	N/A
Ratification of the Appointment of Ernst & Young LLP as Independent Auditors for Fiscal Year 2006	7,271,525	5,692	N/A	2,786	—

Item 6. Exhibits

Exhibits

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.

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 10, 2006	By: /s/ Herbert M. Mueller
Date	Herbert M. Mueller Vice President, Chief Financial Officer and Treasurer

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 quarterly report on Form 10-Q 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)) 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) 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

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2006

/s/ Robert W. Humphreys

President 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, 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 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)) 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) 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

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2006

/s/ Herbert M. Mueller

Vice President and 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 Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005 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: February 10, 2006

/s/ Robert W. Humphreys
Robert W. Humphreys
President & Chief Executive Officer

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

EXHIBIT 32.2

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

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

1. The Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2005 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: February 10, 2006

/s/ Herbert M. Mueller
Herbert M. Mueller
Vice President & Chief Financial Officer

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