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 April 1, 2017

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.)
322 South Main Street Greenville, SC	**29601**
(Address of principal executive offices)	(Zip Code)

(864) 232-5200

(Registrant's telephone number, including area code)

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☑ No ☐

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

Large accelerated filer ☐	Accelerated filer ☑	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐	Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of April 26, 2017, there were outstanding 7,571,675 shares of the registrant's common stock, par value of $0.01 per share, which is the only class of outstanding common or voting stock of the registrant.

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	April 1, 2017	October 1, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 686	$ 397
Accounts receivable, less allowances of $2,415 and $1,978, respectively	59,598	63,609
Income tax receivable	328	86
Inventories, net	180,699	164,247
Note receivable	2,850	—
Prepaid expenses and other current assets	4,097	4,145
Total current assets	248,258	232,484
Property, plant and equipment, net of accumulated depreciation of $66,118 and $63,585, respectively	43,060	43,503
Goodwill	19,917	36,729
Intangibles, net	16,601	20,922
Deferred income taxes	3,800	5,246
Other assets	5,755	5,768
Total assets	$ 337,391	$ 344,652
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 63,854	$ 51,395
Accrued expenses	16,832	21,706
Current portion of long-term debt	8,172	9,192
Total current liabilities	88,858	82,293
Long-term debt, less current maturities	89,203	106,603
Other liabilities	2,281	1,241
Contingent consideration	2,300	2,500
Total liabilities	$ 182,642	$ 192,637
Shareholders' equity:		
Preferred stock—$0.01 par value, 2,000,000 shares authorized, none issued and outstanding	—	—
Common stock —$0.01 par value, 15,000,000 shares authorized, 9,646,972 shares issued, and 7,586,675 and 7,609,727 shares outstanding as of April 1, 2017 and October 1, 2016, respectively	96	96
Additional paid-in capital	60,540	60,847
Retained earnings	120,621	116,679
Accumulated other comprehensive loss	(30)	(112)
Treasury stock —2,060,297 and 2,037,245 shares as of April 1, 2017 and October 1, 2016, respectively	(26,478)	(25,495)
Total shareholders' equity	154,749	152,015
Total liabilities and shareholders' equity	$ 337,391	$ 344,652

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net sales	$ 104,138	$ 109,160	$ 189,473	$ 199,331
Cost of goods sold	79,908	83,434	147,685	154,736
Gross profit	24,230	25,726	41,788	44,595
Selling, general and administrative expenses	18,250	20,032	35,559	36,916
Change in fair value of contingent consideration	(100)	(100)	(200)	(300)
Gain on sale of business	(1,295)	—	(1,295)	—
Other income, net	(145)	(137)	(267)	(177)
Operating income	7,520	5,931	7,991	8,156
Interest expense, net	1,312	1,396	2,613	2,671
Income before provision for income taxes	6,208	4,535	5,378	5,485
Provision for income taxes	1,661	1,099	1,436	1,369
Net income	$ 4,547	$ 3,436	$ 3,942	$ 4,116
Basic earnings per share	$ 0.60	$ 0.44	$ 0.52	$ 0.53
Diluted earnings per share	$ 0.58	$ 0.43	$ 0.50	$ 0.52
Weighted average number of shares outstanding	7,600	7,735	7,599	7,748
Dilutive effect of stock options and awards	245	229	271	211
Weighted average number of shares assuming dilution	7,845	7,964	7,870	7,959

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net income	$ 4,547	$ 3,436	$ 3,942	$ 4,116
Other comprehensive income (loss) related to unrealized gain (loss) on derivatives, net of income tax	33	(33)	82	193
Comprehensive income	$ 4,580	$ 3,403	$ 4,024	$ 4,309

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	April 1, 2017	April 2, 2016
Operating activities:		
Net income	$ 3,942	$ 4,116
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,866	4,745
Amortization of deferred financing fees	170	250
Excess tax benefits from stock awards	(106)	(89)
Provision for deferred income taxes	1,446	1,283
Gain on sale of Junkfood assets	(1,295)	—
Non-cash stock compensation	768	952
Change in the fair value of contingent consideration	(200)	(300)
Loss on disposal of equipment	1	28
Changes in operating assets and liabilities:		
Accounts receivable, net	4,011	2,543
Inventories, net	(19,930)	(15,287)
Prepaid expenses and other assets	(421)	(2,469)
Other non-current assets	(165)	266
Accounts payable	12,447	2,659
Accrued expenses	(5,622)	(4,319)
Income taxes	(136)	130
Other liabilities	69	139
Net cash used in operating activities	(155)	(5,353)
Investing activities:		
Purchases of property and equipment, net	(3,712)	(4,996)
Proceeds from sale of Junkfood assets	25,000	—
Proceeds from sale of fixed assets	—	21
Net cash provided by (used in) investing activities	21,288	(4,975)
Financing activities:		
Proceeds from long-term debt	221,510	237,765
Repayment of long-term debt	(239,930)	(224,950)
Repayment of capital financing	(274)	(153)
Repurchase of common stock	(1,714)	(1,818)
Payment of withholding taxes on stock awards	(542)	(163)
Excess tax benefits from stock awards	106	89
Net cash (used in) provided by financing activities	(20,844)	10,770
Net increase in cash and cash equivalents	289	442
Cash and cash equivalents at beginning of period	397	300
Cash and cash equivalents at end of period	$ 686	$ 742
Supplemental cash flow information:		
Cash paid during the period for interest	$ 2,379	$ 2,104
Cash paid during the period for income taxes, net of refunds received	$ 140	$ 75
Non-cash financing activity - capital lease agreements	$ 1,619	$ 1,374
Non-cash financing activity - note receivable	$ 2,850	$ —

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 and Description of Business

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 ("U.S. GAAP") for complete financial statements. We believe these Condensed Consolidated Financial Statements include all normal recurring adjustments considered necessary for a fair presentation. Operating results for the six months ended April 1, 2017, are not necessarily indicative of the results that may be expected for our fiscal year ending September 30, 2017. Although our various product lines are sold on a year-round basis, the demand for specific products or styles reflects some seasonality, with sales in our June quarter generally being the highest and sales in our December quarter generally being the lowest. For more information regarding our results of operations and financial position, refer to the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for our fiscal year ended October 1, 2016, filed with the United States Securities and Exchange Commission ("SEC").

"Delta Apparel", the "Company", "we", "us" and "our" are used interchangeably to refer to Delta Apparel, Inc. together with our domestic wholly-owned subsidiaries, including M.J. Soffe, LLC ("Soffe"), Junkfood Clothing Company ("Junkfood"), Salt Life, LLC ("Salt Life"), and Art Gun, LLC ("Art Gun"), and other international subsidiaries, as appropriate to the context. On March 31, 2017, we sold the Junkfood business to JMJD Ventures, LLC. See Note D—Sale of Junkfood for further information on this transaction.

Delta Apparel, Inc. is an international apparel design, marketing, manufacturing and sourcing company that features a diverse portfolio of lifestyle basics and branded activewear apparel, headwear and related accessory products. We specialize in selling casual and athletic products through a variety of distribution channels and distribution tiers, including department stores, mid and mass channels, e-retailers, independent and specialty stores, and the U.S. military. Our products are also made available direct-to-consumer on our websites and in our branded retail stores. We believe this diversified distribution allows us to capitalize on our strengths to provide casual activewear to consumers purchasing from most types of retailers.

We design and internally manufacture the majority of our products, which allows us to offer a high degree of consistency and quality controls as well as leverage scale efficiencies. One of our strengths is the speed with which we can reach the market from design to delivery. We have manufacturing operations located in the United States, El Salvador, Honduras and Mexico, and use domestic and foreign contractors as additional sources of production. Our distribution facilities are strategically located throughout the United States to better serve our customers with same-day shipping on our catalog products and weekly replenishments to retailers.

We were incorporated in Georgia in 1999 and our headquarters is located at 322 South Main Street, Greenville, South Carolina 29601 (telephone number: 864-232-5200). Our common stock trades on the NYSE MKT under the symbol "DLA". We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. Our 2017 fiscal year is a 52-week year and will end on September 30, 2017. Our 2016 fiscal year was a 52-week year and ended on October 1, 2016.

Note B—Accounting Policies

Our accounting policies are consistent with those described in our Significant Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended October 1, 2016, filed with the SEC.

Note C—New Accounting Standards

Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, ("ASU 2014-09"). This new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for annual periods beginning after December 15, 2017, for public business entities and permits the use of either the retrospective or cumulative effect transition method. Early application is permitted only for annual reporting periods beginning after December 15, 2016. ASU 2014-09 will therefore be effective in our fiscal year beginning September 30, 2018. We are evaluating the effect that ASU 2014-09 will have on our Consolidated Financial Statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern,* ("ASU 2014-15"). The new guidance requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are issued (or available to be issued when applicable). Management is required to make this evaluation for both annual and interim reporting periods. When management identifies events or conditions that indicate that it is probable that the entity will be unable to meet its obligations as they become due, the standard allows management to consider the mitigating effect of its plans to determine whether substantial doubt is alleviated. Management will have to make certain disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the entity's ability to continue as a going concern. This guidance is effective for annual periods ending after December 15, 2016, and for interim periods within annual periods beginning thereafter, but may be adopted earlier. ASU 2014-15 will therefore be effective for the current annual period ended September 30, 2017. The adoption will not have a material impact on our Consolidated Financial Statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, ("ASU 2015-11"). This new guidance requires an entity to measure inventory at the lower of cost and net realizable value. Currently, entities measure inventory at the lower of cost or market. ASU 2015-11 replaces market with net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured under last-in, first-out or the retail inventory method. ASU 2015-11 requires prospective adoption for inventory measurements for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early application is permitted. ASU 2015-11 will therefore be effective in our fiscal year beginning October 1, 2017. We are evaluating the effect that ASU 2015-11 will have on our Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases,* ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize assets and liabilities for most leases. All leases will be required to be recorded on the balance sheet with the exception of short-term leases. Early application is permitted. The guidance must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. ASU 2016-02 will therefore be effective in our fiscal year beginning September 29, 2019. We are evaluating the effect that ASU 2016-02 will have on our Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting,* ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. ASU 2016-09 will therefore be effective in our fiscal year beginning October 1, 2017. We are evaluating the effect that ASU 2016-09 will have on our Consolidated Financial Statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments,* ("ASU 2016-15"). ASU 2016-15 clarifies how entities should classify certain cash receipts and payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. ASU 2016-15 is effective for fiscal periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 31, 2019. ASU 2016-15 will therefore be effective in our fiscal year ending October 3, 2020. We are evaluating the effect that ASU 2016-15 will have on our Consolidated Financial Statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill,* ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by eliminating the requirement to calculate the implied fair value of goodwill, Step 2 of today's goodwill impairment test, to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The standard does not change the guidance on completing Step 1 of the goodwill impairment test. ASU 2017-04 is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted. ASU 2017-04 will therefore be effective in our fiscal year ending October 3, 2020. We are evaluating the effect that ASU 2017-04 will have on our Consolidated Financial Statements and related disclosures.

Note D—Sale of Junkfood

On March 31, 2017, we completed the sale of our Junkfood business to JMJD Ventures, LLC, for $27.9 million, with cash received at closing of $25.0 million and the recording of a $2.9 million note receivable with payments due between June 30, 2017, and March 30, 2018, subject to the final tangible asset adjustment. The business sold consisted of vintage-inspired *Junk Food* branded and private label products sold in the United States and internationally.

The $1.3 million pre-tax gain on the sale of the Junkfood business resulted from the proceeds of $27.9 million less the costs of assets sold and other expenses, and less direct selling costs associated with the transaction. The pre-tax gain was recorded in the Condensed Consolidated Statement of Operations as Gain on sale of business. For income tax purposes, the gain on the sale was treated as a discrete item and resulted in $0.4 million in income tax expense recorded during our 2017 second quarter.

Note E—Restructuring Plan

On May 10, 2016, in connection with certain strategic manufacturing initiatives, we announced plans to realign our manufacturing operations with the closing of our textile manufacturing facility in Maiden, North Carolina, the consolidation of sew facilities in Mexico, and the expansion of production at our lower-cost Ceiba Textiles facility in Honduras. In September 2016, we sold the real estate and certain machinery, equipment and supply parts used in the Maiden facility for approximately $1.7 million. As part of the closing of the Maiden facility and the expansion of operations at our offshore facilities, we incurred the following costs in our basics segment during the third and fourth quarters of fiscal year 2016 (in thousands):

	Fiscal Year Ended October 1, 2016
Excess manufacturing costs related to the shutdown and start-up operations	$ 1,096
Total expenses included in cost of goods sold	1,096
Employee termination costs	597
Fixed asset impairment	607
Inventory and supply part impairment	144
Other costs to exit facility	393
Total restructuring costs	1,741
Total manufacturing realignment expenses	$ 2,837

We paid $0.4 million of the above-referenced employee termination benefits during fiscal year 2016 and $0.1 million during the first six months of fiscal year 2017, with $0.1 million remaining accrued at April 1, 2017. We have not incurred, and do not expect to incur, any significant expense related to these manufacturing initiatives in fiscal year 2017.

Note F—Inventories

Inventories, net of $8.8 million in reserves, as of April 1, 2017, and October 1, 2016, consisted of the following (in thousands):

	April 1, 2017	October 1, 2016
Raw materials	$ 9,271	$ 11,442
Work in process	16,568	18,158
Finished goods	154,860	134,647
	$ 180,699	$ 164,247

Note G—Debt

On May 10, 2016, we entered into a Fifth Amended and Restated Credit Agreement (the “Amended Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”), as Administrative Agent, the Sole Lead Arranger and the Sole Book Runner, and the financial institutions named therein as Lenders, which are Wells Fargo, PNC Bank, National Association and Regions Bank. Our subsidiaries, M.J. Soffe, LLC, Junkfood Clothing Company, Salt Life, LLC, and Art Gun, LLC (together with the Company, the “Companies”), are co-borrowers under the Amended Credit Agreement.

The Amended Credit Agreement allows us to borrow up to $145 million (subject to borrowing base limitations), including a maximum of $25 million in letters of credit. Provided that no event of default exists, we have the option to increase the maximum credit to $200 million (subject to borrowing base limitations), conditioned upon the Administrative Agent's ability to secure additional commitments and customary closing conditions. The credit facility matures on May 10, 2021. In fiscal year 2016, we paid $1.0 million in financing costs associated with the Amended Credit Agreement. Wells Fargo and the above referenced Lenders consented to the sale of our Junkfood business prior to the March 31, 2017, closing of the transaction.

As of April 1, 2017, there was $77.4 million outstanding under our U.S. revolving credit facility at an average interest rate of 3.5%, and additional borrowing availability of $46.4 million. This credit facility includes a financial covenant requiring that if the amount of availability falls below the threshold amounts set forth in the Amended Credit Agreement, our Fixed Charge Coverage Ratio (“FCCR”) (as defined in the Amended Credit Agreement) for the preceding 12-month period must not be less than 1.1 to 1.0. We were not subject to the FCCR covenant at April 1, 2017, because our availability was above the minimum required under the Amended Credit Agreement. At April 1, 2017, our FCCR was above the required 1.1 to 1.0 ratio and we would have satisfied our financial covenant had we been subject to it. At April 1, 2017, and October 1, 2016, there was $10.6 million and $10.7 million, respectively, of retained earnings free of restrictions to make cash dividends or stock repurchases.

The Amended Credit Agreement contains a subjective acceleration clause and a “springing” lockbox arrangement (as defined in FASB Codification No. 470, *Debt* ("ASC 470")), whereby remittances from customers will be forwarded to our general bank account and will not reduce the outstanding debt until and unless a specified event or an event of default occurs. Pursuant to ASC 470, we classify borrowings under the Amended Credit Agreement as long-term debt.

In August 2013, we acquired Salt Life and issued two promissory notes in the aggregate principal amount of $22.0 million, which included a one-time installment of $9.0 million that was due and paid as required on September 30, 2014, and quarterly installments commencing on March 31, 2015, with the final installment due on June 30, 2019. The promissory notes are zero-interest notes and state that interest will be imputed as required under Section 1274 of the Internal Revenue Code. We imputed interest at 1.92% on the promissory note that matured June 30, 2016, and was paid in full as required. We impute interest at 3.62% on the promissory note that matures on June 30, 2019. At April 1, 2017, the discounted value of the promissory note outstanding was $6.0 million.

Since March, 2011, we have entered into loans and a revolving credit facility with Banco Ficohsa, a Honduran bank, in order to finance both the operations and capital expansion of our Honduran facilities. Each of these loans are secured by a first-priority lien on the assets of our Honduran operations and are not guaranteed by our U.S. entities. These loans are denominated in U.S. dollars and the carrying value of the debt approximates the fair value. The revolving credit facility requires minimum payments during each six-month period of the 18-month term; however, the loan agreement permits additional drawdowns to the extent payments are made and certain objective covenants are met. The current revolving Honduran debt, by its nature, is not long-term, as it requires scheduled payments each six months. However, as the loan permits us to re-borrow funds up to the amount repaid, subject to certain covenants, and we intend to re-borrow funds, subject to the objective covenants, the amounts have been classified as long-term debt.

Information about these loans and the outstanding balance as of April 1, 2017, is as follows (in thousands):

		April 1, 2017
Revolving credit facility established March, 2011, interest at 8.0% due March, 2019	$	4,913
Term loan established March, 2011, interest at 7.0%, payable monthly with a seven-year term	$	973
Term loan established November, 2014, interest at 7.5%, payable monthly with a six-year term	$	2,300
Term loan established June, 2016, interest at 8.0%, payable monthly with a six-year term	$	1,504
Term loan established June, 2016, interest at 8.0%, payable monthly with a six-year term	$	4,333

Note H—Selling, General and Administrative Expense

We include in selling, general and administrative expenses ("SG&A") costs incurred subsequent to the receipt of finished goods at our distribution facilities, such as the cost of stocking, warehousing, picking, packing, and shipping goods for delivery to our customers. Distribution costs included in SG&A expenses totaled $3.7 million and $3.9 million for the three months ended April 1, 2017, and April 2, 2016, respectively, and totaled $7.2 million and $7.6 million for the six months ended April 1, 2017, and April 2, 2016, respectively. In addition, SG&A expenses include costs related to sales associates, administrative personnel, advertising and marketing expenses, royalty payments on licensed products and other general and administrative expenses.

Note I—Stock-Based Compensation

On February 4, 2015, our shareholders re-approved the Delta Apparel, Inc. 2010 Stock Plan ("2010 Stock Plan") that was originally approved by our shareholders on November 11, 2010. The re-approval of the 2010 Stock Plan, including the material terms of the performance goals included in the 2010 Stock Plan, enables us to continue to grant equity incentive compensation awards that are structured in a manner intended to qualify as tax deductible, performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986. Since November 2010, no additional awards have been or will be granted under either the Delta Apparel Stock Option Plan ("Option Plan") or the Delta Apparel Incentive Stock Award Plan ("Award Plan"); instead, all stock awards have been and will continue to be granted under the 2010 Stock Plan.

Compensation expense is recorded on the SG&A expense line item in our Condensed Consolidated Statements of Operations over the vesting periods. During the three and six months ended April 1, 2017, we recognized $0.4 million and $1.0 million, respectively, in stock-based compensation expense. During the three and six months ended April 2, 2016, we recognized $0.7 million and $1.1 million, respectively, in stock-based compensation expense.

2010 Stock Plan

Under the 2010 Stock Plan, the Compensation Committee of our Board of Directors has the authority to determine the employees and directors to whom awards may be granted and the size and type of each award and manner in which such awards will vest. The awards available consist of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units, and other stock and cash awards. The aggregate number of shares of common stock that may be delivered under the 2010 Stock Plan is 500,000 plus any shares of common stock subject to outstanding awards under the Option Plan or Award Plan that are subsequently forfeited or terminated for any reason before being exercised. The 2010 Stock Plan limits the number of shares that may be covered by awards to any participant in a given calendar year and also limits the aggregate awards of restricted stock, restricted stock units and performance stock granted in any given calendar year. If a participant dies or becomes disabled (as defined in the 2010 Stock Plan) while employed by the Company or serving as a director, all unvested awards become fully vested. The Compensation Committee is authorized to establish the terms and conditions of awards granted under the 2010 Stock Plan, to establish, amend and rescind any rules and regulations relating to the 2010 Stock Plan, and to make any other determinations that it deems necessary.

During the three and six months ended April 1, 2017, no restricted stock units or performance units were granted.

During the three months ended April 1, 2017, restricted stock units and performance units, representing 45,000 and 5,000 shares of our common stock, respectively, vested as a result of the sale of the Junkfood business and were issued in accordance with their respective agreements. One-half of the performance units were payable in common stock and one-half were payable in cash. Of the restricted stock units, 42,500 were payable in common stock and 2,500 were payable in cash. The $0.3 million expense related to the accelerated vesting of the equity awards due to the sale of the Junkfood business was recorded in the Gain on sale of business line item in our Condensed Consolidated Statements of Operations.

During the three months ended December 31, 2016, restricted stock units and performance units representing 8,438 and 53,248 shares of our common stock, respectively, vested upon the filing of our Annual Report on Form 10-K for the fiscal year ended October 1, 2016, and were issued in accordance with their respective agreements. One-half of the restricted stock units were payable in common stock and one-half were payable in cash. All of the performance units were payable in common stock.

As of April 1, 2017, there was $1.8 million of total unrecognized compensation cost related to non-vested awards granted under the 2010 Stock Plan. This cost is expected to be recognized over a period of 1.7 years.

Option Plan

All options granted under the Option Plan vested prior to October 3, 2015. As such, no expense was recognized during each of the three-month periods ended April 1, 2017, and April 2, 2016, nor were any options exercised during those periods. No expense was recognized during each of the six-month periods ended April 1, 2017, and April 2, 2016, nor were any options exercised during those periods.

Note J—Purchase Contracts

We have entered into agreements, and have fixed prices, to purchase yarn, finished fabric, and finished apparel products. At April 1, 2017, minimum payments under these contracts were as follows (in thousands):

Yarn	$	10,237
Finished fabric		4,006
Finished products		17,819
	$	32,062

Note K—Business Segments

We operate our business in two distinct segments: branded and basics. Although the two segments are similar in their production processes and regulatory environments, they are distinct in their economic characteristics, products, marketing, and distribution methods.

The basics segment is comprised of our business units primarily focused on garment styles characterized by low fashion risk, and includes our Delta Activewear (which includes Delta Catalog and FunTees) and Art Gun business units. We market, distribute and manufacture unembellished knit apparel under the main brands of Delta Pro Weight® and Delta Magnum Weight® for sale to a diversified audience ranging from large licensed screen printers to small independent businesses. We also manufacture private label products for major branded sportswear companies, trendy regional brands, retailers, and sports licensed apparel marketers. Typically our private label products are sold with value-added services such as hangtags, ticketing, hangers, and embellishment so that they are fully ready for retail. Using digital print equipment and its proprietary technology, Art Gun embellishes garments to create private label, custom decorated apparel servicing the fast-growing e-retailer channels.

The branded segment is comprised of our business units which are focused on specialized apparel garments and headwear to meet consumer preferences and fashion trends, and includes our Salt Life, Soffe, and Coast business units, as well as Junkfood until its divestiture on March 31, 2017. These branded embellished and unembellished products are sold through specialty and boutique shops, upscale and traditional department stores, mid-tier retailers, sporting goods stores, e-retailers and the U.S. military. Products in this segment are marketed under our lifestyle brands of Salt Life®, Soffe®, and COAST®, as well as other labels. The results of the Coast business have been included in the branded segment since acquisition on August 30, 2016, and the results of the Junkfood business were included in the branded segment until its divestiture on March 31, 2017.

Our Chief Operating Decision Maker and management evaluate performance and allocate resources based on profit or loss from operations before interest and income taxes ("segment operating earnings"). Our segment operating earnings may not be comparable to similarly titled measures used by other companies. The accounting policies of our reportable segments are the same as those described in Note 2 in our Annual Report on Form 10-K for the fiscal year ended October 1, 2016, filed with the SEC. Intercompany transfers between operating segments are transacted at cost and have been eliminated within the segment amounts shown in the following table (in thousands).

	Three Months Ended	
	April 1, 2017	April 2, 2016
Segment net sales:		
Basics	$ 70,811	$ 69,840
Branded	33,327	39,320
Total net sales	104,138	109,160
Segment operating income:		
Basics	7,560	6,691
Branded	2,780	2,569
Total segment operating income	10,340	9,260

	Six Months Ended	
	April 1, 2017	April 2, 2016
Segment net sales:		
Basics	$ 131,647	$ 131,355
Branded	57,826	67,976
Total net sales	189,473	199,331
Segment operating income:		
Basics	12,248	12,460
Branded	1,776	1,816
Total segment operating income	14,024	14,276

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

	Three Months Ended		Six Months Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Segment operating income	$ 10,340	$ 9,260	$ 14,024	$ 14,276
Unallocated corporate expenses	2,820	3,329	6,033	6,120
Unallocated interest expense	1,312	1,396	2,613	2,671
Consolidated income before provision for income taxes	$ 6,208	$ 4,535	$ 5,378	$ 5,485

As a result of the sale of the Junkfood business, see Note D—Sale of Junkfood, branded segment assets have declined by approximately $19.6 million from October 1, 2016, to $136.6 million as of April 1, 2017. Basics segment assets have increased by $14.1 million since October 1, 2016, to $192.5 million as of April 1, 2017, due principally to having higher inventory levels to better service our customers during the spring selling season.

Note L—Income Taxes

Our effective income tax rate for the six months ended April 1, 2017, was 26.7%, compared to our effective income tax rate of 25.0% for the same period in the prior year, and 18.8% for the fiscal year ended October 1, 2016. During the second quarter of fiscal year 2017, we recognized a $1.3 million pre-tax gain on the sale of the Junkfood business. See Note D—Sale of Junkfood for further information on this transaction. We accounted for this event as a discrete item for tax provision purposes, recording tax expense on the pre-tax gain. Excluding the effect of this discrete item, the effective tax provision on operations for the six months ended April 1, 2017, was 24.0%.

We benefit from having income in foreign jurisdictions that are either exempt from income taxes or have tax rates that are lower than the United States. Based on our current projected pre-tax income and the anticipated amount of U.S. taxable income compared to profits in the offshore taxable and tax-free jurisdictions in which we operate, our estimated annual income tax rate for the fiscal year ending September 30, 2017, is currently expected to be approximately 24.0%. However, changes in the mix of U.S. taxable income compared to profits in tax-free jurisdictions can have a significant impact on our overall effective tax rate. In addition, any changes to tax regulations could adversely affect our financial position and results of operations.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Tax years 2013 and 2014, according to statute and with few exceptions, remain open to examination by various federal, state, local and foreign jurisdictions.

Note M—Derivatives and Fair Value Measurements

From time to time, we may use interest rate swaps or other instruments to manage our interest rate exposure and reduce the impact of future interest rate changes. These financial instruments are not used for trading or speculative purposes. We have designated our interest rate swap contracts as cash flow hedges of our future interest payments. As a result, the gains and losses on the swap contracts are reported as a component of other comprehensive income and are reclassified into interest expense as the related interest payments are made. Outstanding instruments as of April 1, 2017, are as follows:

	Effective Date	Notational Amount	Fixed LIBOR Rate	Maturity Date
Interest Rate Swap	September 9, 2013	$15 million	1.6480%	September 11, 2017
Interest Rate Swap	September 19, 2013	$15 million	1.4490%	September 19, 2017

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

FASB Codification No. 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are less active.
- Level 3 – Unobservable inputs that are supported by little or no market activity for assets or liabilities and includes certain pricing models, discounted cash flow methodologies and similar techniques.

The following financial liabilities are measured at fair value on a recurring basis (in thousands):

		Fair Value Measurements Using		
Period Ended	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swaps				
April 1, 2017	$ (47)	—	$ (47)	—
October 1, 2016	$ (182)	—	$ (182)	—
Cotton Options				
April 1, 2017	$ (44)	$ (44)	—	—
October 1, 2016	$ —	$ —	—	—
Contingent Consideration				
April 1, 2017	$ (2,300)	—	—	$ (2,300)
October 1, 2016	$ (2,500)	—	—	$ (2,500)

The fair value of the interest rate swap agreements were derived from discounted cash flow analysis based on the terms of the contract and the forward interest rate curves adjusted for our credit risk, which fall in Level 2 of the fair value hierarchy. Book value for fixed rate debt approximates fair value based on quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities (a Level 2 fair value measurement).

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheets for derivatives related to our interest swap agreements as of April 1, 2017, and October 1, 2016 (in thousands):

	April 1, 2017	October 1, 2016
Deferred tax assets	18	70
Accrued expenses	(47)	(182)
Accumulated other comprehensive loss	$ (29)	$ (112)

In August 2013, we acquired Salt Life and issued contingent consideration payable in cash after the end of calendar year 2019 if financial performance targets involving the sale of Salt Life-branded products are met during the 2019 calendar year. We used a Monte Carlo model utilizing the historical results and projected cash flows based on the contractually defined terms, discounted as necessary, to estimate the fair value of the contingent consideration for Salt Life at the acquisition date as well as to remeasure the contingent consideration related to the acquisition of Salt Life at each reporting period. Accordingly, the fair value measurement for contingent consideration falls in Level 3 of the fair value hierarchy.

At April 1, 2017, we had $2.3 million accrued in contingent consideration related to the Salt Life acquisition, a $0.2 million reduction from the accrual at October 1, 2016. The reduction in the fair value of contingent consideration is based on the inputs into the Monte Carlo model, including the time remaining in the measurement period. The sales expectations for calendar year 2019 have not significantly changed from the sales used in the valuation of contingent consideration at acquisition. No contingent consideration is expected to be paid under the terms of our acquisition of the Art Gun business.

Note N—Legal Proceedings

The Sports Authority Bankruptcy Litigation

Soffe is involved in several related litigation matters stemming from The Sports Authority's ("TSA") March 2, 2016, filing of a voluntary petition(s) for relief under Chapter 11 of the United States Bankruptcy Code (the "TSA Bankruptcy"). Prior to such filing, Soffe provided TSA with products to be sold on a consignment basis pursuant to a "pay by scan" agreement and the litigation matters relate to Soffe's interest in the products it provided TSA on a consignment basis (the "Products") and the proceeds derived from the sale of such products (the "Proceeds").

TSA Stores, Inc. and related entities TSA Ponce, Inc. and TSA Caribe, Inc. filed an action against Soffe on March 16, 2016, in the United States Bankruptcy Court for the District of Delaware (the "TSA Action") essentially seeking a declaratory judgment that: (i) Soffe does not own the Products but rather has a security interest that is not perfected or senior and is avoidable; (ii) Soffe only has an unsecured claim against TSA; (iii) TSA and TSA's secured creditors have valid, unavoidable and senior rights in the Products and the Products are the property of TSA's estate; (iv) Soffe does not have a perfected purchase money security interest in the Products; (v) Soffe is not entitled to a return of the Products; and (vi) TSA can continue to sell the Products and Soffe is not entitled to any proceeds from such sales other than as an unsecured creditor. The TSA Action also contains claims seeking to avoid Soffe's filing of a financing statement related to the Products as a preference and recover the value of that transfer as well as to disallow Soffe's claims until it has returned preferential transfers or their associated value. TSA also brings a claim for a permanent injunction barring Soffe from taking certain actions. We believe that many of the claims in the TSA Action, including TSA's claim for injunction, are now moot as a result of Soffe's agreement to permit TSA to continue selling the Products in TSA's going-out-of-business sale.

On May 16, 2016, TSA lender Wilmington Savings Fund Society, FSB, as Successor Administrative and Collateral Agent ("WSFS"), intervened in the TSA Action seeking a declaratory judgment that: (i) WSFS has a perfected interest in the Products and Proceeds that is senior to Soffe's interest; and (ii) the Proceeds paid to Soffe must be disgorged pursuant to an order previously issued by the court. WSFS's intervening complaint also contains a separate claim seeking the disgorgement of all Proceeds paid to Soffe along with accrued and unpaid interest.

Soffe has asserted counterclaims against WSFS in the TSA Action essentially seeking a declaratory judgment that: (i) WSFS is not perfected in the Products; and (ii) WSFS's interest in the Products is subordinate to Soffe's interest.

On May 24, 2016, Soffe joined an appeal filed by a number of TSA consignment vendors in the United States District Court for the District of Delaware challenging an order issued in the TSA Bankruptcy that, should WSFS or TSA succeed in the TSA Action, granted TSA and/or WSFS a lien on all Proceeds received by Soffe and requiring the automatic disgorgement of such Proceeds. Soffe and another entity are the remaining consignment vendors pursuing this appeal. This appeal has been stayed pending the resolution of motions filed in the TSA Action.

Although we will continue to vigorously defend against the TSA Action and pursue the above-referenced counterclaims and appeal, should TSA and/or WSFS ultimately prevail on their claims, we could be forced to disgorge all Proceeds received and forfeit our ownership rights in any Products that remain in TSA's possession. We believe the range of possible loss in this matter is currently $0 to $3.3 million; however, it is too early to determine the probable outcome and, therefore, no amount has been accrued related to this matter.

Other

With respect to the other significant legal proceedings for which information was reported in Part I, Item 3 of our Annual Report on Form 10-K filed with the SEC on November 29, 2016, there have been no material changes in such legal proceedings.

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

Note N—Repurchase of Common Stock

As of April 1, 2017, our Board of Directors authorized management to use up to $40.0 million to repurchase stock in open market transactions under our Stock Repurchase Program.

During the March quarter of fiscal years 2017 and 2016, we purchased 49,400 and 45,460 shares, respectively, of our common stock for a total cost of $0.8 million and $0.7 million, respectively. Through April 1, 2017, we have purchased 2,576,193 shares of our common stock for an aggregate of $32.5 million since the inception of our Stock Repurchase Program. All purchases were made at the discretion of management and pursuant to the safe harbor provisions of SEC Rule 10b-18. As of April 1, 2017, $7.5 million remained available for future purchases under our Stock Repurchase Program, which does not have an expiration date.

The following table summarizes the purchases of our common stock for the quarter ended April 1, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Dollar Value of Shares that May Yet Be Purchased Under the Plans
January 1, 2017 to February 4, 2017	—	$0.00	—	$8.3 million
February 5, 2017 to March 4, 2017	—	$0.00	—	$8.3 million
March 5, 2017 to April 1, 2017	49,400	$16.24	49,400	$7.5 million
Total	49,400	$16.24	49,400	$7.5 million

Note P—License Agreements

We have entered into license agreements that provide for royalty payments on net sales of licensed products as set forth in the agreements. These license agreements are within our branded segment. We incurred royalty expense (included in SG&A expenses) of $1.0 million and $1.5 million in each of the second quarters of fiscal years 2017 and 2016, respectively. Royalty expense for the six months ended April 1, 2017, and April 2, 2016, were approximately $2.4 million and $3.4 million, respectively.

At April 1, 2017, based on minimum sales requirements, future minimum royalty payments required under these license agreements were as follows (in thousands):

Fiscal Year	Amount
2017	$ 51
2018	60
	$ 111

Our license agreements have been predominately associated with the Junkfood business, which was sold on March 31, 2017. See Note D—Sale of Junkfood for further information on this transaction. With the divestiture of the Junkfood business, license agreements are not expected to be a significant part of our business going forward.

Note Q—Goodwill and Intangible Assets

Components of intangible assets consist of the following (in thousands):

	April 1, 2017			October 1, 2016			
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	Economic Life
Goodwill	$ 19,917	$ —	$ 19,917	$ 36,729	$ —	$ 36,729	N/A
Intangibles:							
Tradename/trademarks	$ 16,090	$ (1,922)	$ 14,168	$ 17,620	$ (2,514)	$ 15,106	20 – 30 yrs
Customer relationships	—	—	—	7,220	(4,016)	3,204	20 yrs
Technology	1,220	(886)	334	1,220	(826)	394	10 yrs
License agreements	2,100	(372)	1,728	2,100	(320)	1,780	15 – 30 yrs
Non-compete agreements	1,037	(666)	371	1,287	(849)	438	4 – 8.5 yrs
Total intangibles	$ 20,447	$ (3,846)	$ 16,601	$ 29,447	$ (8,525)	$ 20,922	

Goodwill represents the acquired goodwill net of the cumulative impairment losses recorded in fiscal year 2011 of $0.6 million. The goodwill recorded on our financial statements is all included in the branded segment.

The sale of Junkfood, completed on March 31, 2017, included intangible assets, net of accumulated amortization, consisting of trademarks of $0.6 million and customer relationships of $3.0 million. Goodwill associated with Junkfood was reduced by $16.8 million as a result of the sale.

Amortization expense for intangible assets was $0.4 million for the three-month period ended April 1, 2017, and $0.3 million for the three-month period ended April 2, 2016. Each of the six-month periods ended April 1, 2017, and April 2, 2016, amortization expense was $0.7 million. Amortization expense is estimated to be approximately $1.1 million for fiscal year 2017, $0.9 million for fiscal years 2018 and 2019, $0.7 million for fiscal year 2020, and $0.6 million for fiscal year 2021.

Note R—Subsequent Events

None

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

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission (the "SEC"), in our press releases, and in other reports to our shareholders. All statements, other than statements of historical fact, which address activities, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements. The words "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 on Form 10-Q 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. The risks and uncertainties include, among others:

- the volatility and uncertainty of cotton and other raw material prices;
- the general U.S. and international economic conditions;
- the competitive conditions in the apparel industry;
- restrictions on our ability to borrow capital or service our indebtedness;
- the inability to successfully implement or achieve the expected cost savings associated with certain strategic initiatives;
- deterioration in the financial condition of our customers and suppliers and changes in the operations and strategies of our customers and suppliers;
- our ability to predict or react to changing consumer preferences or trends;
- pricing pressures and the implementation of cost reduction strategies;

- changes in economic, political or social stability at our offshore locations;
- our ability to attract and retain key management;
- the effect of unseasonable weather conditions on purchases of our products;
- significant changes in our effective tax rate;
- interest rate fluctuations increasing our obligations under our variable rate indebtedness;
- the ability to raise additional capital;
- the ability to grow, achieve synergies and realize the expected profitability of acquisitions;
- the volatility and uncertainty of energy and fuel prices;
- material disruptions in our information systems related to our business operations;
- data security or privacy breaches;
- significant interruptions within our manufacturing or distribution operations;
- changes in or our ability to comply with safety, health and environmental regulations;
- significant litigation in either domestic or international jurisdictions:
- the ability to protect our trademarks and other intellectual property;
- the ability to obtain and renew our significant license agreements;
- the impairment of acquired intangible assets;
- changes in ecommerce laws and regulations;
- changes in international trade regulations;
- changes in employment laws or regulations or our relationship with employees;
- cost increases and reduction in future profitability due to recent healthcare legislation;
- foreign currency exchange rate fluctuations;
- violations of manufacturing standards or labor laws or unethical business practices by our suppliers and independent contractors;
- the illiquidity of our shares;
- price volatility in our shares and the general volatility of the stock market; and
- the costs required to comply with the regulatory landscape regarding public company governance and disclosure.

A detailed discussion of significant risk factors that have the potential to cause actual results or actions to differ materially from our expectations is described under the subheading "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended October 1, 2016, filed with the SEC. Any forward-looking statements in this Quarterly Report on Form 10-Q do not purport to be predictions of future events, actions or circumstances and may not be realized. Any forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q and we do not undertake publicly to update or revise the forward-looking statements even if it becomes clear that any such statements or any projected results will not be realized or that any contemplated actions or initiatives will not be implemented.

The risks described in our Annual Report on Form 10-K for our fiscal year ended October 1, 2016, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, and/or operating results.

Business Outlook

On March 31, 2017, we sold the Junkfood business, a niche participant in the licensed-graphics space. Over the years, this has been a good business for us and we enjoyed nurturing it as well as seeing it more than double its revenue while we owned it. That being said, the retail environment and the marketplace for licensed-graphic tees has been changing, and being a niche player in this space has become increasingly challenging. The sale puts the Junk Food brand in the hands of others more focused on this space who can continue to grow and develop the brand. For us, the sale of the business worked out well, yielding us a net gain of $0.11 per diluted share, and enabling us to further narrow our focus on the areas of our business that we believe will have the most significant impact on our growth and profitability. The proceeds are being used to fund increased share repurchases and deleverage our balance sheet, giving us more flexibility to fund both organic and strategic growth opportunities.

During the quarter, our net income increased to $4.5 million, or $0.58 per diluted share, a 35% increase from $3.4 million, or $0.43 per diluted share, in the prior year second quarter. More significantly, after excluding the gain on the sale of Junkfood, our earnings were nearly 10% higher than those in the prior year. The Junkfood business has recently been very challenging, culminating in a 40% sales decline in the March quarter and a $1.2 million decrease in operating profit. Adjusting the quarter to remove the Junkfood operating results as well as the gain on the sale of the business, we achieved an 8% operating profit, a 160 basis point, or 25% improvement, over the prior year quarter. This is a significant improvement in profitability, especially given the relatively flat sales versus the prior year's quarter. Our operating profit, without adjusting for Junkfood as mentioned above, was $7.5 million, or 7.2% of sales.

We achieved significant improvement in our Delta Activewear business during the second quarter. This was a result of our expanded sales and marketing strategies, our new product introductions, and our manufacturing realignment that was completed last year. The introduction of our Delta Activewear's 2017 fashion basics products is going well, particularly the Delta Platinum line, which features softer fabrics, a refreshingly different color palate and great price points. The continued growth in programs with some of our international brand partners bolstered our private label business, as there is solid demand for our specialized vertical manufacturing capabilities combined with our sensitivity to social and environmental compliance that are so important to major brands and retailers. We met our production and cost goals that we set for our manufacturing realignment. We saw the initial positive results in the March period, and expect them to become increasingly apparent in the second half of the fiscal year.

Art Gun achieved outstanding results in the first half of the year, positioning itself for strong 2017 performance. Art Gun's ecommerce fulfillment and digital print model provides a unique service model to the new retail landscape, where products are 'virtual' until sold. We already have additional equipment on order to expand Art Gun's capacity to keep pace with demand, particularly during the upcoming holiday season. Over the next several quarters we will also be expanding our geographic footprint with Art Gun, utilizing our existing distribution facilities, to better serve customers with reduced shipping times and getting products to the end consumer faster, while also allowing us to leverage existing inventories.

During the quarter, Salt Life experienced strong shipments for initial spring store sets and early indications point to good spring sell-through. Our product expansions in ladies and youth products are driving growth in these channels, and our performance products continue to be a strong product category. Salt Life has attracted a large internet following through its YouTube and other social media outlets, achieving over 1 million followers across social media. The traffic on the Salt Life website was up 24% and, through higher conversions and larger purchases, sales on the website grew by over 40%. We also have just introduced a new Salt Life Rewards program that provides a bonus incentive to consumers who shop on the Salt Life website. Overall, we anticipate continued double-digit growth through Salt Life's omni-channel model and its branded ecommerce site.

Soffe, which is rebuilding volume through several emerging channels of distribution, is gradually overcoming the difficulties posed by some of its traditional retail customers. We are building our direct to consumer business at Soffe, achieving double-digit growth on our Soffe website. We opened a new Soffe retail store earlier in the year, and plan to open two more during the remainder of the year. The retail stores are expected to be profitable and are used to reinforce the Soffe brand identity and connect directly with our consumers. We are seeing profits at Soffe, although still well below our long term goals. As we continue to build on the strength of the Soffe brand and leverage our strengths in Made in America products, along with continued improvement on the operational side, we believe Soffe can improve its profitability to meet our goals for the business.

While the retail environment continues to be a challenge, we believe that the strategic initiatives we completed over the last several years, combined with our broad channels of distribution, will result in a future of solid performance for Delta Apparel.

Results of Operations

Net sales for the second quarter of 2017 were $104.1 million compared to $109.2 million in the prior year period. Salt Life and Art Gun continued their strong sales growth with double-digit sales increases and Delta Activewear achieved 1% sales growth over the prior year period despite continued weakness in the retail licensing market. The overall decline from the prior year was primarily related to the Junkfood business which was sold on March 31, 2017. For the first six months of fiscal year 2017, net sales were $189.5 million compared to $199.3 million in the prior year period.

Our direct-to-consumer and ecommerce sales represented 5.2% of total revenues for the second quarter of 2017. For the first six-month period ended April 1, 2017, direct-to-consumer sales and ecommerce sales were 6.1% of total revenues. Overall our direct-to-consumer ecommerce growth for the second quarter and first six months of fiscal year 2017 were 17.4% and 21.0%, respectively, driven from increased sales on our Salt Life and Soffe sites.

Gross margins were relatively flat at 23.3% for the quarter compared with 23.6% in the 2016 second quarter. Basics segment gross margins expanded by 90 basis points during the quarter. Excluding the Junkfood business, gross margins expanded by 290 basis points from prior year.

Selling, general, and administrative expenses were $18.3 million, or 17.5% of sales, for the quarter ended April 1, 2017, compared to $20.0 million, or 18.4% of sales, in the prior year period. The decrease in expenses from the prior year was primarily attributable to higher bad debt expense in the prior year as well as decreased selling costs, including royalty expenses.

The change in fair value of contingent consideration was associated with the Salt Life acquisition. Based upon our updated analysis, the fair value of this liability decreased $0.1 million in both the 2017 and 2016 second quarters, principally from the reduced remaining time in the measurement period, resulting in the gains recorded. The sales expectations for calendar year 2019 have not significantly changed from the sales expectations used in the valuation of contingent consideration at acquisition.

During the second quarter of 2017, we recognized $1.4 million in other income compared to $0.1 million in the prior year period and $1.6 million in the first six months of fiscal year 2017 compared to $0.2 million in the prior year six month period. The increase over prior year is due to the $1.3 million gain resulting from the sale of the Junkfood business.

Net interest expense for the second quarter of fiscal years 2017 and 2016 was $1.3 million and $1.4 million, respectively. In the first six months of fiscal year 2017, net interest expense totaled $2.6 million compared to $2.7 million in the prior year.

Our effective income tax rate for the six months ended April 1, 2017, was 26.7%, compared to our effective income tax rate of 25.0% for the same period last year and 18.8% for the full fiscal year 2016. We recorded income tax expense of $1.4 million during the six months ended April 1, 2017. During the quarter, we recognized a $1.3 million pre-tax gain on the sale of the Junkfood business. We accounted for this transaction as a discrete item for tax provision purposes, recording $0.4 million of tax expense on the pre-tax gain. Excluding the effect of this discrete item, the effective tax rate on operations for the six months ended April 1, 2017, was 24.0%. We benefit from having income in foreign jurisdictions that are either exempt from income taxes or have tax rates that are lower than those in the United States. Based on our current projected pre-tax income and the anticipated amount of U.S. taxable income compared to profits in the offshore taxable and tax-free jurisdictions in which we operate, our estimated annual income tax rate for the fiscal year ending September 30, 2017, is expected to be approximately 24.0%. However, changes in the mix of U.S. taxable income compared to profits in tax-free jurisdictions can have a significant impact on our overall effective tax rate.

Our net earnings for the quarter were $4.5 million, or $0.58 per diluted share, compared with net earnings of $3.4 million, or $0.43 per diluted share, in the prior year quarter. Excluding the gain on the sale of the Junkfood business, net of taxes, our earnings would have been $3.7 million, or $0.47 per diluted share.

At April 1, 2017, accounts receivable were $59.6 million compared to $60.2 million at April 2, 2016, and $63.6 million as of October 1, 2016. Days sales outstanding were 49 days as of April 1, 2017, and April 2, 2016, compared to 54 days at October 1, 2016.

Inventory levels increased $16.5 million from October 1, 2016, to $180.7 million at April 1, 2017. The increase from October 1, 2016, is due to the seasonally higher inventory levels coupled with an increase in our finished goods levels to better support our customers needs.

Capital expenditures were $2.2 million during the second quarter of fiscal year 2017. Our capital expenditures primarily related to investments in our direct-to-consumer business including our retail stores and enhancements to our information technology systems as well as expenditures related to machinery and equipment. Depreciation and amortization expense, including non-cash compensation, was $2.8 million for the second quarter of fiscal year 2017, and $5.6 million for the first six months of fiscal year 2017.

Total debt at April 1, 2017, was $97.4 million compared with $115.8 million at April 2, 2016. The decrease in debt from the prior year is primarily due to the $25.0 million proceeds received on the sale of the Junkfood business offset by borrowings to fund increased inventory levels compared to the prior year.

Branded Segment

Sales in the branded segment were $33.3 million compared to $39.3 million in the prior year quarter. Salt Life achieved sales growth of 10.4% during the quarter, but this was offset by sales declines at Soffe and Junkfood. Soffe sales declined $1.1 million from the prior year quarter principally from the loss of sales associated with the bankruptcy of The Sports Authority, while Junkfood sales declined 40% million from the prior year quarter. Year-to-date sales for fiscal year 2017 in the branded segment were $57.8 million compared to $68.0 million in the prior year. Salt Life sales for the first six months grew by 8.3%, while Soffe sales for the first six months declined primarily due to the bankruptcy of The Sports Authority.

Operating income in the branded segment was $2.8 million, an increase of $0.2 million compared to the prior year quarter. The decreased income was driven from lower sales and offset partially by lower SG&A costs. Excluding Junkfood, operating income would have increased by $0.1 million from the prior year quarter.

Basics Segment

Net sales in our basics segment grew 1.4% in the second quarter to $70.8 million from $69.8 million in the prior year period. Sales at Art Gun were up 11% compared to the prior year on 18% higher units. In our Delta Activewear business, the retail licensing channel experienced slower sales at retail that impacted the blank business as well as our private label programs. However, ad-specialty channel sales and fashion basic style sales increased from the prior year. For the first six months of fiscal year 2017, basic segment sales increased to $131.6 million from $131.4 million.

Basics segment operating income increased to $7.6 million in the second quarter of 2017 from $6.7 million in the prior year quarter principally from improved gross margins. Operating income for the first six months in the basics segment was relatively flat compared to the prior year at 9.3% of sales compared to 9.5% in the prior year six months.

Liquidity and Capital Resources

Our current primary cash needs are for working capital, capital expenditures, and debt service, as well as to fund share repurchases under our Stock Repurchase Program.

Operating Cash Flows

Operating activities used $0.2 million and $5.4 million in cash in the first six months of fiscal years 2017 and 2016, respectively. The decreased outflow from the prior year is due to slightly higher collections from our customers and better leveraging of supply terms. This was partially offset by the payment of the incentive compensation related to the 2016 fiscal year results and increased inventory levels.

Investing Cash Flows

Capital expenditures during the first six months of fiscal year 2017 were $3.7 million compared to $5.0 million in the same period last year. Capital expenditures in both periods primarily related to machinery and equipment, along with investments in our direct-to-consumer initiatives and information technology systems. There were $1.6 million in expenditures financed under a lease arrangement and $0.5 million in unpaid expenditures in the first six months of fiscal 2017. We anticipate our fiscal year 2017 capital expenditures to be approximately $10 million and to be focused primarily on manufacturing equipment, along with direct-to-consumer, and information technology enhancements.

Financing Activities

During the six months ended April 1, 2017, cash used by financing activities was $20.8 million compared to $10.8 million provided by financing activities for the first six months ended April 2, 2016. The cash received from the sale of the Junkfood business was used to reduce debt and was partially offset by cash used for operating activities, capital expenditures, and share repurchases.

Based on our current expectations, we believe that our credit facility should be sufficient to satisfy our foreseeable working capital needs, and that cash flow generated by our operations and funds available under our credit facility should be sufficient to service our debt payment requirements, to satisfy our day-to-day working capital needs and to fund our planned capital expenditures. Any material deterioration in our results of operations, however, may result in the loss of our ability to borrow under our revolving credit facility and to issue letters of credit to suppliers, or may cause the borrowing availability under our facility to be insufficient for our needs. Availability under our credit facility is primarily a function of the levels of our accounts receivable and inventory. A significant deterioration in our accounts receivable or inventory levels could restrict our ability to borrow additional funds or service our indebtedness. Moreover, our credit facility includes a financial covenant that if the availability under our credit facility falls below the amounts specified in our credit agreement, our fixed charge coverage ratio (FCCR) for the preceding 12-month period must not be less than 1.1 to 1.0. While our availability at April 1, 2017, was above the minimum thresholds specified in our credit agreement, a significant deterioration in our business could cause our availability to fall below such thresholds, thereby requiring us to maintain the minimum FCCR specified in our credit agreement. As of April 1, 2017, our FCCR was above the minimum threshold specified in our credit agreement.

Purchases By Delta Apparel Of Its Own Shares

During the six months ended April 1, 2017, we purchased 96,043 shares of our common stock for an aggregate amount of $1.6 million (see Note O-Repurchase of Common Stock). As of April 1, 2017, there was $7.5 million of share repurchase authorization remaining. We evaluate current leverage, working capital requirements, our free cash flow outlook, stock valuation and future business opportunities to determine when we believe the repurchase of our stock is a sound investment opportunity that we can pursue without sacrificing future growth plans.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which were prepared in accordance with U.S. GAAP. The preparation of our Condensed 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 revenue recognition, accounts receivable and related reserves, inventory and related reserves, the carrying value of goodwill, and the accounting for income taxes.

A detailed discussion of critical accounting policies is contained in the Significant Accounting Policies included in Note 2 to the Audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended October 1, 2016, and there have been no changes in those policies since the filing of that Annual Report on Form 10-K with the SEC.

Environmental and Regulatory Matters

We are subject to various federal, state and local environmental laws and regulations concerning, among other things, wastewater discharges, storm water flows, air emissions and solid waste disposal. Our plants generate small quantities of hazardous waste, which are either recycled or disposed of off-site. Several of our plants are required to possess one or more environmental permits, and we believe that we are currently in compliance with the requirements of those permits.

The environmental regulations applicable to our business are becoming increasingly stringent and we incur capital and other expenditures annually to achieve compliance with environmental standards. We currently do not expect that the amount of expenditures required to comply with environmental laws will have a material adverse affect on our operations, financial condition or liquidity. There can be no assurance, however, that future changes in federal, state, or local regulations, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional expenditures. Similarly, while we believe that we are currently in material compliance with all applicable environmental requirements, the extent of our liability, if any, for past failures to comply with laws, regulations and permits applicable to our operations cannot be determined and could have a material adverse effect on our operations, financial condition and liquidity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Commodity Risk Sensitivity

We have a supply agreement with Parkdale Mills, Inc. and Parkdale America, LLC (collectively "Parkdale") to supply our yarn requirements until December 31, 2018. Under the supply agreement, we purchase from Parkdale all of our yarn requirements for use in our manufacturing operations, excluding yarns that Parkdale does not manufacture or cannot manufacture due to temporary capacity constraints. The purchase price of yarn is based upon the cost of cotton plus a fixed conversion cost. Thus, we are subject to the commodity risk of cotton prices and cotton price movements, which could result in unfavorable yarn pricing for us. We fix the cotton prices as a component of the purchase price of yarn, pursuant to the supply agreement, in advance of the shipment of finished yarn from Parkdale. Prices are set according to prevailing prices, as reported by the New York Cotton Exchange, at the time we elect to fix specific cotton prices.

Yarn with respect to which we have fixed cotton prices at April 1, 2017, was valued at $10.2 million, and is scheduled for delivery between April 2017 and October 2017. At April 1, 2017, a 10% decline in the market price of the cotton covered by our fixed price yarn would have had a negative impact of approximately $0.8 million on the value of the yarn. This compares to what would have been a negative impact of $0.9 million at our 2016 fiscal year-end based on the yarn with fixed cotton prices at October 1, 2016. The impact of a 10% decline in the market price of the cotton covered by our fixed price yarn would have been lower at April 1, 2017, than at October 1, 2016, due to decreased commitments at April 1, 2017, compared to October 1, 2016, partially offset by higher cotton costs.

We may use derivatives, including cotton option contracts, to manage our exposure to movements in commodity prices. We do not designate our options as hedge instruments upon inception. Accordingly, we mark to market changes in the fair market value of the options in cost of goods sold in our Condensed Consolidated Statements of Operations. See Note M—Derivatives and Fair Value Measurements for further discussion on derivatives and fair value measurements.

If Parkdale’s operations are disrupted and it is not able to provide us with our yarn requirements, we may need to obtain yarn from alternative sources. Although alternative sources are presently available, we may not be able to enter into short-term arrangements with substitute suppliers on terms as favorable as our current terms with Parkdale. In addition, the cotton futures we have fixed with Parkdale may not be transferable to alternative yarn suppliers. Because there can be no assurance that we would be able to pass along the higher cost of yarn to our customers, this could have a material adverse effect on our results of operations.

Interest Rate Sensitivity

Our U.S. revolving credit facility provides that the outstanding amounts owed shall bear interest at variable rates. If the amount of outstanding floating rate indebtedness at April 1, 2017, under our U.S. revolving credit facility had been outstanding during the entire three months ended April 1, 2017, and the interest rate on this outstanding indebtedness was increased by 100 basis points, our expense would have increased by approximately $43 thousand, or 3.3% of actual interest expense, during the quarter. This compares to an increase of $0.3 million, or 6.1%, for the 2016 fiscal year based on the outstanding floating rate indebtedness at October 1, 2016, or an average of $80 thousand per quarter. The dollar amount, as well as the percentage, of the increase in interest expense is lower as of April 1, 2017, primarily due to the lower floating rate debt level as of April 1, 2017, compared to October 1, 2016. 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 of floating rate indebtedness.

Derivatives

From time to time, we may use interest rate swaps or other instruments to manage our interest rate exposure and reduce the impact of future interest rate changes as described in Note M—Derivatives and Fair Value Measurements.

Tax Reform

We are subject to income taxes in both the United States and various foreign jurisdictions. Governments in the jurisdictions in which we operate implement changes to tax laws and regulations from time to time. Any changes in corporate income tax laws, such as tax reform in the United States, changes relating to transfer pricing or repatriation of capital, and any changes in the interpretation of existing tax laws and regulations could lead to increases in overall tax liability and adversely affect our financial position and results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to reasonably assure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission's requirements. 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.

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 April 1, 2017, and, based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective at the evaluation date.

Changes in Internal Control Over Financial Reporting

There was no change during the second quarter of fiscal year 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note N—Legal Proceedings in Item 1, which is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Repurchases of Common Stock

See Note O—Repurchase of Common Stock and Note G—Debt, in Item 1, which are incorporated herein by reference.

Item 6. Exhibits

Exhibits

10.1	Form of Performance Unit Award Agreement
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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)

Date May 8, 2017

By: /s/ Deborah H. Merrill

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

DELTA APPAREL, INC. 2010 STOCK PLAN

PERFORMANCE UNIT AWARD AGREEMENT

THIS PERFORMANCE UNIT AWARD AGREEMENT ("Agreement") is dated this ________ day of ____________, ______, by and between DELTA APPAREL, INC., a Georgia corporation ("Company"), and ______________________ ("Participant").

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

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

Section 1. AWARD OF PERFORMANCE UNITS

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

Section 2. VESTING OF UNITS BASED ON PERFORMANCE REQUIREMENTS

The Performance Unit grants are based on performance requirements. ______________ of such Performance Units shall vest for each of the Company's 2018, 2019 and 2020 fiscal years, all upon the date that both of the following have occurred (1) the Board of Directors' (or committee thereof, if applicable) certification in writing that the Company achieved the following performance-based goals established by the Board of Directors (or committee thereof, if applicable) on a consolidated basis and (2) the filing by the Company with the Securities and Exchange Commission of its annual report on Form 10-K for the applicable fiscal year ("PSU Vesting Date").

Notwithstanding the above, the Participant must be employed on the PSU Vesting Date to vest in the Performance Units for that fiscal year; provided, however, if the Participant's employment is terminated by the Company other than for Cause (as defined in the Participant's employment agreement with the Company), subject to satisfaction of the applicable performance criteria, the full award will be made for the fiscal year in which the Participant's employment is terminated.

The annual vested amount under this Section 2, if any, will be determined based upon the following performance criteria:

Fiscal Years 2018, 2019 and 2020 Return on Capital Employed Requirement	Granted Units Earned Based on Average Return on Capital Employed
Less than 3%	0%
3%	Minimum 20%
7%	Par 100%
12%	Maximum 120%
Greater Than 12%	Maximum 120%

Performance Unit Awards shall be prorated between the Minimum and Maximum percentages based upon actual Return on Capital Employed results. Notwithstanding the foregoing or anything to the contrary contained herein, the maximum amount that Executive may be awarded in any fiscal year pursuant to this Agreement is subject to the limitations set forth in Section 7(c) of the Plan, and Executive will forfeit any

Awards in excess of such limitations in which he vests in any fiscal year as well as any related shares or cash awards to which he is otherwise entitled in connection with such excess Awards.

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

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

(a) The death of the Participant;
(c) A Change in Control.

(b) Disability of the Participant; or

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

Section 3. NON-TRANSFERABILITY OF RIGHTS

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

Section 4. PAYMENT UPON VESTING OF PERFORMANCE UNITS

With respect to any Performance Units that vest in connection with fiscal years 2018, 2019, or 2020 pursuant to the terms of Section 2, subject to the terms and conditions of the Plan, the Company shall, as soon as practicable following the PSU Vesting Date (but no later than March 15 of the calendar year following the calendar year that includes such vesting date), deliver to you a number of shares equal to the aggregate number of Performance Units that became vested on the PSU Vesting Date.

Upon payment by the Company, the Performance Units shall therewith be cancelled. The delivery of shares and cash awards under this Section 4 shall be subject to applicable employment and income tax withholding.

Section 5. NO DIVIDEND OR VOTING RIGHTS

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

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

(a) No shares will be payable upon the vesting of a Performance Unit unless and until the Participant satisfies any Federal, state or local withholding tax obligation required by law to be withheld in respect of this Award. The Participant acknowledges and agrees that to satisfy any such tax obligation the Company may deduct and retain from the shares payable upon vesting of the Performance Units such number of Shares as is equal in value to the Company's minimum statutory withholding obligations with respect to the income recognized by the Participant upon such vesting (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such income). The number of such shares to be deducted and retained shall be based on the closing price of the shares on the day prior to the PSU Vesting Date.

(b) The Participant acknowledges that in the event an election under Section 83(b) of the Internal Revenue Code of 1986 is filed with respect to this Award, Participant must give a copy of the election to the Company within ten days after filing with the Internal Revenue Service.

Section 7. ENFORCEMENT; INCORPORATION OF PLAN PROVISIONS

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

Section 8. MISCELLANEOUS

(a) No Representations or Warranties. Neither the Company nor the Committee or any of their representatives or agents has made any representations or warranties to the Participant with respect to the income tax or other consequences of the transactions contemplated by this Agreement, and the Participant is in no manner relying on the Company, the Committee or any of their representatives or agents for an assessment of such tax or other consequences.

(b) Employment. Nothing in this Agreement or in the Plan or in the making of the Award shall confer on the Participant any right to or guarantee of continued employment with the Company or any of its Subsidiaries or in any way limit the right of the Company or any of its Subsidiaries to terminate the employment of the Participant at any time.

(c) Investment. The Participant hereby agrees and represents that any shares payable upon vesting of the Performance Units shall be held for the Participant's own account for investment purposes only and not with a view of resale or distribution unless the shares are registered under the Securities Act of 1933, as amended.

(d) Necessary Acts. The Participant and the Company hereby agree to perform any further acts and to execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement.

(e) Severability. The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially enforceable provision to the extent enforceable in any jurisdiction, shall nevertheless be binding and enforceable.

(f) Waiver. The waiver by the Company of a breach of any provision of this Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

(g) Binding Effect; Applicable Law. This Agreement shall bind and inure to the benefit of the Company and its successors and assigns, and the Participant and any heir, legatee, or legal representative of the Participant. This Agreement shall be construed, administered and enforced in accordance with and subject to the terms of the Plan and the laws of the State of Georgia.

(h) Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding.

(i) Amendment. This Agreement may be amended by written agreement of the Participant and the Company, without the consent of any other person.

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

DELTA APPAREL, INC.

By: ______________________________

Vice President of Administration & General Counsel

PARTICIPANT

____

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: May 8, 2017	/s/ Robert W. Humphreys
	Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Deborah H. Merrill, certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

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

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

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

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

Date: May 8, 2017

/s/ Deborah H. Merrill

Chief Financial Officer and President, Delta Basics

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 April 1, 2017, 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: May 8, 2017

/s/ Robert W. Humphreys

Robert W. Humphreys

Chairman and Chief Executive Officer

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

EXHIBIT 32.2

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

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

1. The Quarterly Report on Form 10-Q for the quarterly period ended April 1, 2017, 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: May 8, 2017

/s/ Deborah H. Merrill

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

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