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 March 30, 2019

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 ☑

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common	DLA	NYSE American

As of April 26, 2019, there were outstanding 6,935,417 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)

	March 30, 2019	September 29, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 1,777	$ 460
Accounts receivable, less allowances of $333 and $1,475, respectively	59,197	45,605
Other receivables	749	1,274
Income tax receivable	—	38
Inventories, net	186,526	174,983
Note receivable	—	100
Prepaid expenses and other current assets	3,002	2,962
Total current assets	251,251	225,422
Property, plant and equipment, net of accumulated depreciation of $78,096 and $74,018, respectively	54,311	52,114
Goodwill	36,597	33,217
Intangibles, net	23,554	20,498
Deferred income taxes	1,924	1,374
Equity method investment	9,731	8,980
Other assets	1,687	2,004
Total assets	$ 379,055	$ 343,609
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 58,418	$ 48,008
Accrued expenses	15,439	16,742
Current portion of contingent consideration	3,190	638
Current portion of capital lease financing	5,308	3,846
Current portion of long-term debt	7,435	6,577
Total current liabilities	89,790	75,811
Long-term taxes payable	3,451	4,259
Long-term capital lease financing, less current maturities	11,150	9,302
Long-term debt, less current maturities	120,043	92,083
Deferred income taxes	2,192	2,132
Contingent Consideration	6,104	9,904
Other non-current liabilities	658	—
Total liabilities	$ 233,388	$ 193,491
Shareholders' equity:		
Preferred stock—$0.01 par value, 2,000,000 shares authorized, none issued and outstanding	—	—
Common stock —$0.01 par value, 15,000,000 shares authorized, 9,646,972 shares issued, and 6,935,417 and 6,909,446 shares outstanding as of March 30, 2019, and September 29, 2018, respectively	96	96
Additional paid-in capital	59,121	61,979
Retained earnings	128,486	128,695
Accumulated other comprehensive (loss) income	(493)	136
Treasury stock —2,711,555 and 2,737,526 shares as of March 30, 2019, and September 29, 2018, respectively	(41,443)	(40,881)
Equity attributable to Delta Apparel, Inc.	145,767	150,025
Equity attributable to non-controlling interest	(100)	93
Total equity	145,667	150,118
Total liabilities and equity	$ 379,055	$ 343,609

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	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Net sales	$ 102,838	$ 100,004	$ 204,513	$ 190,346
Cost of goods sold	83,930	77,769	167,036	151,741
Gross profit	18,908	22,235	37,477	38,605
Selling, general and administrative expenses	17,056	16,737	33,841	31,717
Other (income) expense, net	(843)	(116)	902	(464)
Operating income	2,695	5,614	2,734	7,352
Interest expense, net	1,985	1,350	3,750	2,685
Income (loss) before (benefit from) provision for income taxes	710	4,264	(1,016)	4,667
(Benefit from) provision for income taxes	(115)	632	(614)	10,988
Consolidated net income (loss)	825	3,632	(402)	(6,321)
Less: Net loss attributable to non-controlling interest	(117)	—	(193)	—
Net income (loss) attributable to shareholders	$ 942	$ 3,632	$ (209)	$ (6,321)
Basic income (loss) per share	$ 0.14	$ 0.50	$ (0.03)	$ (0.87)
Diluted income (loss) per share	$ 0.13	$ 0.48	$ (0.03)	$ (0.87)
Weighted average number of shares outstanding	6,943	7,195	6,933	7,231
Dilutive effect of stock awards	160	301	—	—
Weighted average number of shares assuming dilution	7,103	7,496	6,933	7,231

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Net income (loss) attributable to shareholders	$ 942	$ 3,632	$ (209)	$ (6,321)
Other comprehensive (loss) income related to unrealized (loss) gain on derivatives, net of income tax	(257)	116	(629)	202
Consolidated comprehensive income (loss)	$ 685	$ 3,748	$ (838)	$ (6,119)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Non-Controlling Interest	Total
Balance at September 30, 2017	9,646,972	$ 96	$ 61,065	$ 127,358	$ (35)	2,346,675	$ (32,597)	$ —	$ 155,887
Net earnings	—	—	—	(6,321)	—	—	—	—	(6,321)
Other comprehensive income	—	—	—	—	202	—	—	—	202
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	—	—
Stock grant	—	—	—	—	—	—	—	—	—
Vested stock awards	—	—	(1,647)	—	—	(72,201)	702	—	(945)
Purchase of common stock	—	—	—	—	—	220,058	(4,466)	—	(4,466)
Stock based compensation	—	—	1,142	—	—	—	—	—	1,142
Capital contributions by non-controlling interest	—	—	—	—	—	—	—	—	—
Balance at March 31, 2018	9,646,972	$ 96	$ 60,560	$ 121,037	$ 167	2,494,532	$ (36,361)	$ —	$ 145,499

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Non-Controlling Interest	Total
Balance at September 29, 2018	9,646,972	$ 96	$ 61,979	$ 128,695	$ 136	2,737,526	$ (40,881)	$ 93	$ 150,118
Net earnings	—	—	—	(209)	—	—	—	—	(209)
Other comprehensive income	—	—	—	—	(629)	—	—	—	(629)
Net loss attributable to non-controlling interest	—	—	—	—	—	—	—	(193)	(193)
Stock grant	—	—	—	—	—	—	—	—	—
Vested stock awards	—	—	(3,982)	—	—	(153,472)	1,866	—	(2,116)
Purchase of common stock	—	—	—	—	—	127,501	(2,428)	—	(2,428)
Stock based compensation	—	—	1,124	—	—	—	—	—	1,124
Capital contributions by non-controlling interest	—	—	—	—	—	—	—	—	—
Balance at March 30, 2019	9,646,972	$ 96	$ 59,121	$ 128,486	$ (493)	2,711,555	$ (41,443)	$ (100)	$ 145,667

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	
	March 30, 2019	March 31, 2018
Operating activities:		
Consolidated net loss	$ (402)	$ (6,321)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,859	4,759
Amortization of deferred financing fees	153	153
(Benefit from) provision for deferred income taxes	(490)	3,006
Non-cash stock compensation	1,123	1,142
Other, net	(1,435)	(400)
Loss on disposal of equipment	2	10
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	(11,882)	(11,704)
Inventories, net	(10,416)	3,497
Prepaid expenses and other assets	147	(1,469)
Other non-current assets	(20)	88
Accounts payable	10,920	(2,081)
Accrued expenses	(1,283)	(4,128)
Income taxes	(770)	8,022
Other liabilities	212	(111)
Net cash used in operating activities	(8,282)	(5,537)
Investing activities:		
Purchases of property and equipment, net	(2,102)	(3,543)
Proceeds from sale of Junkfood assets	—	1,946
Proceeds from sale of fixed assets	—	5,001
Cash paid for business	(3,699)	(11,350)
Net cash used in investing activities	(5,801)	(7,946)
Financing activities:		
Proceeds from long-term debt	233,864	235,117
Repayment of long-term debt	(211,265)	(215,816)
Repayment of capital financing	(2,031)	(678)
Payment of contingent consideration	(564)	—
Payment of deferred financing fees	—	2
Repurchase of common stock	(2,488)	(4,335)
Payment of withholding taxes on stock awards	(2,116)	(945)
Net cash provided by financing activities	15,400	13,345
Net increase (decrease) in cash and cash equivalents	1,317	(138)
Cash and cash equivalents at beginning of period	460	572
Cash and cash equivalents at end of period	$ 1,777	$ 434
Supplemental cash flow information:		
Non-cash financing activity - seller financing	$ —	$ 5,000
Non-cash financing activity - capital lease agreements	$ 5,728	$ 3,050

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 three-month and six-month periods ended March 30, 2019, are not necessarily indicative of the results that may be expected for our fiscal year ending September 28, 2019. 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 September 29, 2018, 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”), DTG2Go, LLC (f/k/a Art Gun LLC) (“DTG2Go”), Salt Life, LLC (“Salt Life”), Culver City Clothing Company (f/k/a Junkfood Clothing Company) (“Junkfood”), and our other domestic and international subsidiaries, as appropriate to the context. On October 8, 2018, we purchased substantially all the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services. See Note D—Acquisitions, 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 core activewear and lifestyle apparel 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, sporting goods and outdoor 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 a broad and evolving customer base whose shopping preferences may span multiple retail channels.

As a vertically-integrated manufacturer, we design and internally manufacture the majority of our products, which allows us to offer a high degree of consistency and quality, leverage scale efficiencies, and react quickly to changes in trends within the marketplace. We have manufacturing operations located in the United States, El Salvador, Honduras and Mexico, and 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 American exchange under the symbol “DLA”. We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. Our 2019 fiscal year is a 52-week year and will end on September 28, 2019. Our 2018 fiscal year was also a 52-week year and ended on September 29, 2018.

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 September 29, 2018, filed with the SEC.

Note C—New Accounting Standards

Recently Adopted Standards

In May 2014, the FASB issued 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 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 was adopted in our fiscal year beginning September 30, 2018. We adopted the new standard using the modified retrospective transition method. In accordance with the adoption of ASU 2014-09, sales returns reserves, estimated chargebacks and markdowns, and other provisions for customer refunds are now presented in accrued liabilities rather than netted with accounts receivable. In addition, the estimated cost of inventory associated with sales returns reserves are now presented within other current assets. We applied the provisions of ASU 2014-09 to all contracts at the date of adoption.

Our revenue streams consist of wholesale, direct-to-consumer ecommerce sales and retail stores which are included in our Condensed Consolidated Statements of Operations. The table below identifies the amount of net sales by distribution channel and percentage of net sales (in thousands):

	Three Months Ended			
	March 30, 2019		March 31, 2018	
	$	%	$	%
Retail	$ 872	1%	$ 733	1%
Direct-to-consumer ecommerce	981	1%	1,060	1%
Wholesale	100,985	98%	98,211	98%
Net Sales	$ 102,838	100%	$ 100,004	100%

	Six Months Ended			
	March 30, 2019		March 31, 2018	
	$	%	$	%
Retail	$ 1,884	1%	$ 1,616	1%
Direct-to-consumer ecommerce	2,569	1%	2,451	1%
Wholesale	200,060	98%	186,279	98%
Net Sales	$ 204,513	100%	$ 190,346	100%

The table below provides net sales by reportable segment (in thousands) and the percentage of net sales by distribution channel for each reportable segment:

	Second Quarter Fiscal Year 2019			
	Net Sales	Wholesale	Retail	Ecommerce
Delta Group	$ 89,526	99.4%	0.3%	0.3%
Salt Life Group	13,312	90.2%	4.4%	5.4%
Total	$ 102,838			

	Second Quarter Fiscal Year 2018			
	Net Sales	Wholesale	Retail	Ecommerce
Delta Group	$ 86,125	99.4%	0.3%	0.3%
Salt Life Group	13,879	90.7%	3.5%	5.8%
Total	$ 100,004			

	Year To Date Fiscal Year 2019			
	Net Sales	Wholesale	Retail	Ecommerce
Delta Group	$ 183,916	99.4%	0.3%	0.3%
Salt Life Group	20,597	84.3%	6.2%	9.5%
Total	$ 204,513			

	Year To Date Fiscal Year 2018			
	Net Sales	Wholesale	Retail	Ecommerce
Delta Group	$ 170,051	99.3%	0.4%	0.3%
Salt Life Group	20,295	85.5%	5.1%	9.4%
Total	$ 190,346			

Revenue is recognized when performance obligations under the terms of the contracts are satisfied. Our performance obligation primarily consists of delivering products to our customers. Control is transferred upon providing the products to customers in our retail stores, upon shipment of our products to the consumers from our ecommerce sites, and upon shipment from our distribution centers to our customers in our wholesale operations. Once control is transferred to the customer, we have completed our performance obligation.

Our receivables resulting from wholesale customers are generally collected withintwo months, in accordance with our established credit terms. Our direct-to-consumer ecommerce and retail store receivables are collected within a few days. Our revenue, including freight income, is recognized net of applicable taxes in our Condensed Consolidated Statements of Operations.

In certain areas of our wholesale business, we offer discounts and allowances to support our customers. Some of these arrangements are written agreements, while others may be implied by customary practices in the industry. Wholesale sales are recorded net of discounts, allowances, and operational chargebacks. As certain allowances and other deductions are not finalized until the end of a season, program or other event which may not have occurred, we estimate such discounts, allowances, and returns that we expect to provide.

In accordance with the new revenue guidance, we only recognize revenue to the extent that it is probable that we will not recognize a significant reversal of revenue when the uncertainties related to the variability are ultimately resolved. In determining our estimates for discounts, allowances, chargebacks, and returns, we consider historical and current trends, agreements with our customers and retailer performance. We record these discounts, returns and allowances as a reduction to net sales in our Condensed Consolidated Statements of Operations and as a liability in our accrued expenses in our Condensed Consolidated Balance Sheets, with the estimated value of inventory expected to be returned in prepaid and other current assets in our Condensed Consolidated Balance Sheets.

We have made accounting policy elections related to the new revenue recognition standard. We exclude any taxes collected from customers that are remitted to taxing authorities from net sales. We record shipping and handling charges incurred by us before and after the customer obtains control as a fulfillment cost rather than an additional promised service. Our customers' terms are less than one year from the transfer of goods, and we do not adjust receivable amounts for the impact of the time value of money. We do not capitalize costs of obtaining a contract which we expect to recover, such as commissions, as the amortization period of the asset recognized would be one year or less. We do not believe any of these expedients had a material impact on our financial statements upon our adoption of the guidance.

With the adoption of ASU 2014-09, the timing of revenue recognition for our primary revenue streams remained substantially unchanged, with no material effect on net sales. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of March 30, 2019, (in thousands), due to the change in recording provisions for customer refunds as a liability instead of netted against trade accounts receivable.

	As Reported March 30, 2019	Effect of standard	Balances without Adoption
Accounts receivable, net	$ 59,197	$ (847)	$ 58,350
Prepaid expenses and other current assets	3,002	(101)	2,901
Total Current Assets	251,251	(948)	250,303
Total assets	379,055	(948)	378,107
Accrued liabilities	15,439	(1,093)	14,346
Total current liabilities	89,790	(1,093)	88,697
Total liabilities	233,388	(1,093)	232,295
Total liabilities and equity	$ 379,055	$ (1,093)	$ 377,962

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments,* ("ASU 2016-15"). The amendments add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. This was issued with the intent of reducing diversity in practice with respect to the types of cash flows. ASU 2016-15 is required to be adopted retrospectively. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. ASU 2016-15 was adopted in our fiscal year beginning September 30, 2018. During the March quarter, we paid $0.6 million in contingent consideration. With the adoption of ASU 2016-15, $0.1 million and $0.5 million were recorded in net cash used in operating activities and financing activities, respectively.

Standards Not Yet Adopted

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 January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and other (Topic 350), Simplifying the Test for Goodwill Impairment*, ("ASU 2017-04"). To simplify the subsequent measurement of goodwill, ASU 2017-04 eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following a similar process that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under ASU 2017-04 an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for financial statements issued for annual and interim periods beginning after December 15, 2019. ASU 2017-04 will therefore be effective in our fiscal year beginning October 4, 2020. We are evaluating the effect that ASU 2017-04 will have on our Consolidated Financial Statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,* ("ASU 2017-12"). The amendments in ASU 2017-12 apply to any entity that elects to apply hedge accounting in accordance with U.S. GAAP. ASU 2017-12 permits more flexibility in hedging interest rate risk for both variable rate and fixed rate financial instruments, and the ability to hedge risk components for nonfinancial hedges. In addition, this ASU requires an entity to present the earnings effect of hedging the instrument in the same income statement line in which the earnings effect of the hedge item is reported. In addition, companies no longer need to separately measure and report hedge ineffectiveness and can use an amortization approach or continue with mark-to-market accounting. ASU 2017-12 is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those annual periods. ASU 2017-12 will be adopted in our fiscal year beginning September 29, 2019. We are evaluating the effect that ASU 2017-12 will have on our Consolidated Financial Statements and related disclosures.

Note D—Acquisitions

On October 8, 2018, our DTG2Go, LLC subsidiary purchased substantially all of the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services ("SSI"), a premium provider of direct-to-garment digital printed products. The SSI business operated from locations in Iowa and Colorado serving the western and mid-western parts of the United States. During the March quarter, we stopped production at the smaller operation in Colorado as the location was not strategic as it served the same geographic locations as the Iowa and existing Nevada locations.

The financial results of the acquired business have been included in our Delta Group since the date of the acquisition. It is not practicable to disclose the revenue and income of SSI since the acquisition date as we have integrated the SSI and DTG2Go businesses together during the current period.

The SSI acquisition purchase price consisted of$2.0 million in cash, a promissory note for$7.0 million and $3.0 million in capital lease funding secured by the acquired fixed assets. The cash portion of the purchase price included a payment at closing of $2.0 million and a post-closing net working capital adjustment. The post–closing net working capital adjustment of $0.7 million was paid during the March quarter. The below table represents the consideration paid at closing (in thousands):

Cash	$	2,000
Promissory note		6,800
Capital lease financing		3,000
Net working capital adjustment		729
Total consideration	$	12,529

The current allocation of consideration to the assets and liabilities are noted in the table below. We are in the process of finalizing our valuation of the intangible assets acquired; thus, the provisional measurements of intangible assets and goodwill are subject to change. The total amount of goodwill is expected to be deductible for tax purposes.

		Allocation as of March 30, 2019
Accounts receivable	$	1,184
Inventory		1,127
Other current assets		86
Property, plant, and equipment		3,400
Goodwill		3,380
Intangible assets		4,020
Accounts payable		(668)
Consideration paid	$	12,529

Note E—Inventories

Inventories, net of reserves of $10.1 million and $10.5 million, as of March 30, 2019, and September 29, 2018, respectively, consisted of the following (in thousands):

		March 30, 2019		September 29, 2018
Raw materials	$	11,967	$	9,641
Work in process		18,213		18,327
Finished goods		156,346		147,015
	$	186,526	$	174,983

Raw materials include finished yarn and direct materials for the Delta Group, undecorated garments for the DTG2Go business and direct embellishment materials for the Salt Life Group.

Note F—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, Culver City Clothing Company (f/k/a Junkfood Clothing Company), Salt Life, LLC, and DTG2Go, LLC (f/k/a Art Gun, LLC) (collectively, the "Borrowers"), are co-borrowers under the Amended Credit Agreement.

On November 27, 2017, the Borrowers entered into a First Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the “First Amendment”). The First Amendment amended the definition of Fixed Charge Coverage Ratio within the Amended Credit Agreement to permit up to $10 million of the proceeds received from the March 31, 2017, sale of certain assets of the Junkfood business to be used towards share repurchases for up to one year from the date of that transaction. In addition, the definition of Permitted Purchase Money Indebtedness is amended to extend the time period within which the Borrowers may enter into capital leases and to increase the aggregate principal amount of such leases into which the Borrowers may enter to up to $15 million. The definition of Permitted Investments is also amended to permit the Borrowers to make investments in entities that are not a party to the Amended Credit Agreement in an aggregate amount of up to $2 million. The First Amendment also allows the change in the name of our Junkfood Clothing Company subsidiary to Culver City Clothing Company. There were no changes to the Amended Credit Agreement related to interest rate, borrowing capacity, or maturity.

On March 9, 2018, the Borrowers entered into a Consent and Second Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the “Second Amendment”). Pursuant to the Second Amendment, Wells Fargo and the other lenders set forth therein consented to Art Gun, LLC’s acquisition of substantially all of the assets of TeeShirt Ink Inc. d/b/a DTG2Go. The Second Amendment also: (i) revised certain provisions in the Amended Credit Agreement relating to our ability to pay cash dividends or distributions to shareholders or to repurchase shares of our common stock so that the effects of the Tax Cuts and Jobs Act of 2017 do not negatively impact our ability to make such dividends or distributions or to repurchase shares of our common stock during our 2018 fiscal year; (ii) amended the definition of Permitted Investments in the Amended Credit Agreement to allow investments in the Honduras partnership (as defined in the Amended Credit Agreement) in an aggregate original principal amount not to exceed $6 million; (iii) amended the definition of Permitted Purchase Money Indebtedness in the Amended Credit Agreement to increase the aggregate principal amount of capital leases into which we may enter to up to $25 million; (iv) permitted the name change of Art Gun, LLC to DTG2Go, LLC; and (v) added new definitions relating to the DTG2Go acquisition. There were no changes to the Amended Credit Agreement related to interest rate, borrowing capacity, or maturity.

On October 8, 2018, the Borrowers entered into a Consent and Third Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the "Third Amendment"). Pursuant to the Third Amendment, the Lenders consented to DTG2Go's acquisition of substantially all of the assets of SSI. The Third Amendment also: (i) amended the existing loan agreement, including various definitions therein, to add a first-in last-out "FILO" borrowing component and (ii) amended the existing loan agreement, including various definitions therein, to address the potential unavailability or discontinuance of the use of LIBOR rates and updated certain provisions regarding compliance with denied party, sanctioned entity, anti-corruption and anti-money laundering and related laws and regulations and other items.

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.

As of March 30, 2019, there was $111.0 million outstanding under our U.S. revolving credit facility at an average interest rate of 4.8% and additional borrowing availability of $22.2 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 than1.1 to 1.0. We were not subject to the FCCR covenant at March 30, 2019, because our availability was above the minimum required under the Amended Credit Agreement, but we would have satisfied our financial covenant had we been subject to it. At March 30, 2019, and September 29, 2018, there was $12.2 million and $14.7 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 March 30, 2019, the discounted value of the promissory note outstanding was $1.0 million.

On October 8, 2018, we acquired substantially all of the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services, see Note-D Acquisitions for more information on this transaction. In conjunction with the acquisition, we issued a promissory note in the principal amount of $7.0 million. The promissory note bears interest at6% with quarterly installments beginning January 2, 2019, with the final installment due October 1, 2021. As of March 30, 2019, there was $6.3 million outstanding on the promissory note.

Since March 2011, we have entered into term loans and a revolving credit facility with Banco Ficohsa, a Honduran bank, to finance both the operations and capital expansion of our Honduran facilities. Each of these loans is secured by a first-priority lien on the assets of our Honduran operations and is not guaranteed by our U.S. entities. These loans are denominated in U.S. dollars and the carrying value of the debt approximates its fair value. 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 those covenants, the amounts have been classified as long-term debt.

Additional information about these loans and the outstanding balances as of March 30, 2019, is as follows (in thousands):

	March 30, 2019
Revolving credit facility established March 2011, interest at 6.1% expiring August 2020	$ 4,717
Term loan established November 2014, interest at 6.0%, payable monthly with a six-year term	1,100
Term loan established June 2016, interest at 6.0%, payable monthly with a six-year term	922
Term loan established October 2017, interest at 6.0%, payable monthly with a six-year term	2,486

Note G—Selling, General and Administrative Expense

We include in selling, general and administrative ("SG&A") expenses the 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 $4.2 million and $4.4 million for the three-month periods ended March 30, 2019, and March 31, 2018, respectively, and totaled $8.4 million and $8.3 million for the six-month periods ended March 30, 2019, and March 31, 2019, respectively. In addition, SG&A expenses include costs related to sales associates, administrative personnel, advertising and marketing expenses and other general and administrative expenses.

Note H—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. 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") and, instead, all stock awards have been and will continue to be granted under the 2010 Stock Plan.

We account for these plans pursuant to ASC 718, SAB 107, SAB 110, and ASU 2016-09. Shares are generally issued from treasury stock upon exercise of the options or the vesting of the restricted stock units, performance units or other awards 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-month periods ended March 30, 2019, and March 31, 2018, we recognized $0.6 million and $0.7 million, respectively, in stock-based compensation expense. During the six-month periods ended March 30, 2019, and March 31, 2018, we recognized $1.3 million and $1.2 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 under the plan consist of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units, and other stock and cash awards. 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 a 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.

No restricted stock units or performance units were granted during the three-month and six-month periods ended March 30, 2019.

During the three-month period ended December 29, 2018, restricted stock units and performance units representing 205,000 and 42,000 shares of our common stock, respectively, vested upon the filing of our Annual Report on Form 10-K for the fiscal year ended September 29, 2018, and were issued in accordance with their respective agreements. All vested awards were paid in common stock.

During the three-month period ended December 30, 2017, restricted stock units and performance units representing 54,602 and 92,068 shares of our common stock, respectively, vested upon the filing of our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, and were issued in accordance with their respective agreements. One-half of the restricted stock units were paid in common stock and one-half were paid in cash. Of the performance units, 72,138 were paid in common stock and 19,930 were paid in cash.

As of March 30, 2019, there was $2.2 million of total unrecognized compensation cost related to unvested awards granted under the 2010 Stock Plan. This cost is expected to be recognized over a period of 1.7 years.

Note I—Purchase Contracts

We have entered into agreements, and have fixed prices, to purchase yarn, finished fabric, and finished apparel and headwear products. At March 30, 2019, minimum payments under these contracts were as follows (in thousands):

Yarn	$	30,785
Finished fabric		3,196
Finished products		17,842
	$	51,823

Note J—Business Segments

We operate our business in two segments, the Delta Group and the Salt Life Group.During fiscal year 2018, we made a strategic decision to re-align our business into segments that better reflect our operating model and allow us to better leverage and more efficiently manage our cost structure as we plan future growth. With this re-alignment, we changed and renamed our reportable segments to reflect how our Chief Operating Decision maker and management currently make financial decisions and allocate resources. We are now reporting our results under the Delta Group, comprising our Delta Activewear, DTG2Go and Soffe business units, and the Salt Life Group, comprising our Salt Life and Coast business units. 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 Delta Group is comprised of our business units primarily focused on core activewear styles, and includes our Delta Activewear (which includes Delta Catalog and FunTees), Soffe, and DTG2Go business units. We market, distribute and manufacture unembellished knit apparel under the main brands of Soffe®, Delta Platinum, Delta Pro Weight®, and Delta Magnum Weight® for sale to a diversified audience including sporting goods retailers, large licensed screen printers, specialty and resort stores, ad-specialty and promotional products businesses and the U.S. military. 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, DTG2Go embellishes garments to create private label, custom decorated apparel servicing the fast-growing e-retailer channels, as well as the ad-specialty, promotional products, screen print and retail marketplaces.

The Salt Life Group is comprised of our lifestyle brands focused on a broad range of apparel garments, headwear and related accessories to meet consumer preferences and fashion trends, and includes our Salt Life and Coast business units. These products are sold through specialty and boutique shops, traditional department stores, and outdoor retailers, as well as direct-to-consumer through branded ecommerce sites and branded retail stores. Products in this segment are marketed under our lifestyle brands of Salt Life® and COAST®, as well as other labels.

Our Chief Operating Decision Maker and management evaluate performance and allocate resources based on profit or loss from operations before interest, income taxes and special charges ("segment operating earnings"). Our segment operating earnings may not be comparable to similarly titled measures used by other companies. The accounting policies of our reportable segments are the same as those described in Note 2 in our Annual Report on Form 10-K for the fiscal year ended September 29, 2018, 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		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Segment net sales:				
Delta Group	$ 89,526	$ 86,125	$ 183,916	$ 170,051
Salt Life Group	13,312	13,879	20,597	20,295
Total net sales	$ 102,838	$ 100,004	$ 204,513	$ 190,346
Segment operating income:				
Delta Group (1)	$ 3,367	$ 5,776	$ 6,145	$ 10,201
Salt Life Group	2,733	2,987	3,011	3,210
Total segment operating income	$ 6,100	$ 8,763	$ 9,156	$ 13,411

(1)The Delta Group operating income in the quarter ended December 29, 2018, included $2.5 million of expense for a litigation settlement related to the 2016 bankruptcy filing of The Sports Authority.

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

	Three Months Ended		Six Months Ended	
	March 30, 2019	March 31, 2018	March 30, 2019	March 31, 2018
Segment operating income	$ 6,100	$ 8,763	$ 9,156	$ 13,411
Unallocated corporate expenses	3,405	3,149	6,422	6,059
Unallocated interest expense	1,985	1,350	3,750	2,685
Consolidated income (loss) before provision for income taxes	$ 710	$ 4,264	$ (1,016)	$ 4,667

The Delta Group segment assets have increased by approximately$27.3 million since September 29, 2018, to $311.2 million as of March 30, 2019, principally as a result of our recent digital print acquisition as well as from higher working capital from the seasonality of our business. See Note D—Acquisitions for further information on our recent digital print acquisition. The Salt Life Group segment assets have increased by $8.4 million since September 29, 2018, to $63.4 million as of March 30, 2019, primarily due to seasonal increase in working capital.

Note K—Income Taxes

The Tax Cuts and Jobs Act of 2017 (the "New Tax Legislation") was enacted on December 22, 2017, which significantly revised the U.S. corporate income tax code by, among other things, lowering federal corporate income tax rates, implementing a modified territorial tax system and imposing a repatriation tax on deemed repatriated cumulative earnings of foreign subsidiaries. The New Tax Legislation created, among other things, a new requirement that certain income earned by controlled foreign corporations ("CFCs") must be included currently in the gross income of the CFCs' U.S. shareholder. In addition, new taxes were imposed related to foreign income, including a tax on global intangible low-taxed income ("GILTI") as well a limitation on the deduction for business interest expense, ("Section 163(j))".

GILTI is the excess of the shareholder's net CFC tested income over the net deemed tangible income. The Section 163(j) limitation does not allow the amount of deductible interest to exceed the sum of the taxpayer's business interest income, 30% of the taxpayer's adjusted taxable income, and the taxpayer's floor plan financing interest expense for the year. We have included in our calculation of our effective tax rate the estimated impact of GILTI and Section 163(j).

In the quarter ended December 30, 2017, when the New Tax Legislation was enacted, we made reasonable estimates of the effects on our existing deferred tax balances and the transition tax, recording $10.6 million of tax expense based on an estimate of our total earnings and profits (E&P) from our foreign subsidiaries which were previously deferred from U.S. taxes. During the quarter ended September 29, 2018, we increased the provisional amount by $0.1 million based on our E&P study resulting in$10.7 million recorded in our 2018 fiscal year. The transition tax will be paid over eight years. The transitional tax was finalized during the first quarter of fiscal year 2019 and is no longer considered provisional.

Our effective income tax rate on operations for the six-month period ended March 30, 2019, was a benefit of 60.5% driven from the discrete tax benefit from the vesting of stock awards. For the six-month period ended March 31, 2018, our effective income tax rate, excluding the $10.6 million provision related to The New Tax Legislation, was a benefit of 9.4%. Our effective income tax rate on operations for the fiscal year ended September 29, 2018, excluding the $10.7 million provision related to The New Tax Legislation, was a benefit of 1.7%.

We intend to reinvest all of our unremitted earnings of our foreign subsidiaries and therefore, outside of the transition tax mentioned previously, we have provided no provision for income taxes which may result from withholding taxes and/or other outside basis differences. We believe that the determination of such income taxes is impracticable.

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 28, 2019, is currently expected to be approximately 16%-18%. However, changes in the mix of U.S. taxable income compared to profits in tax-free or lower-tax jurisdictions can have a significant impact on our overall effective tax rate. In addition, the final impact of the New Tax Legislation may differ from our estimates, possibly materially, due to, among other things, changes in interpretations, additional regulatory guidance that may be issued, additional information that may become available to us, and actions we may take as a result of the New Tax Legislation.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Tax years 2014, 2015, and 2016, according to statute and with few exceptions, remain open to examination by various federal, state, local and foreign jurisdictions.

Note L—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. All components of other comprehensive income are attributable to shareholders. As of March 30, 2019, there are no components related to the non-controlling interest. Outstanding instruments as of March 30, 2019, are as follows:

	Effective Date	Notational Amount	Fixed LIBOR Rate	Maturity Date
Interest Rate Swap	July 19, 2017	$10.0 million	1.74%	July 19, 2019
Interest Rate Swap	July 19, 2017	$10.0 million	1.99%	May 10, 2021
Interest Rate Swap	July 25, 2018	$20.0 million	3.18%	July 25, 2023

From time to time, we may purchase cotton option contracts to economically hedge the risk related to market fluctuations in the cost of cotton used in our operations. We do not receive hedge accounting treatment for these derivatives. As such, the realized and unrealized gains and losses associated with them are recorded within cost of goods sold on the 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 assets (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				
March 30, 2019	$ (658)	—	$ (658)	—
September 29, 2018	183	—	183	—
Cotton Options				
March 30, 2019	$ (3)	$ (3)	—	—
September 29, 2018	(110)	(110)	—	—
Contingent Consideration				
March 30, 2019	$ (9,294)	—	—	$ (9,294)
September 29, 2018	(10,542)	—	—	(10,542)

The fair value of the interest rate swap agreements was 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. At March 30, 2019, 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 March 30, 2019, and September 29, 2018 (in thousands):

	March 30, 2019	September 29, 2018
Other assets	$ —	$ 182
Deferred tax assets	166	(46)
Other non-current liabilities	(658)	—
Accumulated other comprehensive (loss) income	$ (492)	$ 136

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 March 30, 2019, we had $0.2 million accrued in contingent consideration related to the Salt Life acquisition, a $1.1 million reduction from the accrual at September 29, 2018. The reduction in the fair value of contingent consideration is recorded in other income and is based on the inputs into the Monte Carlo model, including the time remaining in the measurement period and our expectations of sales in calendar year 2019 which have been reduced based our current view of the retail environment.

On March 9, 2018, we acquired Teeshirt Ink, Inc. d/b/a DTG2Go. The purchase price consisted of $16.6 million in cash and additional contingent consideration based on achievement of certain performance targets related to sales and EBITDA for the period from April 1, 2018, through September 29, 2018, as well as for our fiscal years 2019, 2020, 2021 and 2022. In the second quarter of fiscal year 2019, in accordance with the purchase agreement, contingent consideration of $0.6 million was paid to the sellers for the earn out period from April 1, 2018, through September 29, 2018. At March 30, 2019, we had $9.1 million accrued in contingent consideration, a $0.1 million decrease from the accrual at September 29, 2018. The reduction is driven by the $0.6 million payment made during the quarter offset by $0.5 million increase in the accrual which is recorded in other income. The fair value of contingent consideration is based on the inputs into the Monte Carlo model, including the time remaining in the measurement period. Accordingly, the fair value measurement for contingent consideration falls in Level 3 of the fair value hierarchy.

Note M—Legal Proceedings

The Sports Authority Bankruptcy Litigation

Soffe was previously 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 related 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") including requests for declaratory judgment on a variety of matters related to the Products and Proceeds as well as several related claims. TSA lender Wilmington Savings Fund Society, FSB, as Successor Administrative and Collateral Agent ("WSFS"), intervened in the TSA Action seeking a declaratory judgment on a variety of matters related to the Products and Proceeds and including several related claims. Soffe subsequently asserted counterclaims against WSFS in the TSA Action seeking a declaratory judgment on a variety of matters related to the Products and Proceeds.

On November 26, 2018, the court issued an order in favor of WSFS with respect to its claimed interest in the majority of the Products and Proceeds. Soffe, WSFS, TSA Stores, Inc., TSA Ponce, Inc. and TSA Caribe, Inc. subsequently reached agreement to settle the above-referenced matters, with Soffe agreeing to pay approximately $2.5 million in exchange for a comprehensive release of all claims at issue in the matters. These matters have now been finally resolved, with the agreed amounts funded on December 31, 2018. We recorded the settlement expense in other expense, net in our Condensed Consolidated Statement of Operations for the three-month period ended December 29, 2018.

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 adverse effect on our operations, financial condition, or liquidity.

Note N—Repurchase of Common Stock

As of September 29, 2018, our Board of Directors authorized management to use up to $60.0 million to repurchase stock in open market transactions under our Stock Repurchase Program.

During the March quarter of fiscal year 2019, we purchased 35,353 shares of our common stock for a total cost of $0.7 million. Through March 30, 2019, we have purchased 3,484,962 shares of our common stock for an aggregate of $50.1 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 March 30, 2019, $9.9 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 March 30, 2019:

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
December 30, 2018 to February 2, 2019	32,353	$19.93	32,353	$10.0 million
February 3, 2019 to March 2, 2019	3,000	23.98	3,000	9.9 million
March 3, 2019 to March 30, 2019	—	0.00	—	9.9 million
Total	35,353	$20.27	35,353	$9.9 million

Note O—Goodwill and Intangible Assets

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

	March 30, 2019			September 29, 2018			
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	Economic Life
Goodwill	$ 36,597	$ —	$ 36,597	$ 33,217	$ —	$ 33,217	N/A
Intangibles:							
Tradename/trademarks	$ 16,090	$ (3,007)	$ 13,083	$ 16,090	$ (2,736)	$ 13,354	20 – 30 yrs
Customer relationships	8,500	(478)	8,022	4,500	(253)	4,247	8 – 10 yrs
Technology	1,720	(1,402)	318	1,720	(1,105)	615	10 yrs
License agreements	2,100	(578)	1,522	2,100	(527)	1,573	15 – 30 yrs
Non-compete agreements	1,657	(1,048)	609	1,637	(928)	709	4 – 8.5 yrs
Total intangibles	$ 30,067	$ (6,513)	$ 23,554	$ 26,047	$ (5,549)	$ 20,498	

Goodwill represents the acquired goodwill net of the $0.6 million cumulative impairment losses recorded in fiscal year 2011. The goodwill recorded on our financial statements is included in both of our segments, with $16.7 million and $19.9 million included in the Delta Group and Salt Life Group, respectively.

On October 8, 2018, we acquired substantially all of the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services. See Note D—Acquisitions. We have identified certain intangible assets associated with the acquisition, including technology, customer relationships, non-compete agreements and goodwill. While we are still in the process of finalizing the valuations of the intangible assets acquired, we provisionally valued goodwill associated with SSI at $3.4 million, and customer relationships and non-compete agreements at $4.0 million.

Amortization expense for intangible assets was $0.5 million for the three-month period ended March 30, 2019, and $0.3 million for the three-month period ended March 31, 2018. Amortization expense for intangible assets was $1.0 million for the six-month period ended March 30, 2019, and $0.5 million for the six-month period ended March 31, 2018. Amortization expense is estimated to be approximately $2.0 million for fiscal year 2019, $1.8 million for fiscal year 2020, and $1.7 million for each of fiscal years 2021, 2022 and 2023.

Note P—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 SEC, in our press releases, and in other reports to our shareholders. All statements, other than statements of historical fact, which address activities, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements. The words “plan”, “estimate”, “project”, “forecast”, “anticipate”, “expect”, “intend”, “seek", “believe”, “may”, “should” and similar expressions, and discussions of strategy or intentions, are intended to identify forward-looking statements.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current expectations and are necessarily dependent upon assumptions, estimates and data that we believe are reasonable and accurate but may be incorrect, incomplete or imprecise. Forward-looking statements are subject to a number of business risks and inherent uncertainties, any of which could cause actual results to differ materially from those set forth in or implied by the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in forward-looking statements include, among others, the following:

- the 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;
- 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;
- our ability to successfully open and operate new retail stores in a timely and cost-effective manner;
- changes in economic, political or social stability at our offshore locations;
- significant interruptions or disruptions within our manufacturing, distribution or other operations;
- our ability to attract and retain key management;
- 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, fuel and related costs;
- material disruptions in our information systems related to our business operations;
- compromises of our data security;
- significant litigation in either domestic or international jurisdictions;
- recalls, claims and negative publicity associated with product liability issues;
- the ability to protect our trademarks and other intellectual property;
- the impairment of acquired intangible assets;
- changes in international trade regulations;
- our ability to comply with trade regulations;
- changes in employment laws or regulations or our relationship with employees;
- 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; and
- price volatility in our shares and the general volatility of the stock market.

A detailed discussion of significant risk factors that have the potential to cause actual results to differ materially from our expectations is set forth in Part 1 under the subheading "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended September 29, 2018, 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 or circumstances and may not be realized. Further, any forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q and we do not undertake to publicly update or revise the forward-looking statements, except as required by the federal securities laws.

Business Outlook

We were pleased to be able to deliver more sales growth during our second quarter, led by another period of notable expansion in our DTG2Go digital print business, and finish the first half of our year with sales growth across our overall business as well as both our Delta Group and Salt Life Group segments. We are off to a strong start to our third quarter and see exciting opportunities for growth and increased profitability across all of our businesses as we move through the back half of our year.

The strong momentum in our DTG2Go digital print business is creating leverage and scale efficiencies that are further bolstering our market leadership position and facilitating even more differentiation from competitors. The planned expansion of DTG2Go’s seamless

nationwide print and fulfillment network to locations in Texas and New Jersey and investments in production capacity should facilitate record printing and shipping milestones in that business, including the ability to print approximately 90,000 unique graphics per day and unmatched shipping coverage including two-day service to almost all United States consumers and one-day service to about half of all United States consumers. DTG2Go is also adding to its leadership position through its first-to-market adoption of break-through polyester printing technology to service the increasing demand for decorated polyester performance garments. We remain extremely optimistic about the untapped growth potential within the digital print market both in the United States and globally and enter the third quarter with great opportunities to grow within both our traditional channels and exciting new channels such as brick and mortar retailers.

Our Salt Life business is off to a strong start to our third quarter and continues to gain momentum with new national and regional retailers both within and outside of its traditionally strong regional markets. The growth in Salt Life's sales of higher price point performance products continues, as does the overall diversification of its product line with women's, and accessories becoming a larger piece of its overall sales mix. Salt Life also continues to invest in its direct-to-consumer strategy with a new branded Salt Life store in Orlando, Florida, scheduled to open in the near term and plans for several additional new stores in the South Florida market later in the year. Recent brand extensions such as Salt Life Lager and ladies swimwear are also gaining more traction and enhancing Salt Life's lifestyle positioning, and we look for that encouraging trend to continue throughout the year.

Our Delta Activewear business continues to grow and we see many opportunities to expand our market reach into new channels of distribution, including direct-to-retail and ecommerce, while also leveraging other parts of the Delta Group platform, including DTG2Go's digital print capabilities and Soffe's screen print platform. As expected, our private label FunTees business was unfavorably impacted during the quarter by some start-up and other costs associated with the diversification of its customer base, but it was able to achieve double-digit growth in unit sales and we anticipate record unit sales during the third and fourth fiscal quarters. We look for the double-digit growth trend on Catalog's B2B ecommerce site and with its more profitable fashion basics line, which includes our Delta Platinum and other higher-end products, to continue in the back half of the year and for those higher-margin areas to become a larger part of our overall sales in that business. We also expect the cost efficiency and quality gains we are seeing in our manufacturing platform to continue to provide positive momentum and competitive advantages for us as the year unfolds.

Our Soffe brand is off to a good start to our third quarter with solid momentum in the strategic sporting goods and department store channels, some exciting opportunities in the military channel and general market trends favoring heritage brands like Soffe. Soffe also continues to see strong e-commerce performance across both its B2B and B2C sites and we believe the brand is positioned for growth going forward.

Overall we expect to see top and bottom-line growth in the second half of the year on the strength of our diversified customer base, expanding sales channels and investments in technology, direct-to-consumer initiatives and unique "end-to-end" manufacturing and distribution platforms. Our core Activewear business continues to gain market share and provide a steady, profitable platform to support our higher-growth businesses and we have further solidified our leading positions in the digital print and lifestyle spaces with our DTG2Go and Salt Life businesses. While parts of our business were challenged during the second quarter, we continue to believe we are uniquely positioned to compete and grow in today's dynamic retail environment.

Results of Operations

Net sales for the second quarter were $102.8 million, up $2.8 million, or nearly 3%, from the prior year period's net sales of $100.0 million. The growth was driven by our digital print business, which continued its growth from the prior quarter. The acquisitions of the DTG2Go and SSI Digital Print businesses acquired in the past year contributed to this growth as well as organic growth from new customer programs. For the first six months of 2019, net sales grew over 7% to $204.5 million from $190.3 million in the prior year. DTG2Go sales increased 223% to over $23 million, and Salt Life sales grew by 2% to over $20 million. These sales increases were partially offset by lower sales at Activewear and Soffe. Changes in the private label product mix drove sales declines in Activewear although unit sales increased. Soffe sales were hindered by declines in the military channel, offsetting increases being achieved in other sales channels.

Our retail stores and ecommerce sales, including our B2C and B2B sites, increased 20 and 80 basis points over the prior year three-month and six-month periods, respectively. The growth was driven by increased sales on our Soffe and Activewear ecommerce sites and at our Salt Life and Soffe retail stores. Retail and ecommerce sales represented 6.7% and 7.5% of total revenues for the three-month and six-month periods ended March 30, 2019, compared to 6.4% and 6.7% of total revenues in the prior year periods, respectively.

Our second quarter gross margins expanded 10 basis points from the first quarter to 18.4%, but declined from the 22.2% gross margins in the prior year. Salt Life Group segment gross margins expanded 20 basis points to 48.0% from 47.8% in the prior year quarter due to the favorable mix of sales. The Delta Group segment gross margins declined to 14.0% from 18.1% in the prior year from the expected higher cost of raw materials as well as costs associated with the diversification of our private label products. In addition, we experienced higher than expected costs in our digital print business as we integrated the recent acquisitions.

Selling, general, and administrative expenses ("SG&A") were$17.1 million, or 16.6% of sales, for the quarter compared to $16.7 million, or 16.7% of sales, in the prior year period.

Other income includes profits related to our Honduran equity method investment as well as valuation changes in our contingent consideration and other less significant items. The change in fair value of contingent consideration was associated with the Salt Life and DTG2Go acquisitions. Based upon our updated analysis for Salt Life, the fair value of this liability decreased $0.6 million in the 2019 second quarter. The change is principally due to decreased sales expectations for calendar year 2019. The DTG2Go liability increased by $0.3 million due to the time remaining in the applicable earn-out period.

Net interest expense for the second quarter of fiscal year 2019 was $2.0 million, as compared to $1.4 million in the prior year period due to higher debt levels from our recent acquisitions, coupled with increased interest rates.

Our effective tax rate on operations for the six-month period ended March 30, 2019, was 60.5% driven from the discrete tax benefit from the vesting of stock awards. This compares to an effective income tax benefit of 14.8% for the same period in the prior year, and a benefit of 1.7% for the fiscal year ended September 29, 2018, when excluding the impact of the New Tax Legislation. See Note K—Income taxes for more information.

We achieved net income for the second quarter of $0.9 million, or $0.13 per diluted share, down from the prior year period net income of $3.6 million, or $0.48 per diluted share. Largely impacted by the resolution of The Sports Authority bankruptcy litigation, we experienced a net loss for the first six months of $0.2 million, or $0.03 per diluted share, compared to the prior year net loss of $6.3 million, or $0.87 per diluted share. Adjusting for $2.5 million expense associated with the resolution of The Sports Authority bankruptcy litigation our net income for the first six months was approximately $0.27 per diluted share, compared to $0.56 per diluted share in the prior year period after adjusting for the discrete impact of the New Tax Legislation.

Accounts receivable were $59.2 million at March 30, 2019, compared to $59.3 million at March 31, 2018, and $45.6 million as of September 29, 2018. Days sales outstanding ("DSO") as of March 30, 2019, were 49 days, in line with 48 days at September 29, 2018.

Net inventory was $186.5 million as of March 30, 2019, an increase of $11.5 million from September 29, 2018. The higher inventory levels resulted from the seasonal build of inventory as well as higher average cost inventory and increased units from the SSI Acquisition.

Capital spending was $2.1 million during the March quarter of fiscal year 2019 and primarily related to manufacturing equipment as well as information technology enhancements. Depreciation and amortization expense, including non-cash compensation, was $7.0 million for the first six months of fiscal year 2019.

Total debt, excluding capital leases, at March 30, 2019, was $127.5 million, compared with $112.2 million at March 31, 2018. The increase from the prior year was primarily driven from the recent acquisitions in the digital print business.

Salt Life Group Segment

The Salt Life Group segment revenue was $13.3 million in the second quarter compared to $13.9 million in the prior year period due primarily to the unseasonably cool spring and timing of orders due to the Easter holiday occurring later in the spring compared to the prior year. However, sales for the first six months increased to $20.6 million from the prior year $20.3 million.

Gross margins grew 20 basis points over the prior year period to 48% and 80 basis points in the first six months to 48.4%. Operating income in the Salt Life Group segment for the second quarter was $2.9 million compared to $3.0 million in the prior year period. Operating income for the first six months was $3.2 million, in line with the prior year period.

Delta Group Segment

The Delta Group segment revenue grew almost 4% during the second quarter to $89.5 million from $86.1 million in the prior year period. Sales at DTG2Go increased over $7 million from the prior year driven from the SSI acquisition and organic growth from new customer programs. Although Activewear sales were down 3% from the prior year quarter, sales volumes increased driven from the changes in the private label product mix shifting to lower priced garments driven from changes in silhouettes and fabrications. The higher-margin fashion basics products growth continued with 30% sales growth. Soffe sales were down $1.8 million from lower military sales offsetting strong direct-to-consumer and B2B ecommerce sales. Net sales for the first six months grew over 8% to $183.9 million compared to $170.1 million in the prior year.

Gross margins were 14.0% down from the prior year 18.1% as higher raw material costs and startup costs associated with changes in the private label product mix with new customers impacted gross margins when compared to the prior year. For the first six months of fiscal year 2019 gross margins were 15.0% compared to the prior year 17.0%. Operating income for the second quarter was $3.4 million compared to $5.8 million in the prior year resulting primarily from the lower gross margins. Delta Group segment operating income for the first six months was impacted by $2.5 million of litigation expense and was $6.1 million compared to $10.2 million in the prior year.

Non-GAAP Financial Measures

We provide all information required in accordance with U.S. GAAP, but we believe that evaluating our ongoing operating results may be difficult if limited to reviewing only U.S. GAAP financial measures. In an effort to provide investors with additional information regarding our results, we also provide non-GAAP information that management believes is useful to investors. We discuss income and earnings per diluted share performance measures that are, for comparison purposes, adjusted to eliminate items or results stemming from discrete events. We do this because management uses these measures in evaluating our underlying performance on a consistent basis across periods. We also believe these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of our ongoing performance. These non-GAAP measures have limitations as analytical tools, and securities analysts, investors and other interested parties should not consider any of these non-GAAP measures in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. These non-GAAP measures may not be comparable to similarly titled measures used by other companies.

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 $8.3 million and $5.5 million of cash in the first six months of fiscal year 2019 and 2018, respectively. The increased use of cash from the prior year is primarily due to higher cost inventories due to increased raw material costs as well as more units from expansion of skus and the SSI acquisition.

Investing Cash Flows

Capital expenditures were $2.1 million during the first six months of fiscal year 2019 compared to$3.5 million in the same period last year. Capital expenditures in both periods primarily related to machinery and equipment as well as information technology enhancements. In addition, property, plant, and equipment of $3.4 million were acquired as part of the SSI acquisition during fiscal year 2019. During the first six months of fiscal year 2018, investing cash flows also included $1.9 million in proceeds received from the promissory note related to the sale of our Junkfood business.

Investing activities for the first six months of fiscal year 2018 included $5.0 million of proceeds from the sale of fixed assets. Property, plant, and equipment ("equipment") of $5.0 million was acquired as part of the DTG2Go acquisition. Subsequently, a capital lease arrangement was entered into to finance the purchase of the equipment. There were $5.7 million in expenditures financed under a capital lease arrangement and $0.3 million in unpaid expenditures as ofMarch 30, 2019.

We anticipate our fiscal year 2019 capital expenditures, including those financed under capital leases, to be approximately $15 million and to be focused primarily on digital print equipment along with information technology and direct-to-consumer enhancements.

Financing Activities

During the six months ended March 30, 2019, cash provided by financing activities was$15.4 million compared to $13.3 million provided by financing activities for the six months ended March 31, 2018. The cash provided by our financing activities during the first six months of fiscal year 2019 was used to fund the SSI digital print acquisition as well as fund our operating activities 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 U.S. revolving credit facility and to issue letters of credit to suppliers, or may cause the borrowing availability under that facility to be insufficient for our needs. Availability under our credit facility is primarily a function of the levels of our accounts receivable and inventory. A significant deterioration in our accounts receivable or inventory levels could restrict our ability to borrow additional funds or service our indebtedness. Moreover, our credit facility includes a financial covenant that if the availability under our credit facility falls below the amounts specified in our U.S. 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 March 30, 2019, 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.

Purchases By Delta Apparel Of Its Own Shares

During the six months ended March 30, 2019, we purchased 127,501 shares of our common stock for an aggregate amount of $2.4 million (see Note N—Repurchase of Common Stock). As of March 30, 2019, there was $9.9 million of repurchase authorization remaining under our Stock Repurchase Program. 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 September 29, 2018, and there have been no changes in those policies, except as disclosed in Note C—New Accounting Standards related to the adoption of the new revenue recognition standard, 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. Some of our facilities generate small quantities of hazardous waste that are either recycled or disposed of off-site.

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 and regulations will have a material adverse effect on our operations, financial condition or liquidity. There can be no assurance, however, that future changes in federal, state, or local regulations, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional expenditures. Similarly, while we believe that we are currently in 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 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 SEC's requirements. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information 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 March 30, 2019, 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 2019 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 M—Legal Proceedings, in Item 1, which is incorporated herein by reference.

Item 1A. Risk Factors

The risk factor set forth below updates the corresponding risk factor in our Annual Report on Form 10-K for the year ended September 29, 2018. In addition to the risk factor below, you should carefully consider the risk factors discussed in our most recent Annual Report on Form 10-K, which could materially affect our business, financial position and results of operations.

Compromises of our data security could lead to liability and reputational damage. In the ordinary course of our business, we often collect, retain, transmit, and use sensitive and confidential information regarding customers and employees and we process customer payment card and check information. There can be no assurance that we will not suffer a data compromise, that unauthorized parties will not gain access to personal information, or that any such data compromise or access will be discovered in a timely manner. Further, the systems currently used for transmission and approval of payment card transactions, and the technology utilized in payment cards themselves, all of which can put payment card data at risk, are determined and controlled by the payment card industry, not by us. Our computer systems, software and networks may be vulnerable to breaches (including via computer hackings), unauthorized access, misuse, computer viruses or other failures or disruptions that could result in disruption to our business or the loss or theft of confidential information, including customer information. Any failure, interruption, or breach in security of these systems, could result in the misappropriation of personal information, payment card or check information or confidential business information of our company. In addition, there may be non-technical issues, such as our employees, contractors or third parties with whom we do business or to whom we outsource business operations may attempt to circumvent our security measures in order to misappropriate such information, and may purposefully or inadvertently cause a breach involving such information.

The methods used by third parties to obtain unauthorized access change frequently and may not be anticipated or immediately detected. Thus, despite the security measures we may have in place, an actual or perceived information security breach, whether due to "cyber-attack," computer viruses or other malicious software code, or human error or malfeasance, could occur. Actual or anticipated attacks may cause us to incur significant costs to rectify the consequences of the security breach or cyber-attack, including costs to deploy additional personnel and protection technologies, repair damage to our systems, train employees and engage third-party experts and consultants. The collection, retention, transmission, and use of personal information is subject to contractual requirements and is highly regulated by a multitude of state, federal, and foreign laws. Privacy and information security laws are complex and constantly changing. Compliance with these laws and regulations may result in additional costs due to new systems and processes, and our non-compliance could lead to legal liability. Any compromise of our customer, employee or company data, failure to prevent or mitigate the loss of personal or business information, or delay in detecting or providing prompt notice of any such compromise could attract media attention, damage our customer or other business relationships and reputation, result in lost sales, fines, liability for stolen assets or information, costs of incentives we may be required to offer to our customers or business partners to retain their business, significant litigation or other costs and involve the loss of confidential company information, any or all of which could have a material adverse effect on our business, financial condition and results of operations.

We recently confirmed that unauthorized malware intrusions of our system may have exposed customer payment information as it was being entered to make a purchase at one of our consumer ecommerce websites. We removed the malware associated with the intrusions from our system and took actions to secure our website by working with recognized data security experts to conduct a thorough investigation of the incident and implement additional measures designed to build stronger protections against future incidents of this nature. This, or any compromise of security or cyber-attack, could deter consumers from entering into transactions that require them to provide confidential information to us in the future. In addition, if confidential customer information was misappropriated from our computer systems, we could be sued by those who assert that we did not take adequate precautions to safeguard our systems and confidential data belonging to our customers or business partners, which could subject us to liability and result in significant legal fees and expenses in defending these claims. While we do not currently believe that we experienced any material losses related to this incident, there can be no assurance that this or any other incident will not have a material adverse effect on our business, prospects, financial condition and results of operations.

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

(c) Repurchases of Common Stock

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

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 6, 2019

By: /s/ Deborah H. Merrill
Deborah H. Merrill
Chief Financial Officer and President, Delta Group

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 6, 2019

/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 6, 2019

/s/ Deborah H. Merrill

Chief Financial Officer and President, Delta Group

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 endedMarch 30, 2019, 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 6, 2019

/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 endedMarch 30, 2019, 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 6, 2019

/s/ Deborah H. Merrill

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

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.