

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 June 27, 2020  
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

(State or Other Jurisdiction of  
Incorporation or Organization)

58-2508794

(I.R.S. Employer  
Identification No.)

322 South Main Street  
Greenville, SC

(Address of principal executive offices)

29601

(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.)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01	DLA	NYSE American

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 every Interactive Data File required to be submitted 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 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 "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  Smaller reporting company  Emerging growth company

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

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

As of July 23, 2020, there were outstanding 6,890,118 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.

**TABLE OF CONTENTS**

	Page
PART I. <a href="#">Financial Information</a>	
Item 1. <a href="#">Financial Statements:</a>	
<a href="#">Condensed Consolidated Balance Sheets — June 27, 2020, and September 28, 2019 (unaudited)</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Statements of Operations — Three and nine months ended June 27, 2020, and June 29, 2019 (unaudited)</a>	<a href="#">4</a>
<a href="#">Condensed Consolidated Statements of Comprehensive (Loss) Income — Three and nine months ended June 27, 2020, and June 29, 2019 (unaudited)</a>	<a href="#">5</a>
<a href="#">Condensed Consolidated Statements of Shareholders' Equity — Nine months ended June 27, 2020, and June 29, 2019 (unaudited)</a>	<a href="#">6</a>
<a href="#">Condensed Consolidated Statements of Cash Flows — Nine months ended June 27, 2020, and June 29, 2019 (unaudited)</a>	<a href="#">7</a>
<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	<a href="#">8</a>
<a href="#">Note A—Basis of Presentation and Description of Business</a>	<a href="#">8</a>
<a href="#">Note B—Accounting Policies</a>	<a href="#">8</a>
<a href="#">Note C—New Accounting Standards</a>	<a href="#">8</a>
<a href="#">Note D—Revenue Recognition</a>	<a href="#">9</a>
<a href="#">Note E—Inventories</a>	<a href="#">9</a>
<a href="#">Note F—Debt</a>	<a href="#">10</a>
<a href="#">Note G—Leases</a>	<a href="#">10</a>
<a href="#">Note H—Selling, General and Administrative Expense</a>	<a href="#">11</a>
<a href="#">Note I—Stock-Based Compensation</a>	<a href="#">11</a>
<a href="#">Note J—Purchase Contracts</a>	<a href="#">11</a>
<a href="#">Note K—Business Segments</a>	<a href="#">12</a>
<a href="#">Note L—Income Taxes</a>	<a href="#">12</a>
<a href="#">Note M—Derivatives and Fair Value Measurements</a>	<a href="#">13</a>
<a href="#">Note N—Legal Proceedings</a>	<a href="#">13</a>
<a href="#">Note O—Repurchase of Common Stock</a>	<a href="#">14</a>
<a href="#">Note P—Goodwill and Intangible Assets</a>	<a href="#">14</a>
<a href="#">Note Q—Subsequent Events</a>	<a href="#">14</a>
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">15</a>
Item 4. <a href="#">Controls and Procedures</a>	<a href="#">16</a>
PART II. <a href="#">Other Information</a>	
Item 1. <a href="#">Legal Proceedings</a>	<a href="#">16</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">16</a>
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">16</a>
Item 5. <a href="#">Other Information</a>	<a href="#">16</a>
Item 6. <a href="#">Exhibits</a>	<a href="#">16</a>
<a href="#">Signatures</a>	<a href="#">17</a>
Exhibits	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

**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)

	<u>June 27, 2020</u>	<u>September 28, 2019</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 14,520	\$ 605
Accounts receivable, less allowances of \$1,563 and \$327, respectively	51,397	59,337
Other receivables	470	1,550
Income tax receivable	700	729

Inventories, net	158,015	179,107
Prepaid expenses and other current assets	3,085	2,270
Total current assets	228,187	243,598
Property, plant and equipment, net of accumulated depreciation of \$89,634 and \$81,787, respectively	61,273	61,404
Goodwill	37,897	37,897
Intangibles, net	20,341	21,607
Deferred income taxes	7,143	1,514
Operating lease assets	42,920	-
Equity method investment	10,273	10,388
Other assets	2,398	1,580
Total assets	\$ 410,432	\$ 377,988
<b>Liabilities and Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 55,004	\$ 52,320
Accrued expenses	18,927	20,791
Current portion of contingent consideration	2,685	2,790
Current portion of finance leases	7,099	6,434
Current portion of operating leases	8,720	-
Current portion of long-term debt	8,046	6,540
Total current liabilities	100,481	88,875
Long-term taxes payable	3,585	3,977
Long-term contingent consideration	4,096	6,304
Long-term finance leases, less current maturities	12,934	12,836
Long-term operating leases, less current maturities	35,152	-
Long-term debt, less current maturities	113,939	109,296
Deferred income taxes	1,356	1,519
Other non-current liabilities	2,379	1,293
Total liabilities	\$ 273,922	\$ 224,100
<b>Shareholder's equity:</b>		
Preferred stock - \$0.01 par value, 2,000,000 shares authorized, none issued and outstanding	-	-
Common stock - \$0.01 par value, 15,000,000 authorized, 9,646,972 shares issued, and 6,890,118 and 6,921,417 shares outstanding as of June 27, 2020, and September 28, 2019, respectively	96	96
Additional paid-in capital	60,154	59,855
Retained earnings	121,390	136,937
Accumulated other comprehensive loss	(1,430)	(969)
Treasury stock - 2,756,854 and 2,725,555 shares as of June 27, 2020, and September 28, 2019, respectively	(43,133)	(41,750)
Equity attributable to Delta Apparel, Inc.	137,077	154,169
Equity attributable to non-controlling interest	(567)	(281)
Total equity	136,510	153,888
Total liabilities and equity	\$ 410,432	\$ 377,988

See accompanying Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)

### Delta Apparel, Inc. and Subsidiaries

#### Condensed Consolidated Statements of Operations (Amounts in thousands, except per share data) (Unaudited)

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net sales	\$ 71,801	\$ 119,260	\$ 264,351	\$ 323,773
Cost of goods sold	68,819	94,470	220,893	261,505
Gross profit	2,982	24,790	43,458	62,268
Selling, general and administrative expenses	15,206	17,931	51,130	51,771
Other loss (income), net	9,364	(1,477)	7,724	(574)
Operating (loss) income	(21,588)	8,336	(15,396)	11,071
Interest expense, net	1,710	1,989	5,320	5,739
(Loss) earnings before (benefit from) provision for income taxes	(23,298)	6,347	(20,716)	5,332
(Benefit from) provision for income taxes	(5,454)	1,510	(4,884)	896
Consolidated net (loss) earnings	(17,844)	4,837	(15,832)	4,436
Net loss attributable to non-controlling interest	63	89	286	283
Net (loss) earnings attributable to shareholders	\$ (17,781)	\$ 4,926	\$ (15,546)	\$ 4,719
Basic (loss) earnings per share	\$ (2.58)	\$ 0.71	\$ (2.24)	\$ 0.68
Diluted (loss) earnings per share	\$ (2.58)	\$ 0.70	\$ (2.24)	\$ 0.67
Weighted average number of shares outstanding	6,890	6,928	6,932	6,931
Dilutive effect of stock awards	-	152	-	134
Weighted average number of shares assuming dilution	6,890	7,080	6,932	7,065

[Table of Contents](#)**Delta Apparel, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive (Loss) Income**(Amounts in thousands)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net (loss) earnings attributable to shareholders	\$ (17,781)	\$ 4,926	\$ (15,546)	\$ 4,719
Other comprehensive income (loss) related to unrealized gain (loss) on derivatives, net of income tax	3	(394)	(461)	(1,023)
Consolidated comprehensive (loss) income	<u>\$ (17,778)</u>	<u>\$ 4,532</u>	<u>\$ (16,007)</u>	<u>\$ 3,696</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)**Delta Apparel, Inc. and Subsidiaries****Condensed Consolidated Statements of Shareholders' Equity**(Amounts in thousands, except share amounts)  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non-Controlling Interest	Total
	Shares	Amount				Shares	Amount		
Balance as of September 29, 2018	9,646,972	\$ 96	\$ 61,979	\$ 128,695	\$ 136	2,737,526	\$ (40,881)	\$ 93	\$ 150,118
Net loss	-	-	-	(1,151)	-	-	-	-	(1,151)
Other comprehensive loss	-	-	-	-	(372)	-	-	-	(372)
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(76)	(76)
Vested stock awards	-	-	(3,981)	-	-	(153,472)	1,867	-	(2,114)
Purchase of common stock	-	-	-	-	-	92,148	(1,711)	-	(1,711)
Stock based compensation	-	-	660	-	-	-	-	-	660
Balance as of December 29, 2018	9,646,972	96	58,658	127,544	(236)	2,676,202	(40,725)	17	145,354
Net earnings	-	-	-	942	-	-	-	-	942
Other comprehensive loss	-	-	-	-	(257)	-	-	-	(257)
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(117)	(117)
Purchase of common stock	-	-	-	-	-	35,353	(718)	-	(718)
Stock based compensation	-	-	463	-	-	-	-	-	463
Balance as of March 30, 2019	9,646,972	96	59,121	128,486	(493)	2,711,555	(41,443)	(100)	145,667
Net earnings	-	-	-	4,926	-	-	-	-	4,926
Other comprehensive loss	-	-	-	-	(394)	-	-	-	(394)
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(90)	(90)
Purchase of common stock	-	-	-	-	-	14,000	(307)	-	(307)
Stock based compensation	-	-	483	-	-	-	-	-	483
Balance as of June 29, 2019	<u>9,646,972</u>	<u>\$ 96</u>	<u>\$ 59,604</u>	<u>\$ 133,412</u>	<u>\$ (887)</u>	<u>2,725,555</u>	<u>\$ (41,750)</u>	<u>\$ (190)</u>	<u>\$ 150,285</u>

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Non-Controlling Interest	Total
	Shares	Amount				Shares	Amount		
Balance as of September 28, 2019	9,646,972	\$ 96	\$ 59,855	\$ 136,937	\$ (969)	2,725,555	\$ (41,750)	\$ (281)	\$ 153,888
Net earnings	-	-	-	923	-	-	-	-	923
Other comprehensive income	-	-	-	-	131	-	-	-	131
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(132)	(132)
Vested stock awards	-	-	(1,615)	-	-	(67,406)	631	-	(984)
Stock based compensation	-	-	585	-	-	-	-	-	585
Balance as of December 28, 2019	9,646,972	96	58,825	137,860	(838)	2,658,149	(41,119)	(413)	154,411
Net earnings	-	-	-	1,311	-	-	-	-	1,311

Other comprehensive loss	-	-	-	-	(595)	-	-	-	(595)
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(91)	(91)
Vested stock awards	-	-	4	-	-	(1,266)	15	-	19
Purchase of common stock	-	-	-	-	-	99,971	(2,029)	-	(2,029)
Stock based compensation	-	-	611	-	-	-	-	-	611
Balance as of March 28, 2020	9,646,972	96	59,440	139,171	(1,433)	2,756,854	(43,133)	(504)	153,637
Net loss	-	-	-	(17,781)	-	-	-	-	(17,781)
Other comprehensive income	-	-	-	-	3	-	-	-	3
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(63)	(63)
Stock based compensation	-	-	714	-	-	-	-	-	714
Balance as of June 27, 2020	9,646,972	\$ 96	\$ 60,154	\$ 121,390	\$ (1,430)	2,756,854	\$ (43,133)	\$ (567)	\$ 136,510

See accompanying Notes to Condensed Consolidated Financial Statements.

6

[Table of Contents](#)

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

	Nine Months Ended	
	June 27, 2020	June 29, 2019
<b>Operating activities:</b>		
Consolidated net (loss) earnings	\$ (15,832)	\$ 4,436
Adjustment to reconcile net (loss) earnings to net cash used in operating activities:		
Depreciation and amortization	9,566	8,728
Amortization of deferred financing fees	233	234
Provision for (benefit from) allowances on accounts receivable	1,236	(287)
Provision for inventory market reserves	4,897	152
(Benefit from) provision for deferred income taxes	(5,629)	225
Non-cash stock compensation	1,911	1,603
(Gain) loss on disposal of equipment	(29)	18
Other, net	(318)	(1,642)
Changes in operating assets and liabilities, net of effect of acquisition		
Accounts receivable	7,784	(19,731)
Inventories, net	16,195	(1,821)
Prepaid expenses and other current assets	31	(236)
Other non-current assets	(198)	(71)
Accounts payable	2,957	209
Accrued expenses	(1,899)	(572)
Change in net operating lease liabilities	952	-
Income taxes	(328)	(136)
Other liabilities	462	344
Net cash provided by (used in) operating activities	21,991	(8,547)
<b>Investing activities:</b>		
Purchases of property and equipment, net	(4,443)	(4,211)
Cash paid for business	(2,243)	(4,599)
Net cash used in investing activities	(6,686)	(8,810)
<b>Financing activities:</b>		
Proceeds from long-term debt	312,251	356,141
Repayment of long-term debt	(304,352)	(330,359)
Repayment of capital financing	(2,714)	(3,041)
Payment of contingent consideration	(2,500)	(564)
Payment of deferred financing costs	(1,079)	-
Repurchase of common stock	(2,029)	(2,796)
Payment of withholding taxes on stock awards	(967)	(2,113)
Net cash (used in) provided by financing activities	(1,390)	17,268
Net increase (decrease) in cash and cash equivalents	13,915	(89)
Cash and cash equivalents at beginning of period	605	460
Cash and cash equivalents at end of period	\$ 14,520	\$ 371

See accompanying Notes to Condensed Consolidated Financial Statements.

7

**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 and nine-month periods ended June 27, 2020, are not necessarily indicative of the results that may be expected for our fiscal year ending October 3, 2020. 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. The COVID-19 pandemic occurred during the seasonally strongest months of the business. As such, the historic seasonality may not be indicative of future results. In addition, during the June quarter of fiscal year 2020, we incurred approximately \$23.1 million of non-recurring expenses as a result of the COVID-19 pandemic. These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for our fiscal year ended September 28, 2019, filed with the United States Securities and Exchange Commission ("SEC").

Delta Apparel, Inc. (collectively with DTG2Go, LLC, Salt Life, LLC, M.J. Soffe, LLC, and other subsidiaries, "Delta Apparel," "we," "us," "our," or the "Company") is a vertically-integrated, international apparel company. With approximately 8,700 employees worldwide, we design, manufacture, source, and market a diverse portfolio of core activewear and lifestyle apparel products under our primary brands of Salt Life®, COAST®, Soffe®, and Delta. We are a market leader in the direct-to-garment digital print and fulfillment industry, bringing DTG2Go technology and innovation to the supply chain of our customers. We specialize in selling casual and athletic products through a variety of distribution channels and tiers, including outdoor and sporting goods retailers, independent and specialty stores, better department stores and mid-tier retailers, mass merchants and e-retailers, the U.S. military, and through our business-to-business ecommerce sites. Our products are also made available direct-to-consumer on our websites and in our branded retail stores. This diversified distribution allows us to capitalize on our strengths to provide our activewear and lifestyle apparel products to a broad and evolving customer base whose shopping preferences may span multiple retail channels.

We design and internally manufacture the majority of our products. More than 90% of the apparel units that we sell are sewn in our owned or leased facilities. This 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 we 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 in Greenville, South Carolina. Our common stock trades on the NYSE American under the symbol "DLA." We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. Our 2020 fiscal year is a 53-week year and will end on October 3, 2020. Our 2019 fiscal year was a 52-week year and ended on September 28, 2019.

We make available copies of materials we file with, or furnish to, the SEC free of charge at <https://ir.deltaapparelinc.com>. The information found on our website is not part of this, or any other, report that we file with or furnish to the SEC. In addition, we will provide upon request, at no cost, paper or electronic copies of our reports and other filings made with the SEC. Requests should be directed to: Investor Relations Department, Delta Apparel, Inc., 322 South Main Street, Greenville, South Carolina 29601. Requests can also be made by telephone to 864-232-5200, or via email at [investor.relations@deltaapparel.com](mailto:investor.relations@deltaapparel.com).

## **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 28, 2019, filed with the SEC. See Note C for consideration of recently issued accounting standards.

## **Note C—New Accounting Standards**

### Recently Adopted Standards

In August 2017, the Financial Accounting Standards Board, ("FASB"), issued Accounting Standards Update, ("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. We adopted ASU 2017-12 as of September 29, 2019. The provisions of ASU 2017-12 did not have a material effect on our financial condition, results of operations, cash flows or 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 the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in 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. We early adopted ASU 2017-04 as of September 29, 2019. The provisions of ASU 2017-04 did not have a material effect on our financial condition, results of operations, cash flows or disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"), which requires lessees to include most leases on the balance sheet as lease liabilities with an associated right-of-use ("ROU") asset. Since the issuance of ASU 2016-02, the FASB released several amendments to improve and clarify the implementation guidance, as well as to change the allowable adoption methods. These standards have been collectively codified within Accounting Standard Codification, ("ASC ") 842, *Leases* ("ASC 842"). We adopted ASC 842 using the modified retrospective method and applied the standard to all leases existing as of September 29, 2019. Information for prior years presented has not been restated and continues to reflect the authoritative accounting standards in effect for those periods. We elected to use the package of practical expedients that allows us to carryforward our historical assessments of whether existing contracts contain leases, determinations of lease classification, and treatments of initial direct costs. As of September 29, 2019, we recognized total operating lease liabilities of \$44.6 million in our Consolidated Balance Sheets, of which \$36.1 million was recorded within Long-term operating leases, less current maturities and \$8.5 million was recorded within Current portion of operating leases. We additionally derecognized \$0.8 million of previously recorded net deferred rent balances and recorded operating lease ROU assets of \$3.8 million related to our operating leases, which are reflected within Operating lease assets in our Consolidated Balance Sheets. The adoption of the new leasing standard had no significant impact on covenants or other provisions of our secured credit facility.

### Standards Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"), which will require customers to apply internal-use software guidance to determine the implementation costs that are able to be capitalized. Capitalized implementation costs will be required to be amortized over the term of the arrangement, beginning when the cloud computing arrangement is ready for its

intended use. ASU 2018-15 is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those annual periods. ASU 2018-15 will therefore be effective for us as of October 4, 2020 including the interim periods within our fiscal year 2021 annual period. The standard allows changes to be applied either retrospectively or prospectively. We are evaluating the effect that ASU 2018-15 will have on our financial statements and related disclosures.

#### Note D—Revenue Recognition

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

	Three Months Ended			
	June 27, 2020		June 29, 2019	
	\$	%	\$	%
Retail	\$ 1,179	2%	\$ 1,296	1%
Direct-to-consumer ecommerce	3,153	4%	1,419	1%
Wholesale	67,469	94%	116,545	98%
Net sales	\$ 71,801	100%	\$ 119,260	100%

  

	Nine Months Ended			
	June 27, 2020		June 29, 2019	
	\$	%	\$	%
Retail	\$ 3,374	1%	\$ 3,180	1%
Direct-to-consumer ecommerce	5,920	2%	3,990	1%
Wholesale	255,057	97%	316,603	98%
Net sales	\$ 264,351	100%	\$ 323,773	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:

	Third Quarter Fiscal Year 2020			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	\$ 65,543	0.2%	1.0%	98.8%
Salt Life Group	6,258	17.0%	40.4%	42.6%
Total	\$ 71,801			

  

	Third Quarter Fiscal Year 2019			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	\$ 107,409	0.3%	0.3%	99.4%
Salt Life Group	11,851	5.0%	9.1%	85.9%
Total	\$ 119,260			

  

	Year To Date Fiscal Year 2020			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	\$ 238,685	0.2%	0.5%	99.3%
Salt Life Group	25,666	10.9%	18.9%	70.2%
Total	\$ 264,351			

  

	Year To Date Fiscal Year 2019			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	\$ 291,325	0.3%	0.3%	99.4%
Salt Life Group	32,448	7.0%	9.5%	83.5%
Total	\$ 323,773			

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 refund 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. As of June 27, 2020, and September 28, 2019, there was \$0.7 million and \$1.0 million, respectively, in refund liabilities for customer returns, allowances, markdowns and discounts within accrued expenses.

#### Note E—Inventories

Inventories, net of reserves of \$15.0 million and \$10.1 million, as of June 27, 2020, and September 28, 2019, respectively, consisted of the following (in thousands):

	June 27, 2020	September 28, 2019
Raw materials	\$ 12,060	\$ 12,022
Work in process	13,018	17,765
Finished goods	132,937	149,320
	\$ 158,015	\$ 179,107

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

### Credit Facility

On May 10, 2016, we entered into a Fifth Amended and Restated Credit Agreement (as further amended, 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. The Borrowers entered into amendments to the Amended Credit Agreement with Wells Fargo and the other lenders on November 27, 2017, March 9, 2018, and October 8, 2018.

On November 19, 2019, the Borrowers entered into a Consent and Fourth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the “Fourth Amendment”). The Fourth Amendment, among other things, (i) increased the borrowing capacity under the Amended Credit Agreement from \$145 million to \$170 million (subject to borrowing base limitations), (ii) extended the maturity date from May 21, 2021 to November 19, 2024, (iii) reduced pricing on the revolver and first-in last-out “FILO” borrowing components by 25 basis points, and (iv) added 25% of the fair value of eligible intellectual property to the borrowing base calculation. In addition, the Fourth Amendment amended the definition of Fixed Charge Coverage Ratio to exclude up to \$10 million of capital expenditures incurred by the Borrowers in connection with the expansion of their distribution facility located within the Town of Clinton, Anderson County, Tennessee.

On April 27, 2020, the Borrowers entered into a Fifth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo Bank (the “Agent”) and the other lenders set forth therein (the “Fifth Amendment”). The Fifth Amendment amends the financial covenant provisions from the amendment date through October 3, 2020, including effectively lowering the minimum availability thresholds and removing the requirement that our Fixed Charge Coverage Ratio (“FCCR”) for the preceding 12-month period must not be less than 1.1 to 1.0. The Fifth Amendment also, among other things, (i) allows for an additional 30 days of aged receivables from customers in the borrowing base through August 1, 2020, (ii) ceases amortization of real estate and machinery and equipment assets in the borrowing base through August 1, 2020, (iii) postpones amortization of trademark assets in the borrowing base until October 4, 2020; (iv) amends the definition of Fixed Charge Coverage Ratio to reference the monthly amortization of the borrowing bases that were amended as part of the Fourth Amendment to the Fifth Amended and Restated Credit Agreement on November 19, 2019, (v) amends the LIBOR rate definition to include a floor rate of 1.0%, and (vi) requires weekly reporting of accounts receivable to the Agent through October 3, 2020.

The Amended Credit Agreement allows us to borrow up to \$170 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 Amended Credit Agreement contains a subjective acceleration clause and a “springing” lockbox arrangement (as defined in ASC 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. We classify borrowings under the Amended Credit Agreement as long-term debt with consideration of current maturities.

As of June 27, 2020, there was \$106.5 million outstanding under our U.S. revolving credit facility at an average interest rate of 2.9%. Our cash on hand combined with the availability under the U.S. credit facility totaled \$45.7 million. At June 27, 2020, and September 28, 2019, there was \$6.3 million and \$16.1 million, respectively, of retained earnings free of restrictions to make cash dividends or stock repurchases.

### Promissory Note

On October 8, 2018, we acquired substantially all of the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services. In conjunction with the acquisition, we issued a promissory note in the principal amount of \$7.0 million. The promissory note bears interest at 6% with quarterly installments which began January 2, 2019, with the final installment due October 1, 2021. As of June 27, 2020, there was \$3.5 million outstanding on the promissory note.

### Honduran Debt

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 Honduran lempiras 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 12 to 18 month terms; however, the loan agreement permits additional drawdowns to the extent payments are made and certain objective covenants are met. The 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 objective covenants, and we intend to re-borrow funds, subject to those covenants, the amounts have been classified as long-term debt. In response to COVID-19 pandemic, monthly term loan payments were paused during the June fiscal quarter and resumed in the September fiscal quarter.

Additional information about these loans and the outstanding balances as of June 27, 2020, is as follows (in thousands):

	<b>June 27, 2020</b>
Revolving credit facility established March 2011, weighted average interest at 7.5% expiring August 2025	\$ 9,284
Term loan established November 2014, interest at 6.0%, payable monthly with a six-year term	500
Term loan established June 2016, interest at 6.0%, payable monthly with a six-year term	631
Term loan established October 2017, interest at 6.0%, payable monthly with a six-year term	1,420

### Note G—Leases

We lease property and equipment under operating lease arrangements, most of which relate to distribution centers and manufacturing facilities in the U.S., Honduras, El Salvador, and Mexico. We also lease machinery and equipment in the U.S. under finance lease arrangements. We include both the contractual term as well as any renewal option that we are reasonably certain to exercise in the determination of our lease terms. For leases with a term of greater than 12 months, we value lease liabilities and the related assets as the present value of the lease payments over the related term. We apply the short-term lease exception to leases with a term of 12 months or less and exclude such leases from our Condensed Consolidated Balance Sheet. Payments related to these short-term leases are expensed on a straight-line basis over the lease term and are reflected as a component of lease cost within our Condensed Consolidated Statements of Operations. Our operating lease agreements for buildings generally include provisions for the payment of our proportional share of operating costs, property taxes, and other variable payments. These incremental payments are excluded from our calculation of operating lease liabilities and right of use assets. We have elected to use the practical expedient present in ASC 842 to not separate lease and non-lease components for all significant underlying asset classes and instead account for them together as a single lease component in the measurement of our lease liabilities.

Generally, the rate implicit in our operating leases is not readily determinable. Therefore, we discount future lease payments using our estimated incremental borrowing rate at lease commencement. We determine this rate based on a credit-adjusted risk-free rate, which approximates a secured rate over the lease term. The weighted average discount rate for operating leases as of June 27, 2020, was 4.2%. We discount our finance lease payments based on the rate implicit and stated in the lease. The weighted average discount rate for finance leases as of June 27, 2020, was 5.2%.

The following table presents the future undiscounted payments due on our operating and finance lease liabilities as well as a reconciliation of those payments to our operating and finance lease liabilities, recorded as of June 27, 2020 (in thousands):

	Operating Leases	Finance Leases
2020	\$ 2,757	\$ 2,030
2021	11,536	7,679
2022	8,316	4,763
2023	6,284	4,059
2024	4,789	2,580
Thereafter	18,301	690
Undiscounted fixed lease payments	\$ 51,983	\$ 21,801
Discount due to interest	(8,111)	(1,768)
Total lease liabilities	\$ 43,872	\$ 20,033
Less current maturities	(8,720)	(7,099)
Lease liabilities, excluding current maturities	<u>\$ 35,152</u>	<u>\$ 12,934</u>

As of June 27, 2020, we have entered into certain operating leases that havenot yet commenced and which will result in annual fixed lease payments that range from \$1.0 million to \$1.3 million per year for a 10-year period.

Our Ceiba Textiles manufacturing facility is leased under an operating lease arrangement with a Honduran company, of which we own 31% of the outstanding capital stock of the lessor at June 27, 2020. During the nine-months ended June 27, 2020, and June 29, 2019, we paid approximately \$0.9 million and \$1.4 million, respectively, in lease payments under this arrangement.

As of June 27, 2020, we had \$42.9 million of operating lease ROU assets which were reflected within Operating lease assets in our Condensed Consolidated Balance Sheet, and \$24.5 million of finance lease ROU assets, which were reflected within Property, plant, and equipment, net in our Condensed Consolidated Balance Sheet.

The weighted average remaining lease terms for our operating leases and finance leases were approximately 7 years and 3 years, respectively, as of June 27, 2020.

The components of total lease expense were as follows for the nine months ended June 27, 2020 (in thousands):

Operating lease fixed expense	\$	8,355
Operating lease variable cost expense		1,054
Finance lease amortization of ROU assets expense		2,519
Finance lease interest expense		728
Total lease expense	\$	<u>12,656</u>

Total operating lease expense, excluding variable lease costs, recognized during the nine months ended June 29, 2019, prior to the adoption of ASC 842, was \$7.9 million. In addition, during the nine months ended June 29, 2019, we incurred expenses related to finance leases, including interest expense and depreciation expense, related to financed machinery and equipment.

Cash outflows for operating lease payments and for interest payments on finance leases during the nine months ended June 27, 2020, were \$8.2 million and \$0.9 million, respectively, and are classified within net cash provided by operating activities on the Condensed Consolidated Statement of Cash Flows. Cash outflows for finance lease payments during the nine months ended June 27, 2020, were \$3.2 million and are classified within net cash used in financing activities on the Condensed Consolidated Statement of Cash Flows.

During the three-month period ended June 27, 2020, in response to the COVID-19 pandemic, the Company entered into certain lease arrangements deferring approximately \$1.7 million of operating lease payments and approximately \$1.7 million of finance lease payments. The operating lease deferrals will be paid over the next 12 months while finance lease deferrals will be repaid at the end of each lease.

ROU assets obtained in exchange for operating lease and finance lease liabilities during the nine months ended June 27, 2020, were \$6.6 million and \$5.0 million, respectively. During the nine-month period ended June 29, 2019, prior to the adoption of ASC 842, we entered into new finance lease obligations totaling \$6.7 million.

We do not have significant leasing transactions in which we are the lessor.

#### Note H—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 \$3.5 million and \$4.5 million for the three-month periods ended June 27, 2020, and June 29, 2019, respectively. Distribution costs included in SG&A expenses totaled \$13.2 million and \$12.9 million for the nine-month periods ended June 27, 2020, and June 29, 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 I—Stock-Based Compensation

On February 6, 2020, our shareholders approved the Delta Apparel, Inc. 2020 Stock Plan ("2020 Stock Plan") to replace the 2010 Stock Plan, which was previously re-approved by our shareholders on February 4, 2015 and was scheduled to expire by its terms on September 14, 2020. The 2020 Stock Plan is substantially similar in both form and substance to the 2010 Stock Plan. The purpose of the 2020 Stock Plan is to continue to give our Board of Directors and its Compensation Committee the ability to offer a variety of compensatory awards designed to enhance the Company's long-term success by encouraging stock ownership among its executives, key employees and directors. Under the 2020 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. If a participant dies or becomes disabled (as defined in the 2020 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 2020 Stock Plan, to establish, amend and rescind any rules and regulations relating to the 2020 Stock Plan, and to make any other determinations that it deems necessary. The aggregate number of shares of common stock that may be delivered under the 2020 Stock Plan is 449,714 plus any shares of common stock subject to outstanding awards under the 2010 Stock Plan that are subsequently forfeited or terminated for any reason before being exercised. Similar to the 2010 Stock Plan, the 2020 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. The 2010 Stock Plan terminated and the 2020 Stock Plan became effective on February 6, 2020, the date of shareholders' approval.

Shares are generally issued from treasury stock upon the vesting of the restricted stock units, performance units or other awards under the 2010 Stock Plan and 2020 Stock Plan.

Compensation expense is recorded within SG&A in our Condensed Consolidated Statements of Operations over the vesting periods. During the three-month periods ended June 27, 2020, and June 29, 2019, we recognized \$0.7 million and \$0.5 million, respectively, in stock-based compensation expense. During the nine-month periods ended June 27, 2020, and June 29, 2019, we recognized \$2.1 million and \$1.8 million, respectively, in stock-based compensation expense.

On May 11, 2020, restricted stock units representing 100,000 shares of our common stock were granted under the 2020 Stock Plan. Of these units, 50,000 are eligible to vest upon the filing of our Annual Report on Form 10-K for the fiscal year ending October 2, 2021, and 50,000 are eligible to vest upon the filing of our Annual Report on Form 10-K for the fiscal year ending October 1, 2022. All units are payable in common stock.

On February 5, 2020, restricted stock units representing 74,000 shares of our common stock were granted under the 2010 Stock Plan and are eligible to vest upon the filing of our Annual Report on Form 10-K for the fiscal year ending October 1, 2022 and are payable in common stock.

During the three months ended December 28, 2019, restricted stock units and performance units, each consisting of 66,000 shares of our common stock, were granted under the 2010 Stock Plan and are eligible to vest upon the filing of our Annual Report on Form 10-K for the fiscal year ending October 2, 2021. One-half of the restricted stock units and one-half of the performance units are payable in common stock with the remainder payable in cash.

As of June 27, 2020, there was \$4.5 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 2.4 years.

**Note J—Purchase Contracts**

We have entered into agreements, and have fixed prices, to purchase yarn, finished fabric, and finished apparel and headwear products. At June 27, 2020, minimum payments under these contracts were as follows (in thousands):

Yarn	\$	31,824
Finished fabric		2,772
Finished products		6,362
	\$	<u>40,958</u>

## Note K—Business Segments

Our operations are managed and reported into two segments, Delta Group and Salt Life Group, which reflect the manner in which the business is managed and results are reviewed by the Chief Executive Officer, who is our chief operating decision maker.

The Delta Group is comprised of our business units primarily focused on core activewear styles, and includes our Delta Activewear (encompassing our Delta Catalog and FunTees businesses), 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 ranging from large licensed screen printers to small independent businesses. Through our FunTees business, we serve our customers as their supply chain partner, from product development to shipment of their branded products, with the majority of products sold with value-added services including embellishment, hangers, hangtags and ticketing, so that they are ready for retail sale to the end consumers. We assist our customers in managing their production and inventory needs and provide technology tools to help them manage and grow their business. We sell our products to a diversified audience, including sporting goods retailers, large licensed screen printers, specialty and resort stores, and ad-specialty and promotional products businesses. We also service major branded sportswear companies, trendy regional brands, retailers, and sports-licensed apparel marketers. Our DTG2Go business is a market leader in the direct-to-garment digital print and fulfillment industry, bringing technology and innovation to the supply chain of our many customers. We use highly-automated factory processes and our proprietary software to deliver on-demand, digitally printed apparel direct to consumers on behalf of our customers. Utilizing its seven fulfillment facilities throughout the United States, DTG2Go offers a robust digital supply chain to ship custom graphic products typically within 24 to 48 hours to consumers in the United States and to over 100 countries worldwide.

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 income may not be comparable to similarly titled measures used by other companies. The accounting policies of our reportable segments are the same as those described in Note 2 in our Annual Report on Form 10-K for the fiscal year ended September 28, 2019, 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		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
<b>Segment net sales:</b>				
Delta Group	\$ 65,543	\$ 107,409	\$ 238,685	\$ 291,325
Salt Life Group	6,258	11,851	25,666	32,448
Total net sales	<u>\$ 71,801</u>	<u>\$ 119,260</u>	<u>\$ 264,351</u>	<u>\$ 323,773</u>
<b>Segment operating (loss) income:</b>				
Delta Group (1)	\$ (17,468)	\$ 9,247	\$ (5,133)	\$ 15,392
Salt Life Group (2)	(628)	2,597	175	5,609
Total segment operating (loss) income	<u>\$ (18,096)</u>	<u>\$ 11,844</u>	<u>\$ (4,958)</u>	<u>\$ 21,001</u>

(1) For the three-months and nine-months ended June 27, 2020, the Delta Group operating (loss) income included \$23.1 million and \$25.0 million, respectively, of expenses related to the COVID-19 pandemic. For the first three months of fiscal 2020, these costs primarily related to the curtailment of manufacturing operations (\$9.8 million), incremental costs to right size production to new forecasted demand (\$2.6 million), increased accounts receivable and inventory reserves related to the heightened risks in the market as the U.S. continues its recovery (\$6.6 million), and other expenses (\$4.1 million). These costs are included within net sales (\$0.5 million), cost of goods sold (\$12.1 million), SG&A expenses (\$2.4 million), and other loss (income), net (\$8.1 million). The first nine months of fiscal 2020 includes an additional \$1.9 million of costs related to the curtailment of manufacturing operations in cost of goods sold. In the quarter ended December 29, 2018, the Delta Group operating income included \$2.5 million of expense incurred in connection with the settlement of litigation related to the 2016 bankruptcy filing of a customer.

(2) In the quarter ended June 29, 2019, the Salt Life Group operating income included \$1.3 million in other income as the result of a litigation settlement.

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Segment operating (loss) income	\$ (18,096)	\$ 11,844	\$ (4,958)	\$ 21,001
Unallocated corporate expenses	3,492	3,508	10,438	9,930
Unallocated interest expense	1,710	1,989	5,320	5,739
Consolidated (loss) earnings before provision for income taxes	<u>\$ (23,298)</u>	<u>\$ 6,347</u>	<u>\$ (20,716)</u>	<u>\$ 5,332</u>

The Delta Group segment assets have increased by \$17.2 million since September 28, 2019, to \$332.9 million as of June 27, 2020, primarily as a result of the adoption of ASU 2016-02 which were partially offset by decreases in working capital due to the seasonality of the business and lower production due to the COVID-19 pandemic. The Salt Life Group segment assets have increased by \$9.0 million since September 28, 2019, to \$66.5 million as of June 27, 2020, primarily due the adoption of ASU 2016-02.

## Note L—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 ("transition tax") on deemed repatriated cumulative earnings of foreign subsidiaries which will be paid over eight years. In addition, new taxes were imposed related to foreign income, including a tax on global intangible low-taxed income ("GILTI") as well as a limitation on the deduction for business interest expense ("Section 163(j)"). GILTI is the excess of the shareholder's net controlled foreign corporations ("CFC") net tested income over the net deemed tangible income. GILTI income is eligible for a deduction of up to 50% of the income inclusion, but the deduction is limited to the amount of U.S. adjusted taxable 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 or 30% of the taxpayer's adjusted taxable income for the year. We have included in our calculation of our effective tax rate the estimated impact of GILTI and Section 163(j) which were effective for us beginning in fiscal year 2019. We have elected to account for the tax on GILTI as a period cost and, therefore, do not record deferred taxes related to GILTI on our foreign subsidiaries.

The Coronavirus Aid, Relief, and Economic Security ("CARES Act"), which was enacted on March 27, 2020, provided temporary changes to income and non-income-based tax laws, including some provisions which were previously enacted under the New Tax Legislation. The CARES Act revised the U.S. corporate income tax code on a temporary basis by, among other things, eliminating the 80% of taxable income limitation on net operating loss ("NOL") carryforwards, allowing NOL carrybacks, and

increasing the Section 163(j) interest limitation deduction from 30% to 50% of adjusted taxable income. We have included the estimated impact of these provisions in our effective tax rate calculation.

Our effective income tax rate on operations for the nine-month period ended June 27, 2020, was 23.6% compared to a rate of 16.8% in the same period of the prior year and an effective rate of 5.5% for fiscal year 2019. We generally 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. As such, 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. Furthermore, we may be limited in our ability to deduct 50% of applicable foreign earnings under the GILTI income inclusion or to deduct U.S. interest expense based on anticipated lower U.S. taxable income due to the COVID-19 pandemic. In addition, the future impact of the CARES Act and New Tax Legislation may differ from historical amounts, possibly materially, due to, among other things, changes in interpretations and assumptions made regarding the CARES Act and New Tax Legislation, guidance that may be issued, and actions we may take as a result of the CARES Act and New Tax Legislation.

## Note M—Derivatives and Fair Value Measurements

From time to time, we may use interest rate swaps or other instruments to manage our interest rate exposure and reduce the impact of future interest rate changes. These financial instruments are not used for trading or speculative purposes. We have designated our interest rate swap contracts as cash flow hedges of our future interest payments. As a result, the gains and losses on the swap contracts are reported as a component of other comprehensive income and are reclassified into interest expense as the related interest payments are made. As of June 27, 2020, all of other comprehensive income was attributable to shareholders; none related to the non-controlling interest. Outstanding instruments as of June 27, 2020, are as follows:

	Effective Date	Notional Amount	Fixed LIBOR Rate	Maturity Date
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

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 June 27, 2020, and September 28, 2019 (in thousands):

	June 27, 2020	September 28, 2019
Deferred tax liabilities	\$ 481	\$ 324
Accrued expenses	(145)	—
Other non-current liabilities	(1,766)	(1,293)
Accumulated other comprehensive loss	\$ (1,430)	\$ (969)

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. No such cotton contracts were outstanding at June 27, 2020, or September 28, 2019.

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

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

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

Period Ended	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Interest Rate Swaps</b>				
June 27, 2020	\$ (1,911)	—	\$ (1,911)	—
September 28, 2019	\$ (1,293)	—	\$ (1,293)	—
<b>Contingent Consideration</b>				
June 27, 2020	\$ (6,781)	—	—	\$ (6,781)
September 28, 2019	\$ (9,094)	—	—	\$ (9,094)

The fair value of the interest rate swap agreements was derived from a 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 June 27, 2020 and September 28, 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 DTG2Go acquisition purchase price consisted of additional payments contingent on the combined business's achievement of certain performance targets related to sales and earnings before interest, taxes, depreciation and amortization ("EBITDA") for the period from April 1, 2018, through September 29, 2018, as well as for our fiscal years 2019, 2020, 2021 and 2022. The valuation of the fair value of the contingent consideration is based upon inputs into the Monte Carlo model, including projected results, which then are discounted to a present value to derive the fair value. The fair value of the contingent consideration is sensitive to changes in our projected results and discount rates. At September 28, 2019, the fair value of contingent consideration was estimated at \$8.9 million. During the nine-months ended June 27, 2020, \$2.5 million was paid related to the 2019 period. As of June 27, 2020, we estimate the fair value of contingent consideration to be \$6.8 million, a \$0.4 million increase, excluding the \$2.5 million payment, from September 28, 2019, resulting from changes in the projections and adjustments to the discount rate.

In August 2013, we acquired Salt Life, which included contingent consideration as part of the purchase price and which is 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. During fiscal year 2020, it was determined that the calendar year 2019 performance targets were not achieved and, as a result, the \$0.2 million accrual as of September 28, 2019, was reversed. At June 27, 2020, no amount was accrued for contingent consideration in relation to the acquisition of Salt Life.

## Note N—Legal Proceedings

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 O—Repurchase of Common Stock

As of September 28, 2019, our Board of Directors authorized management to use up to \$50.0 million to repurchase stock in open market transactions under our Stock Repurchase Program.

Through June 27, 2020, we have purchased 3,598,933 shares of our common stock for an aggregate of \$2.5 million under our Stock Repurchase Program since its inception. All purchases were made at the discretion of management and pursuant to the safe harbor provisions of SEC Rule 10b-18. As of June 27, 2020, \$7.5 million remained available for future purchases under our Stock Repurchase Program, which does not have an expiration date. During March 2020, we temporarily suspended share repurchases in an effort to preserve liquidity during the COVID-19 pandemic.

## Note P—Goodwill and Intangible Assets

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

	June 27, 2020			September 28, 2019			Economic Life
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	
Goodwill	\$ 37,897	\$ —	\$ 37,897	\$ 37,897	\$ —	\$ 37,897	N/A
<b>Intangibles:</b>							
Tradename/trademarks	\$ 16,090	\$ (3,685)	\$ 12,405	\$ 16,090	\$ (3,278)	\$ 12,812	20 – 30 yrs
Customer relationships	7,400	(1,548)	5,852	7,400	(993)	6,407	8 – 10 yrs
Technology	1,720	(1,365)	355	1,720	(1,289)	431	10 yrs
License agreements	2,100	(707)	1,393	2,100	(630)	1,470	15 – 30 yrs
Non-compete agreements	1,657	(1,321)	336	1,657	(1,170)	487	4 – 8.5 yrs
Total intangibles	\$ 28,967	\$ (8,626)	\$ 20,341	\$ 28,967	\$ (7,360)	\$ 21,607	

Goodwill was recorded in conjunction with our acquisitions of Salt Life and DTG2Go businesses and represents the acquired goodwill, net of the \$0.6 million cumulative impairment losses recorded in fiscal year 2011. At June 27, 2020, the Salt Life reporting unit within the Salt Life Group segment and DTG2Go reporting unit within the Delta Group segment had goodwill of \$19.9 million and \$18.0 million, respectively. We evaluate the carrying value of goodwill annually on the first day of our third fiscal quarter or more frequently if events or circumstances indicate that an impairment loss may have occurred. Such circumstances could include, but are not limited to, a significant adverse change in business climate, increased competition or other economic conditions.

As of March 29, 2020, we performed our annual goodwill impairment evaluation and concluded that the goodwill for the Salt Life and DTG2Go reporting units were not impaired. The goodwill impairment testing process involved the use of significant assumptions, estimates and judgments with respect to a variety of factors, including projected sales, gross margins, selling, general and administrative expenses, capital expenditures and cash flows and the selection of an appropriate discount rate, all of which are subject to inherent uncertainties and subjectivity. Our assumptions were based on annual business plans and other forecasted results as well as the selection of a discount rate, all of which we believe represent those of a market participant. We also believe these assumptions are reflective of the current macro-economic environment, including our best estimate of the impacts of the recent COVID-19 pandemic. Although we are aggressively managing our response to the pandemic, its impact on the Salt Life and DTG2Go reporting units' full year fiscal 2020 and beyond results and cash flows is uncertain. We believe that the most significant elements of uncertainty are the intensity and duration of the impact on retailers as well as the ability of our customers, supply chain, and distribution to operate with minimal disruption for the remainder of fiscal 2020 and beyond, all of which could negatively impact the reporting units' financial position, results of operations, and cash flows. Given the current macro-economic environment and the uncertainties regarding its potential impact on our business, there can be no assurance that our estimates and assumptions used in our impairment tests will prove to be accurate predictions of the future. If our assumptions regarding fair value are not achieved, it is possible that an impairment review may be triggered and goodwill or other intangible assets may be impaired in a future period.

Amortization expense for intangible assets was \$0.4 million for the three-month periods ended June 27, 2020, and June 29, 2019, respectively, and \$1.3 million and \$1.4 million for the nine-month periods ended June 27, 2020, and June 29, 2019, respectively. Amortization expense is estimated to be approximately \$1.7 million for fiscal year 2020, \$1.6 million for each of fiscal years 2021 and 2022, \$1.5 million for fiscal year 2023, and approximately \$1.4 million for fiscal year 2024.

## Note Q—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 and availability;
- the general U.S. and international economic conditions;
- the COVID-19 pandemic impact on our operations, financial condition, liquidity, and capital investments;
- 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;
- negative publicity resulting from 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 Item 1A of this report entitled "Risk Factors" in this Form 10-Q and in Part 1 under the subheading "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended September 28, 2019, 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

Our fiscal 2020 third quarter results were impacted by the COVID-19 pandemic, which halted retail in the U.S. beginning in mid-March through the first half of the quarter, as well as disrupted our offshore manufacturing plant operations for most of the quarter. Net sales were approximately 60% of net sales in the prior year quarter, with monthly sales performance sequentially accelerating from April sales at 33% of prior year to June sales tracking at nearly 90% of prior year levels.

We are encouraged at the momentum experienced across our business segments as the third quarter progressed, which further validates our strategic advantages, including our diversification of sales channels, our broad geographic footprint, and the strong connection our Salt Life and Soffe brands have with consumers. During the third quarter, direct-to-consumer sales significantly increased, including ecommerce sales that more than doubled compared to prior year, led by sales growth of approximately 140% on the Salt Life ecommerce site and 80% on the Soffe consumer site. We anticipate continued strength in orders from ecommerce channels, both on our branded consumer sites and our retail partners' sites.

The June quarter delivered record non-holiday performance in the DTG2Go business, a market leader in the direct-to-garment digital print and fulfillment industry, which registered net sales growth for the quarter of 32%, including 38% year-over-year growth in the month of June. We continue to see impressive demand for our unique DTG2Go model. We are the only digital print supplier in the world that can offer a seamless, vertically-integrated solution, utilizing our proprietary software and internal supply chain to offer a fully-decorated, on-demand product shipped directly to the consumer, eliminating non-value added costs and reducing the risk of third-party supply chains. We see this as a tremendous competitive advantage. With the recent disruptions in supply chains and the inability for consumers to shop in traditional retail stores due to COVID-19, the benefits of our DTG2Go model have become apparent in the marketplace. We were able to continue operations, utilizing our network of facilities across the country, giving our existing customers, and new customers, a source of expanded revenue during times when needed most.

To provide the expanded capacity needed for DTG2Go to meet the rapidly growing demands for our digital print model, we plan to open a new integrated digital print and distribution facility in Phoenix, Arizona, combining DTG2Go's digital print business with Delta Apparel's own supply of garments. The Phoenix facility will increase DTG2Go's footprint to eight digital printing locations across the U.S., further expanding its one-day shipping reach to multiple markets, including Phoenix, Tucson, and into portions of southern California. As a part of the expansion, the Company plans to increase its fleet of digital printers by 10%, including adding eight new Kornit Atlas printers to Phoenix. Overall, the Phoenix facility gives DTG2Go the space to ultimately operate sixteen digital print machines, giving DTG2Go future expansion opportunities.

The Phoenix facility will join our network of U.S.-based distribution centers that have generally remained open and operational throughout the third quarter. We are committed to servicing our customers with same-day shipping, picking to the piece level, retail ready packaging and EDI support, and operate the majority of our business based on at-once orders. We maintain an inventory position at these distribution centers to service our customers' needs.

During the latter half of the quarter, we saw orders accelerating and coming from a broader base of sales channels. Our Activewear business experienced sequential sales growth each month of the quarter, which included our Catalog business returning to sales growth in the month of June compared to prior year driven by strength in the retail licensing channel. Our diversified sales channels coupled with cross-selling opportunities involving the DTG2Go and Softe decoration platforms, should continue to drive new Catalog business. Our FunTees business was impacted by our El Salvador plant being closed for the majority of the quarter, although we were able to service several orders utilizing our Mexico facilities which were operational for several weeks during the quarter. We expect that our diversified customer base within the FunTees business, as well as our new direct-to-retail programs, will provide a balanced growth strategy for this business.

The strength of the Salt Life brand with consumers was apparent during the quarter. Sales on the Salt Life branded consumer site more than doubled in the quarter compared to prior year. Following the opening of all our branded retail stores by the end of May 2020, we experienced same store sales increases of 5% compared to prior year. In addition, our newly opened stores generated approximately 50% incremental sales dollars compared to prior year. As our retail partners opened their stores in the latter half of the quarter, the Salt Life wholesale orders resumed, resulting in a 7% net sales growth for the Salt Life Group segment in June compared to prior year.

While our non-U.S. manufacturing operations were closed for most of the quarter, we are encouraged that by the end of June we had resumed production at all of our manufacturing plants. In accordance with local regulations, we have implemented strict safety protocols and will operate at a reduced capacity in the near term for the safety of our employees and to align our production levels with anticipated future business.

Our third quarter fiscal 2020 results included approximately \$23.1 million of expenses associated with the impacts from the COVID-19 pandemic. These costs primarily related to the curtailment of our manufacturing operations, incremental costs to right size production to new forecasted demand, and increased accounts receivable and inventory reserves related to the heightened risks in the market as the U.S. continues its recovery. We anticipate incurring approximately \$3 million of higher production expenses during the September quarter related to the start-up of manufacturing production.

Our liquidity improved as the quarter progressed, resulting in a nearly 50% increase in our cash on hand and availability under our credit facility at June compared to the March levels. In April 2020, we secured a bridge amendment to our U.S. revolving credit facility, which provides additional flexibility and increased access to the availability provided under the agreement. We continue to evaluate other available debt financing options that may be prudent.

During these unprecedented times, we are benefiting from our fully-integrated and diversified business model. Our business is recovering much quicker than we originally anticipated, and we believe this momentum will continue, allowing us to return to profitability in our September quarter.

### Results of Operations

*Our financial results have been presented on a generally accepted accounting principles ("GAAP") basis and, in certain limited instances, we have presented our financial results on a GAAP and non-GAAP ("adjusted") basis, which is further described in the sections entitled "Non-GAAP Financial Measures."*

Net sales for the June quarter were \$71.8 million compared to sales of \$119.3 million in the prior year June quarter. For the first nine months of 2020, net sales were \$264.4 million compared to \$323.8 million. The mid-March shutdowns in retail channels dramatically halted revenue until retail doors began to reopen in the latter half of the June quarter.

Our direct-to-consumer sales channels, comprised of consumer-facing ecommerce sites and our branded retail stores, increased 59% in the current quarter compared to the prior year with sales more than doubling on our ecommerce platforms. Business-to-business ecommerce sales in the June 2020 quarter were approximately 60% of prior year levels, consistent with the overall consolidated net sales results. Retail and total ecommerce sales represented 12% and 10% of total revenues for the three-month and nine-month periods ended June 27, 2020, compared to 8% for the three-month and nine-month periods ended June 29, 2019, respectively.

Net sales in the Delta Group segment were \$65.5 million compared to \$107.4 million in the prior year. The sales decreases in our Activewear and Softe businesses were partially offset by growth in our DTG2Go business, which grew by 32% over prior year from onboarding new customers as well as additional print volumes from existing customers. Our FunTees business was impacted by our El Salvador plant being closed for the majority of the quarter, although we were able to service several orders from our Mexico facilities which were operational for several weeks during the quarter. Catalog sales continued to accelerate throughout the quarter and returned to sales growth in the month of June. Softe direct-to-consumer web sales increased 80% over the prior year.

The Salt Life Group segment third quarter revenue was \$6.3 million compared to \$11.9 million in the prior year period. The segment was impacted by the temporary closure of retail, including our Salt Life branded retail stores. The wholesale business, as well as our own retail stores, began to accelerate in late May into June, leading to a 7% sales growth in June compared to prior year. Our direct-to-consumer web sales increased by nearly 140% from the prior year.

Gross margins were 4.2% compared to 20.8% in the prior year third quarter. Adjusting for \$12.6 million of COVID-19 related expenses, gross margins would have been 21.6%, an 80 basis point improvement over the prior year and attributable to continued efficiencies and process improvements within the Delta Group segment's integrated vertical manufacturing platform. For the first nine months of fiscal year 2020, gross margins were 16.4% compared to the prior year 19.2%. Adjusting for \$14.5 million of COVID-19 expenses, gross margins would have been 21.9%, a 270 basis point improvement over the prior year 19.2%.

The Delta Group segment gross margins of 0.7% were unfavorably impacted by the \$12.6 million of COVID-19 related expenses. Adjusting for these discrete impacts, gross margins would have been 19.7% during the June 2020 quarter, an improvement of 180 basis points from the prior year. Gross margins for the first nine months of fiscal year 2020 were 13.4% compared to prior year of 16.0%. Adjusting for \$14.5 million of year-to-date COVID impacts, gross margins would have been 19.4%, an expansion of 340 basis points from prior year.

The Salt Life Group segment gross margins were 40.8% in the third quarter compared to 47.3% in the prior year quarter. Margins were impacted by increased product costs from recently-enacted tariffs and by fewer garments produced off-shore in the current quarter, partially offset by a higher sales mix of more profitable direct-to-consumer ecommerce and retail sales. Gross margins for the first nine months of fiscal year 2020 were 44.9% when compared to the prior year 48.0%.

Selling, general, and administrative expenses ("SG&A") were \$15.2 million, or 21.2% of sales, compared to \$17.9 million, 15.0% of sales, in the prior year. Adjusting for \$2.4 million of COVID-related expenses, adjusted SG&A for the June quarter was \$12.8 million or 17.7% of net sales. Expenses decreased due to lower variable selling costs as well as cost controls put in place, but expenses were higher as a percentage of sales due to fixed costs on a lower sales base. SG&A for the first nine months was \$51.1 million, or 19.3% of sales, compared to \$51.8 million, or 16.0% of sales, in the prior year. Adjusting for \$2.4 million of COVID-related expenses, adjusted SG&A for the first nine months of fiscal year 2020 was \$48.7 million, or 18.4% of net sales.

Driven from the growth being achieved and projected to continue in our digital print business, the change in the fair value of contingent consideration associated with our DTG2Go acquisition was \$1.2 million and included in other expense for the June quarter. Other expense also included \$8.1 million of COVID-19 related expenses for the June quarter primarily related to incremental costs to right size production to new forecasted demand and increased inventory reserves related to the heightened risks in the market as the U.S. continues its recovery. The prior year included profits related to our Honduran equity method investment, valuation changes in our contingent consideration, a \$1.3 million discrete gain realized from the settlement of a commercial litigation matter in the Salt Life Group segment, and other less significant items.

Operating profit in the third quarter was a loss of \$21.6 million compared to income of \$8.3 million in the prior year. Operating income, adjusted for discrete items, was \$1.5 million for the current quarter compared to \$7.0 million in the prior year. For the first nine months, the operating loss was \$15.4 million compared to operating income of \$11.1 million in the prior year. Adjusted operating income for the first nine months was \$9.6 million compared to \$12.2 million in the same period in the prior year.

The Delta Group segment incurred an operating loss in the current fiscal year quarter of \$17.5 million or 26.7% of net sales, compared to \$9.2 million of income or 8.6% of net sales in the prior year. Adjusting for \$23.1 million of COVID-related expenses in the current year, operating income for the June quarter would have been

\$5.6 million of income or 8.5% of net sales. The decrease is attributable to lower sales volume, partially offset by gross margin expansion and cost controls. For the first nine months of fiscal year 2020, Delta Group segment incurred an operating loss of \$5.1 million compared to operating income of \$15.4 million in the prior year. When adjusted for \$25.0 million of COVID-related expenses, the segment's operating income for the first nine months was \$19.9 million or 8.3% of net sales. When excluding the \$2.5 million of unfavorable litigation settlement in the prior year, adjusted operating income for the first nine months of fiscal year 2019 was \$17.9 million or 6.1% of net sales. The increase is attributable to gross margin expansion and cost controls, partially offset by lower sales volumes and the change in fair value of the DTG2Go contingent consideration liability.

The Salt Life Group segment operating income was a loss of \$0.6 million compared to prior year income of \$2.6 million. For the first nine months of fiscal year 2020, Salt Life Group segment income was \$0.2 million compared to \$5.6 million in the prior year. Operating income declined from lower sales coupled with higher product costs from the newly-enacted tariffs on imported goods. In addition, the prior year benefited from a \$1.3 million discrete gain realized from the settlement of a commercial litigation matter in the June quarter as well as favorable adjustments to the fair value of contingent earn-out liability in the first half of fiscal year 2019.

Net interest expense for the third quarter of fiscal year 2020 was \$1.7 million as compared to \$2.0 million in the prior year period due to decreased interest rates. For the first nine months of fiscal year 2020, interest expense was \$5.3 million compared to \$5.7 million in the prior year.

Our effective tax benefit on operations for the nine-month period ended June 27, 2020, was 23.6%. This compares to an effective tax rate of 16.8% for the same period in the prior year, and a 5.5% for the fiscal year ended September 28, 2019. See Note K—Income taxes for more information.

The net loss for the third quarter of 2020 was \$17.8 million, or \$2.58 per diluted share, and the adjusted net loss was \$0.1 million, or \$0.01 per diluted share. The prior year net income for the third quarter was \$4.8 million, or \$0.70 per diluted share, and the adjusted net income was \$4.2 million or \$0.60 per diluted share. For the nine months ended June 27, 2020, the net loss was \$15.5 million, or \$2.24 per diluted share, and the adjusted net income was \$3.6 million, or \$0.52 per diluted share. The prior year net income for the first nine months was \$4.7 million, or \$0.67 per diluted share, and the adjusted net income was \$5.6 million or \$0.79 per diluted share.

Accounts receivable were \$51.4 million at June 27, 2020, compared to \$60.9 million as of September 28, 2019. Days sales outstanding ("DSO") as of June 27, 2020, were 49 days, slightly higher than 48 days at September 28, 2019.

Net inventory was \$158.0 million as of June 29, 2019, a decrease of \$21.2 million from September 28, 2019. The lower inventory levels resulted from sales during the third quarter with less inventory production due to manufacturing plant curtailments as a result of the COVID-19 pandemic.

Capital spending was \$1.5 million during the June quarter of fiscal year 2020 and primarily related to retail and direct to consumer initiatives as well as printing equipment. Capital spending was \$8.1 million during the first nine months of fiscal year 2020 and primarily related to investments in our distribution network as well as retail and direct to consumer initiatives and printing equipment. Depreciation and amortization expense, including non-cash compensation, was \$11.5 million for the first nine months of fiscal year 2020.

Total debt net of cash, excluding capital leases, at June 27, 2020, was \$108.0 million compared with \$115.2 million at 2019 fiscal year end. The decrease from year end was primarily driven from sales and collections during the year with less production costs incurred during the June quarter with COVID-related manufacturing plant curtailments.

#### 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 gross margin, SG&A expenses, operating income, net 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. The tables below reconcile operating income, net income and earnings per diluted share to adjusted operating income, adjusted net income and adjusted earnings per diluted share (in thousands except per share data):

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Operating (loss)/income	\$ (21,588)	\$ 8,336	\$ (15,396)	\$ 11,071
Adjustments for COVID-19 expenses (1)	23,100	-	25,000	-
Adjustments for litigation settlements (2)	-	(1,306)	-	1,158
Adjusted operating (loss) income	<u>\$ 1,512</u>	<u>\$ 7,030</u>	<u>\$ 9,604</u>	<u>\$ 12,229</u>
Net (loss) earnings attributable to shareholders	\$ (17,781)	\$ 4,837	\$ (15,546)	\$ 4,719
Adjustments for COVID-19 expenses, net of tax (1)	17,722	-	19,180	-
Adjustments for litigation settlements, net of tax (2)	-	(653)	-	864
Adjusted net (loss) earnings attributable to shareholders	<u>\$ (59)</u>	<u>\$ 4,184</u>	<u>\$ 3,634</u>	<u>\$ 5,583</u>
Reported diluted (loss) earnings per share	\$ (2.58)	\$ 0.70	\$ (2.24)	\$ 0.67
Adjustments for COVID-19 expenses, net of tax (1)	2.57	-	2.77	-
Adjustments for litigation settlements, net of tax (2)	-	(0.10)	-	0.12
Adjusted diluted (loss) earnings per share	<u>\$ (0.01)</u>	<u>\$ 0.60</u>	<u>\$ 0.52</u>	<u>\$ 0.79</u>

(1) Our third quarter fiscal 2020 results included approximately \$23.1 million of pre-tax expenses associated with the impacts from the COVID-19 pandemic and primarily related to the curtailment of manufacturing operations (\$9.8 million), incremental costs to right size production to new forecasted demand (\$2.6 million), increased accounts receivable and inventory reserves related to the heightened risks in the market as the U.S. continues its recovery (\$6.6 million), and other expenses (\$4.1 million). These costs are included within net sales (\$0.5 million), cost of goods sold (\$12.1 million), SG&A expenses (\$2.4 million), and other loss (income), net (\$8.1 million). The first nine months of fiscal 2020 included approximately \$25.0 million of pre-tax expenses associated with the impacts from the COVID-19 pandemic and included an additional \$1.9 million of costs related to the curtailment of manufacturing operations in cost of goods sold.

(2) Our third quarter fiscal 2019 results included approximately \$1.3 million in other income as the result of a favorable litigation settlement in the Salt Life Group segment in the third quarter fiscal year 2019. The first nine months of fiscal 2019 included approximately \$2.5 million of unfavorable litigation settlement due to the bankruptcy of a customer in the Delta Group segment in the first quarter fiscal year 2019, partially offset by approximately \$1.3 million in other income as the result of a favorable litigation settlement in the Salt Life Group segment in the third quarter fiscal year 2019.

#### Liquidity and Capital Resources

##### *Operating Cash Flows*

Operating activities provided \$22.0 million in cash in the first nine months of fiscal year 2020 compared to \$8.5 million of cash used in the first nine months of fiscal year 2019. The improved operating cash flows in 2020 relate to an increase in direct-to-consumer and DTG2Go sales during the June quarter, which benefited us with a quicker cash collections cycle, while reducing inventory levels as inventory sold was not replaced because of the manufacturing disruptions beginning in mid-March 2020. In addition, we slowed payments to our suppliers during the June quarter and negotiated deferrals for the June quarter with the majority of our operating lease landlords.

#### *Investing Cash Flows*

Capital expenditures were \$4.4 million during the first nine months of fiscal year 2020 compared to \$4.2 million in the same period last year. Capital expenditures related primarily to investments in our distribution expansion, retail stores, and printing equipment. During fiscal year 2019, property, plant, and equipment of \$3.4 million were acquired as part of the SSI acquisition. There were \$3.8 million in expenditures financed under a capital lease arrangement and \$1.8 million in unpaid expenditures as of June 27, 2020.

We anticipate our fiscal year 2020 capital expenditures, including those financed under capital leases, to be approximately \$18 million and to be focused primarily on digital print equipment and our distribution expansion, along with information technology and direct-to-consumer enhancements.

#### *Financing Activities*

During the nine months ended June 27, 2020, cash used by financing activities was \$1.4 million compared to \$17.3 million provided by financing activities for the nine months ended June 29, 2019. The cash provided by financing activities during the first nine months of fiscal year 2020 was used to fund our operating activities, certain capital investments, and share repurchases. The cash provided by our financing activities during the first nine months of fiscal year 2019 was used to fund the SSI digital print acquisition as well as fund our operating activities and share repurchases.

#### *Future Liquidity and Capital Resources*

See Note F – Debt to the Condensed Consolidated Financial Statements for discussion of our various financing arrangements, including the terms of our revolving U.S. credit facility.

Our credit facility, as amended on April 27, 2020, as well as cash flows from operations, are intended to fund our day-to-day working capital needs, and along with capital lease financing arrangements, to fund our planned capital expenditures. However, any material deterioration in our results of operations, such as could occur with the COVID-19 pandemic, 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.

Prior to the Fifth Amendment executed on April 27, 2020, our credit facility included 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. The Fifth Amendment amends the financial covenant provisions from the amendment date through October 3, 2020, including effectively lowering the minimum availability thresholds and removing the requirement that our FCCR for the preceding 12-month period must not be less than 1.1 to 1.0. As of June 27, 2020, we maintained availability above the minimum availability thresholds but were below the 1.1 to 1.0 FCCR for the preceding 12-month period primarily due to the non-recurring expenses recorded during the June 2020 quarter. Following the expiration of these Fifth Amendment terms on October 3, 2020, a significant deterioration in our business could cause our availability to fall below minimum thresholds, thereby requiring us to maintain the minimum FCCR specified in our credit agreement, which we may not be able to maintain.

#### Purchases By Delta Apparel Of Its Own Shares

During the nine months ended June 27, 2020, we purchased 99,971 shares common stock for an aggregate amount of \$2.0 million (see Note N—Repurchase of Common Stock). As of June 27, 2020, there was \$7.5 million of repurchase authorization remaining under our Stock Repurchase Program. During March 2020, we temporarily suspended share repurchases in an effort to preserve liquidity during the COVID-19 pandemic.

#### 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 28, 2019, 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 lease accounting 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 June 27, 2020, and, based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of June 27, 2020.

#### Changes in Internal Control Over Financial Reporting

There was no change during the third quarter of fiscal year 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

We operate in a rapidly changing, highly competitive business environment that involves substantial risks and uncertainties. The risk factors described in Part 1, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 28, 2019, as revised below, as well as risks described elsewhere in this report or in our other filings with the SEC, could materially affect our business, financial condition or operating results and the value of Company securities held by investors and should be carefully considered in evaluating our Company and the forward-looking statements contained in this report or future reports. The risks described below are not the only risks facing Delta Apparel. Additional risks not presently known to us or that we currently do not view as material may become material and may impair our business operations. Any of these risks could cause, or contribute to causing, our actual results to differ materially from expectations.

The risk factor described below updates the risk factors disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 28, 2019, to include additional information.

**The COVID-19 pandemic has had, and could continue to have, a material adverse effect on our ability to operate, results of operations, financial condition, liquidity, and capital investments.** The World Health Organization has declared the COVID-19 outbreak a pandemic, and the virus continues to spread in areas where we operate and sell our products. The COVID-19 pandemic, and similar pandemics or disruptions in the future, have had an adverse effect and could continue to adversely effect our performance and results of operations. These pandemics or disruptions could also impact our financial condition, liquidity, and capital investments. Several public health organizations have recommended, and some local and foreign governments have implemented, certain measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances. Such preventive measures, or others we may voluntarily put in place, may have a material adverse effect on our business for an indefinite period of time, such as the potential shutdown of certain locations, decreased employee availability, potential border closures, and others. In mid-March 2020, all of our branded retail locations were temporarily closed in compliance with guidelines for retail store operations and were re-opened by the end of May 2020. Our facilities in El Salvador and Honduras were temporarily closed in mid-March through late June due to government-mandated country shutdowns. In addition, we experienced intermittent closures during the June quarter at our manufacturing facilities in Mexico and North Carolina. As of June 27, 2020, all our manufacturing facilities were open and operating. Uncertainty remains whether our retail stores and plants may be required to close again.

Many of our customers and suppliers also face these and other challenges, which could lead to reduced demand for our products and services and a disruption in our supply chain. These challenges could impair our customers' ability to pay all or a portion of amounts owed to us per the sales agreements, resulting in reduced cash flows and charges incurred for bad debt. These issues may also materially affect our future access to our sources of liquidity, particularly our cash flows from operations, financial condition, capitalization, and capital investments.

The extent to which COVID-19 impacts our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the pandemic, a resurgence of the pandemic, new information that may emerge concerning the severity of COVID-19, and public and private actions to contain COVID-19 or treat its impact. The COVID-19 pandemic has and will likely continue to result in social, economic, and labor instability in the countries in which we, or the third parties with whom we engage, operate. The long-term economic impact and near-term financial impacts of the COVID-19 pandemic, including but not limited to, possible impairment, restructuring, and other charges, as well as overall impact on our business, results of operations, financial condition, liquidity, or capital resources and investments, cannot be reliably quantified or estimated at this time due to the uncertainty of future developments.

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

#### (c) Repurchases of Common Stock

See Note O—Repurchase of Common Stock, Part I, in Item 1, which is 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 Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

104 Cover Page Interactive Data File - (formatted as Inline XBRL and contained in Exhibit 101)

16

---

### 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 July 30, 2020

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

17

**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: July 30, 2020

/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: July 30, 2020

/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 ended June 27, 2020, 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: July 30, 2020

/s/ Robert W. Humphreys

Robert W. Humphreys

Chairman and Chief Executive Officer

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

---

EXHIBIT 32.2

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

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

1. The Quarterly Report on Form 10-Q for the quarterly period ended June 27, 2020, 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: July 30, 2020

/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.

---