UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 3, 2021
OR

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

For the transition period from__________ to __________

Commission File Number 1-15583

DELTA APPAREL, INC.

(Exact name of registrant as specified in its charter)

Georgia	**58-2508794**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
322 South Main Street Greenville, SC	**29601**
(Address of principal executive offices)	(Zip Code)

(864) 232-5200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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.

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 April 28, 2021, there were outstanding 6,974,660 shares of the registrant's common stock, par value of $0.01 per share, which is the only class of outstanding common or voting stock of the registrant.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 2021	September 2020
Assets		
Cash and cash equivalents	$ 12,551	$ 16,458
Accounts receivable, less allowances of $577 and $684, respectively	66,079	60,146
Other receivables	408	854
Income tax receivable	-	983
Inventories, net	148,530	145,515
Prepaid expenses and other current assets	4,351	2,812
Total current assets	231,919	226,768
Property, plant and equipment, net of accumulated depreciation of $96,014 and $92,123, respectively	66,207	63,950
Goodwill	37,897	37,897
Intangibles, net	19,162	19,948
Deferred income taxes	3,226	4,052
Operating lease assets	49,570	54,645
Equity method investment	10,742	10,573
Other assets	2,142	2,398
Total assets	$ 420,865	$ 420,231
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 44,986	$ 49,800
Accrued expenses	18,366	20,174
Income taxes payable	496	379
Current portion of finance leases	7,256	6,956
Current portion of operating leases	8,946	9,039
Current portion of long-term debt	7,536	7,559
Current portion of contingent consideration	2,400	2,120
Total current liabilities	89,986	96,027
Long-term income taxes payable	3,220	3,599
Long-term finance leases, less current maturities	18,552	11,328
Long-term operating leases, less current maturities	42,377	46,570
Long-term debt, less current maturities	114,375	112,782
Long-term contingent consideration	1,910	4,300
Other non-current liabilities	2,470	2,939
Total liabilities	$ 272,890	$ 277,545
Shareholder's equity:		
Preferred stock - $0.01 par value, 2,000,000 shares authorized, none issued and outstanding	-	-
Common stock - $0.01 par value, 15,000,000 authorized, 9,646,972 shares issued, and 6,974,660 and 6,890,118 shares outstanding as of March 2021 and September 2020, respectively	96	96
Additional paid-in capital	59,842	61,005
Retained earnings	131,845	126,564
Accumulated other comprehensive loss	(998)	(1,322)
Treasury stock - 2,672,312 and 2,756,854 shares as of March 2021 and September 2020, respectively	(42,149)	(43,133)
Equity attributable to Delta Apparel, Inc.	148,636	143,210
Equity attributable to non-controlling interest	(661)	(524)
Total equity	147,975	142,686
Total liabilities and equity	$ 420,865	$ 420,231

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	March 2021	March 2020	March 2021	March 2020
Net sales	$ 108,626	$ 96,660	$ 203,349	$ 192,550
Cost of goods sold	83,816	76,079	158,250	152,075
Gross profit	24,810	20,581	45,099	40,475
Selling, general and administrative expenses	17,061	17,850	33,091	35,924
Other loss (income), net	170	(823)	1,360	(1,640)
Operating income	7,579	3,554	10,648	6,191
Interest expense, net	1,837	1,808	3,491	3,610
Earnings before provision for income taxes	5,742	1,746	7,157	2,581
Provision for income taxes	1,441	526	2,013	570
Consolidated net earnings	4,301	1,220	5,144	2,011
Net loss attributable to non-controlling interest	97	91	137	223
Net earnings attributable to shareholders	$ 4,398	$ 1,311	$ 5,281	$ 2,234
Basic earnings per share	$ 0.63	$ 0.19	$ 0.76	$ 0.32
Diluted earnings per share	$ 0.62	$ 0.19	$ 0.75	$ 0.32
Weighted average number of shares outstanding	6,975	6,957	6,947	6,953
Dilutive effect of stock awards	130	98	105	110
Weighted average number of shares assuming dilution	7,105	7,055	7,052	7,063

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	March 2021	March 2020	March 2021	March 2020
Net earnings attributable to shareholders	$ 4,398	$ 1,311	$ 5,281	$ 2,234
Other comprehensive income (loss) related to unrealized gain (loss) on derivatives, net of income tax	199	(595)	324	(464)
Consolidated comprehensive income	$ 4,597	$ 716	$ 5,605	$ 1,770

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Non-Controlling Interest	Total
Balance as of September 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 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 2020	9,646,972	$ 96	$ 59,440	$ 139,171	$ (1,433)	2,756,854	$ (43,133)	$ (504)	$ 153,637

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Non-Controlling Interest	Total
Balance as of September 2020	9,646,972	$ 96	$ 61,005	$ 126,564	$ (1,322)	2,756,854	$ (43,133)	$ (524)	$ 142,686
Net earnings	-	-	-	883	-	-	-	-	883
Other comprehensive income	-	-	-	-	125	-	-	-	125
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(40)	(40)
Vested stock awards	-	-	(2,117)	-	-	(84,542)	984	-	(1,133)
Stock based compensation	-	-	676	-	-	-	-	-	676
Balance as of December 2020	9,646,972	96	59,564	127,447	(1,197)	2,672,312	(42,149)	(564)	143,197
Net earnings	-	-	-	4,398	-	-	-	-	4,398
Other comprehensive income	-	-	-	-	199	-	-	-	199
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(97)	(97)
Stock based compensation	-	-	278	-	-	-	-	-	278
Balance as of March 2021	9,646,972	$ 96	$ 59,842	$ 131,845	$ (998)	2,672,312	$ (42,149)	$ (661)	$ 147,975

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	March 2021	March 2020
Operating activities:		
Consolidated net earnings	$ 5,144	$ 2,011
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,695	6,381
Amortization of deferred financing fees	162	157
Provision for inventory market reserves	533	(687)
Provision for deferred income taxes	826	-
Non-cash stock compensation	954	1,196
Gain on disposal of equipment	(2)	(28)
Other, net	(252)	(1,555)
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,487)	1,480
Inventories, net	(3,548)	(17,539)
Prepaid expenses and other current assets	(1,539)	(176)
Other non-current assets	404	(285)
Accounts payable	(2,373)	4,065
Accrued expenses	(1,808)	(5,640)
Net operating lease liabilities	470	910
Income taxes	721	(485)
Other liabilities	(145)	(7)
Net cash used provided by (used in) operating activities	755	(10,202)
Investing activities:		
Purchases of property and equipment, net	(1,215)	(3,886)
Proceeds from equipment under financed leases	2,312	-
Proceeds from sale of equipment	247	-
Cash paid for business	(1,679)	(1,660)
Net cash used in investing activities	(335)	(5,546)
Financing activities:		
Proceeds from long-term debt	224,729	237,622
Repayment of long-term debt	(221,993)	(203,622)
Repayment of capital financing	(3,820)	(2,714)
Payment of contingent consideration	(2,110)	(2,500)
Payment of deferred financing costs	-	(1,079)
Repurchase of common stock	-	(2,029)
Payment of withholding taxes on stock awards	(1,133)	(967)
Net cash (used in) provided by financing activities	(4,327)	24,711
Net (decrease) increase in cash and cash equivalents	(3,907)	8,963
Cash and cash equivalents at beginning of period	16,458	605
Cash and cash equivalents at end of period	$ 12,551	$ 9,568
Supplemental cash flow information		
Finance lease assets exchanged for finance lease liabilities	$ 11,818	$ 4,378
Operating lease assets exchanged for operating lease liabilities	$ 47	$ 4,084

See accompanying Notes to Condensed Consolidated Financial Statements.

Delta Apparel, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A— Description of Business and Basis of Presentation

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 7,900 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 on-demand, digital print and fulfillment industry, bringing DTG2Go's proprietary 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 digital platform. Our products are also made available direct-to-consumer on our ecommerce sites and in our branded retail stores. Our diversified distribution model 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 garments 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 2021 fiscal year is a 52-week year and will end on October 2, 2021, ("fiscal 2021"). Accordingly, this Form 10-Q presents our second quarter of fiscal 2021. Our 2020 fiscal year was a 53-week year and ended on October 3, 2020, ("fiscal 2020").

For presentation purposes herein, all references to period ended relate to the following fiscal years and dates:

Period Ended	Fiscal Year	Date Ended
December 2019	Fiscal 2020	December 28, 2019
March 2020	Fiscal 2020	March 28, 2020
June 2020	Fiscal 2020	June 27, 2020
September 2020	Fiscal 2020	October 3, 2020
December 2020	Fiscal 2021	January 3, 2021
March 2021	Fiscal 2021	April 3, 2021
June 2021	Fiscal 2021	July 3, 2021
September 2021	Fiscal 2021	October 2, 2021

We prepared the accompanying interim Condensed Consolidated Financial Statements in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. We believe these Condensed Consolidated Financial Statements include all normal recurring adjustments considered necessary for a fair presentation. Operating results for the three-month and six-month periods ended March 2021 are not necessarily indicative of the results that may be expected for our fiscal 2021. 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. 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 2020, filed with the United States Securities and Exchange Commission (“SEC”).

Our Condensed Consolidated Financial Statements include the accounts of Delta Apparel and its wholly-owned and majority-owned domestic and foreign subsidiaries. We apply the equity method of accounting for our investment in 31% of the outstanding capital stock of a Honduran company. During the six-months ended March 2021 and March 2020, we received dividends from the investment of $0.3 million and $0.6 million, respectively. Our Ceiba Textiles manufacturing facility is leased under an operating lease arrangement, with this Honduran company. During the six-months ended March 2021, we paid approximately $1.3 million under this arrangement, which included repayment of rent deferrals related to the June 2020 quarter. Payments of approximately $0.9 million were made during the six-months ended March 2020.

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.

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 our fiscal 2020, filed with the SEC. See Note C for consideration of recently issued accounting standards.

Note C—New Accounting Standards

Recently Adopted Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 requires customers to apply internal-use software guidance to determine the implementation costs that are able to be capitalized. Capitalized implementation costs are required to be amortized over the term of the arrangement, beginning when the cloud computing arrangement is ready for its intended use. We adopted ASU 2018-15 prospectively as of the beginning of fiscal 2021, and the provisions did not have a material effect on our financial condition, results of operations, cash flows, or disclosures.

Standards Not Yet Adopted

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which simplifies the accounting for income taxes, eliminates certain exceptions within Accounting Standards Codification ("ASC") 740, *Income Taxes*, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective as of the beginning of our fiscal year 2022. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We are currently evaluating the impacts of the provisions of ASU 2019-12 on our financial condition, results of operations, cash flows, and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires an entity to assess impairment of its financial instruments based on the entity's estimate of expected credit losses. Since the issuance of ASU 2016-13, the FASB released several amendments to improve and clarify the implementation guidance. These standards have been collectively codified within ASC Topic 326, *Credit Losses* ("ASC 326"). As a smaller reporting company as defined by the SEC, the provisions of ASC 326 are effective as of the beginning of our fiscal year2024. We are currently evaluating the impacts of the provisions of ASC 326 on our financial condition, results of operations, cash flows, and disclosures.

Note D—Revenue Recognition

Our Condensed Consolidated Statements of Operations include revenue streams from retail sales at our branded retail stores; direct-to-consumer ecommerce sales on our consumer-facing web sites; and sales from wholesale channels, which includes our business-to-business ecommerce and DTG2Go sales. The table below identifies the amount and percentage of net sales by distribution channel (in thousands):

	Three Months Ended			
	March 2021		March 2020	
Retail	$ 2,448	2%	$ 962	1%
Direct-to-consumer ecommerce	1,475	2%	1,084	1%
Wholesale	104,703	96%	94,614	98%
Net sales	$ 108,626	100%	$ 96,660	100%

	Six Months Ended			
	March 2021		March 2020	
Retail	$ 4,887	2%	$ 2,195	1%
Direct-to-consumer ecommerce	3,283	2%	2,767	2%
Wholesale	195,179	96%	187,588	97%
Net sales	$ 203,349	100%	$ 192,550	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:

	Three Months Ended March 2021			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 94,219	0.3%	0.2%	99.5%
Salt Life Group	14,407	15.1%	8.8%	76.1%
Total	$ 108,626			

	Three Months Ended March 2020			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 84,191	0.2%	0.2%	99.6%
Salt Life Group	12,469	6.4%	7.0%	86.6%
Total	$ 96,660			

	Six Months Ended March 2021			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 181,843	0.3%	0.2%	99.5%
Salt Life Group	21,506	20.5%	12.8%	66.7%
Total	$ 203,349			

	Six Months Ended March 2020			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 173,143	0.3%	0.2%	99.5%
Salt Life Group	19,407	8.9%	11.9%	79.2%
Total	$ 192,550			

Note E—Inventories

Inventories, net of reserves of $15.5 million and $15.0 million, as of March 2021 and September 2020, respectively, consisted of the following (in thousands):

	March 2021	September 2020
Raw materials	$ 15,089	$ 13,571
Work in process	13,787	13,984
Finished goods	119,654	117,960
	$ 148,530	$ 145,515

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, and Regions Bank. Our subsidiaries M.J. Soffe, LLC, Culver City Clothing Company, Salt Life, LLC, and DTG2Go, 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, October 8, 2018, November 19, 2019, April 27, 2020, and August 28, 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 March 2021, we had $109.9 million outstanding under our U.S. revolving credit facility at an average interest rate of 3.4%. Our cash on hand combined with the availability under the U.S. credit facility totaled $44.2 million. At March 2021 and September 2020 there was $11.4 million and $8.8 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 March 2021, there was $1.8 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. In December 2020, we entered into a new term loan and revolving credit facility with Banco Ficohsa, both with five-year terms, and simultaneously settled the prior term loans and revolving credit facility with outstanding balances at the time of settlement of $1.1 million and $9.5 million, respectively. Each of these new loans is secured by a first-priority lien on the assets of our Honduran operations and is not guaranteed by our U.S. entities. These loans are denominated in U.S. dollars, and the carrying value of the debt approximates its fair value. As the revolving credit facility 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. Additional information about these loans and the outstanding balances as of March 2021 is as follows (in thousands):

	March 2021
Revolving credit facility established December 2020, interest at 7.25%, due August 2025	$ 1,000
Term loan established December 2020, interest at 7.5%, quarterly installments beginning September 2021 through December 2025	9,128

Note G—Selling, General and Administrative Expense

We include in selling, general and administrative ("SG&A") expenses the costs incurred subsequent to the receipt of finished goods at our distribution facilities, such as the cost of stocking, warehousing, picking, packing, and shipping goods for delivery to our customers. Distribution costs included in SG&A expenses totaled $5.2 million and $4.8 million for the March 2021 and 2020 quarters, respectively. Distribution costs included in SG&A expenses totaled $10.4 million and $9.7 million for the six-months ended March 2021 and 2020, respectively. In addition, SG&A expenses include costs related to sales associates, administrative personnel, advertising and marketing expenses and other general and administrative expenses.

Note H—Stock-Based Compensation

On February 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, stock performance units, and other stock and cash awards. Unvested awards, while employed by the Company or servings as a director, become fully vested under certain circumstances as defined in the 2020 Stock Plan. Such circumstances include, but are not limited to, the participant's death or becoming disabled. 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. 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. Shares are generally issued from treasury stock upon the vesting of the restricted stock units, performance units or other awards under the 2020 Stock Plan.

Compensation expense is recorded within SG&A in our Condensed Consolidated Statements of Operations over the vesting periods. During the March 2021 and 2020 quarters, we recognized $0.6 million and $0.5 million in stock-based compensation expense, respectively. Associated with the compensation cost are income tax benefits recognized of $0.1 million for each of the three-month periods ended March 2021 and March 2020. During the six-months ended March 2021 and March 2020, we recognized $1.5 million and $1.4 million, respectively, in stock-based compensation expense. Associated with the compensation cost are income tax benefits recognized of $0.4 million and $0.5 million for the six-months periods ended March 2021 and March 2020, respectively.

During the December 2020 quarter, performance stock units and restricted stock units representing 42,000 and 74,000 shares of our common stock, respectively, vested with the filing of our Annual Report on Form 10-K for fiscal 2020, and were issued in accordance with their respective agreements. All vested awards were paid in common stock.

As of March 2021, there was $2.3 million of total unrecognized compensation cost related to unvested awards granted under the 2020 Stock Plan. This cost is expected to be recognized over a period of 1.6 years.

Note I—Purchase Contracts

We have entered into agreements, and have fixed prices, to purchase yarn, finished fabric, and finished apparel and headwear products. AtMarch 2021, minimum payments under these contracts were as follows (in thousands):

Yarn	$	47,417
Finished fabric		3,687
Finished products		14,819
	$	65,923

Note J—Business Segments

Our operations are managed and reported in 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 DTG2Go, Delta Activewear, and Soffe business units. We are a market leader in the on-demand, digital print and fulfillment industry, bringing DTG2Go's proprietary technology and innovation to the supply chain of our customers. Delta Activewear is a preferred supplier of activewear apparel to regional and global brands, direct to retail and through wholesale markets. We offer a broad range of apparel and accessories through our catalog business under the Delta and Soffe brands, as well as other brands that we distribute utilizing our digital platform and network of fulfillment centers. In addition to our catalog business, we serve our customers as their supply chain partner, from product development to shipment of their branded products, with the majority of products being sold with value-added services including embellishment, hangtags, and ticketing, so that they are ready for retail sale to end consumers.

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, outdoor retailers and traditional department stores, 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®.

Our Chief Operating Decision Maker and management evaluate performance and allocate resources based on profit or loss from operations before interest, income taxes and special charges ("segment operating earnings"). Our segment operating earnings may not be comparable to similarly titled measures used by other companies. The accounting policies of our reportable segments are the same as those described in Note 2 in our Annual Report on Form 10-K for fiscal 2020, filed with the SEC. Intercompany transfers between operating segments are transacted at cost and have been eliminated within the segment amounts shown in the following table (in thousands).

	Three Months Ended		Six Months Ended	
	March 2021	March 2020	March 2021	March 2020
Segment net sales:				
Delta Group	$ 94,219	$ 84,191	$ 181,843	$ 173,143
Salt Life Group	14,407	12,469	21,506	19,407
Total net sales	$ 108,626	$ 96,660	$ 203,349	$ 192,550
Segment operating earnings:				
Delta Group (1)	$ 8,247	$ 5,066	$ 14,522	$ 12,334
Salt Life Group	1,946	1,473	1,811	804
Total segment operating earnings	$ 10,193	$ 6,539	$ 16,333	$ 13,138

(1) In fiscal 2021, the Delta Group operating earnings included $1.3 million of expense, reported within "Other loss (income), net", related to two catastrophic hurricanes that disrupted operations during the December 2020 quarter. In the March 2020 quarter, the Delta Group operating earnings included $1.9 million of cost of goods sold expense associated with government-mandated plant curtailments.

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

	Three Months Ended		Six Months Ended	
	March 2021	March 2020	March 2021	March 2020
Segment operating earnings	$ 10,193	$ 6,539	$ 16,333	$ 13,138
Unallocated corporate expenses	2,614	2,985	5,685	6,947
Unallocated interest expense	1,837	1,808	3,491	3,610
Consolidated earnings before provision for income taxes	$ 5,742	$ 1,746	$ 7,157	$ 2,581

Note K—Income Taxes

The Tax Cuts and Jobs Act of 2017 (the “New Tax Legislation”) was enacted on December 22, 2017, which significantly revised the U.S. corporate income tax code by, among other things, lowering federal corporate income tax rates, implementing a modified territorial tax system and imposing a repatriation tax ("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 and 30% of the taxpayer’s adjusted taxable income. We have included in our calculation of our effective tax rate the estimated impact of GILTI and Section 163(j). 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 six-months ended March 2021 was 27.6% compared to a rate of 20.3% in the same period of the prior year, and an effective rate of 23.6% for fiscal 2020. 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.

Note L—Derivatives and Fair Value Measurements

From time to time, we may use interest rate swaps or other instruments to manage our interest rate exposure and reduce the impact of future interest rate changes. These financial instruments are not used for trading or speculative purposes. We have designated our interest rate swap contracts as cash flow hedges of our future interest payments. As a result, the gains and losses on the swap contracts are reported as a component of other comprehensive income and are reclassified into interest expense as the related interest payments are made. As of March 2021, all of our other comprehensive income was attributable to shareholders; none related to the non-controlling interest. Outstanding instruments as of March 2021 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 March 2021 and September 2020 (in thousands):

	March 2021	September 2020
Deferred tax assets	$ 335	$ 442
Accrued expenses	(19)	(108)
Other non-current liabilities	(1,314)	(1,656)
Accumulated other comprehensive loss	$ (998)	$ (1,322)

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 March 2021 and September 2020.

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):

		Fair Value Measurements Using		
Period Ended	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest Rate Swaps				
March 2021	$ (1,333)	—	$ (1,333)	—
September 2020	$ (1,764)	—	$ (1,764)	—
Contingent Consideration				
March 2021	$ (4,310)	—	—	$ (4,310)
September 2020	$ (6,420)	—	—	$ (6,420)

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 March 2021 and September 2020, 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. As of March 2021, we estimate the fair value of contingent consideration to be $4.3 million, a $2.1 million decrease from September 2020 due to the payment made during the December 2020 quarter for the fiscal 2020 contingent consideration period.

Note M—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 N—Repurchase of Common Stock

As of September 28, 2019, our Board of Directors authorized management to use up to $60.0 million to repurchase stock in open market transactions under our Stock Repurchase Program.

No shares of our common stock were repurchased in the March 2021 quarter. Through March 2021, we have purchased 3,598,933 shares of our common stock for an aggregate of $52.5 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 March 2021, $7.5 million remained available for future purchases under our Stock Repurchase Program, which does not have an expiration date.

Note O—Goodwill and Intangible Assets

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

	March 2021			September 2020			
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	Economic Life
Goodwill	$ 37,897	$ —	$ 37,897	$ 37,897	$ —	$ 37,897	N/A
Intangibles:							
Tradename/trademarks	$ 16,090	$ (4,091)	$ 11,999	$ 16,090	$ (3,820)	$ 12,270	20 – 30 yrs
Customer relationships	7,400	(2,103)	5,297	7,400	(1,733)	5,667	20 yrs
Technology	1,720	(1,411)	309	1,720	(1,380)	340	10 yrs
License agreements	2,100	(785)	1,315	2,100	(733)	1,367	15 – 30 yrs
Non-compete agreements	1,657	(1,415)	242	1,657	(1,353)	304	4 – 8.5 yrs
Total intangibles	$ 28,967	$ (9,805)	$ 19,162	$ 28,967	$ (9,019)	$ 19,948	

Goodwill represents the acquired goodwill net of the cumulative impairment losses recorded in fiscal year 2011 of $0.6 million. As of March 2021, the Delta Group segment assets include $18.0 million of goodwill, and the Salt Life segment assets include $19.9 million.

Depending on the type of intangible asset, amortization is recorded under cost of goods sold or selling, general and administrative expenses. Amortization expense for intangible assets was $0.4 million during both the March 2021 and March 2020 quarters. Amortization for the six-months ended March 2021 and March 2020 was $0.8 million and $0.9 million, respectively. Amortization expense is estimated to be approximately $1.6 million for each of fiscal years 2021 and 2022, $1.5 million for fiscal year 2023, and $1.4 million for each of fiscal years 2024 and 2025.

Note P—Subsequent Events

None.

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

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the SEC, in our press releases, and in other reports to our shareholders. All statements, other than statements of historical fact, which address activities, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements. The words "plan", "estimate", "project", "forecast", "outlook", "anticipate", "expect", "intend", "remain", "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 general U.S. and international economic conditions;
- the COVID-19 pandemic impact on our operations, financial condition, liquidity, and capital investments;
- significant interruptions or disruptions within our manufacturing, distribution or other operations;
- deterioration in the financial condition of our customers and suppliers and changes in the operations and strategies of our customers and suppliers;
- the volatility and uncertainty of cotton and other raw material prices and availability;
- the competitive conditions in the apparel industry;
- 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;
- the ability to grow, achieve synergies and realize the expected profitability of acquisitions;
- changes in economic, political or social stability at our offshore locations;
- our ability to attract and retain key management;
- 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 changes in our effective tax rate;
- 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;
- changes in international trade regulations;
- our ability to comply with trade regulations;
- changes in employment laws or regulations or our relationship with employees;
- negative publicity resulting from violations of manufacturing standards or labor laws or unethical business practices by our suppliers and independent contractors;
- restrictions on our ability to borrow capital or service our indebtedness;
- interest rate fluctuations increasing our obligations under our variable rate indebtedness;
- the ability to raise additional capital;
- the impairment of acquired intangible assets;
- foreign currency exchange rate fluctuations;
- the illiquidity of our shares; and
- price volatility in our shares and the general volatility of the stock market.

A detailed discussion of significant risk factors that have the potential to cause actual results to differ materially from our expectations is set forth in Part 1 under the subheading "Risk Factors" in our Annual Report on Form 10-K for fiscal 2020, 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 strong March 2021 quarter results reflect continued momentum in our business as we execute our bold growth strategies for fiscal 2021 and beyond. Through a combination of strong order demand and outstanding manufacturing and operational execution at all levels, we realized year-over-year sales growth of 12%, with double-digit growth in both the Delta Group and Salt Life Group segments. The sales growth, coupled with margin expansion and controlled spending, generated operating income of $7.6 million, which is more than double the $3.6 million in the prior year, and diluted earnings of $0.62 per share, which is more than triple the $0.19 per share in the prior year.

Our market-leading digital print business, DTG2Go, saw a slower start to the quarter but gained momentum as the quarter progressed, with double-digit unit growth in the March period and a resurgence of orders that have continued into April and May 2021. During the quarter, we continued to attract new customers and expand business with existing customers. In the second quarter, 20% of our orders came from new customers. Notably, the traditional retail channel more than tripled the units shipped compared to prior year. We believe that our "On-Demand DC" solution can offer a compelling value proposition to brick-and-mortar retailers and brands alike, providing them with immediate access to our nine fulfillment centers strategically located throughout the country, as well as benefiting from having a fulfillment center right in their distribution facility. The platform provides our on-demand partners' consumers limitless merchandise selection, personalization options, and seamless fulfillment across a broader supply chain with no excess inventory risk. We continue to see this channel of distribution as a significant future growth opportunity for DTG2Go and believe the level service, speed, and economic benefits offered to the supply chain are unparalleled. Our customers also continue to realize the benefits of the seamless supply chain of Delta Apparel garments within our on-demand model, with DTG2Go's usage of Delta Catalog blanks reaching a new record high of approximately 50% utilization in the March 2021 quarter compared to 30% utilization in the prior year quarter. This trend is promising as it creates a more efficient operation, reduces garment costs for our customers, and lowers working capital needs in the business.

We recently announced a strategic partnership with Dallas-based Autoscale.ai to integrate its technology that automates the product design, marketplace listings and advertising management for online retail with DTG2Go's market-leading digital production capabilities. The strategic alliance between DTG2Go and Autoscale.ai brings the two technology-minded businesses together to provide a seamless solution to customers – from design to fulfillment. Autoscale.ai enables one single design to be instantaneously transformed into hundreds of variations for broader consumer appeal. The patent-pending software then automatically optimizes the product descriptions and lists those products virtually across multiple online marketplaces. Utilizing data-driven analytics and advanced automation built into the software, customers can easily focus designs on consumer preferences and more efficiently utilize advertising to boost sales. We believe that combining DTG2Go's on-demand supply chain with Autoscale's design automation technology will further revolutionize the on-demand apparel retail marketplace.

We continue to see a steep recovery in our Delta Activewear business with double-digit year-over-year sales growth in our March quarter, overcoming the challenges caused by inventory constraints. We achieved year-over-year growth of 40% in our FunTees business with more shipments to brands and retailers alike. The diversification of our customer base is serving us well, and we are encouraged by the new programs we have secured and future opportunities we see in the direct-to-retail channel. We are also seeing strength in the retail licensing channel as well as our recently launched e-retailer channel. Although we remain inventory constrained in the near term, we are working diligently to serve our customers' needs and ultimately rebuild our inventory levels for future opportunities.

Demand for the Salt Life brand remained strong during the March quarter, resulting in double-digit growth compared to prior year. Consumers sought out the Salt Life brand through direct-to-consumer channels, which more than doubled in the quarter year-over-year. Branded retail store sales grew over 175% year-over-year, driven by strong performance at our recently opened branded retail stores in Destin, Estero, and Palm Beach Gardens, Florida, as well as over 25% same-store-sales growth. Salt Life enthusiasts actively engaged with the brand through all our online channels during the quarter, resulting in over 10% more followers on social media. We also added over 75% more email subscribers during the March 2021 quarter than we added in the March 2020 quarter, which is encouraging considering that approximately one quarter of all web sales in the March quarter were generated from our email marketing channel. These dynamics led to over 40% growth of ecommerce sales year-over-year in the March 2021 quarter. As we prepare for the forthcoming vacation seasons, we see growth opportunities with our Salt Life consumer ecommerce site, opening additional retail doors in select markets, and continuing to partner with our wholesale customers to expand the floor space and enhance the Salt Life experience within their doors.

Results of Operations

Financial results included herein 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 March quarter were $108.6 million, a 12% increase compared to sales of $96.7 million in the prior year. For the first six months of 2021, net sales were $203.3 million compared to $192.6 million in the prior year. Our direct-to-consumer sales channels, comprised of consumer-facing ecommerce sites and our branded retail stores, increased 92% in the current quarter compared to the prior year quarter. Retail and total ecommerce sales represented 9% of total revenues for the second quarters of both years as well as the first six months of both years.

> Net sales in the Delta Group segment grew 12% to $94.2 million compared to $84.2 million in the prior year driven by broad-based demand for activewear apparel, particularly in our direct-to-retail and brand-direct sales channels, with over 40% growth from prior year. The softness in DTG2Go in the beginning of the quarter turned positive as the quarter progressed, with double-digit unit growth in the month of March. Net sales for the first six months of 2021 were $181.8 million, a 5% improvement over the prior year.

> The Salt Life Group segment second quarter revenue grew 16% to $14.4 million compared to $12.5 million in the prior year period. The segment's growth was driven by over 175% increase in branded retail store sales and over 40% growth in consumer facing ecommerce sites. For the first six months of 2021, net sales were $21.5 million, up over $2.0 million from the prior year net sales of $19.4 million.

Gross margins improved 150 basis points from the prior year second quarter to 22.8% of sales. For the first six months of fiscal year 2021, gross margins grew 120 basis points from the prior year to 22.2%.

> The Delta Group segment gross margins expanded 170 basis points from the prior year quarter to 19.5% driven by a favorable product mix, increased selling prices, and manufacturing efficiencies and process improvements. In the prior year March quarter, the segment incurred approximately $1.9 million of plant curtailment costs from government-mandated closures in El Salvador and Honduras. Margins for the first six months improved by 110 basis points to 19.3% of sales.

> The Salt Life Group segment gross margins were 44.7% of sales compared to 44.8% in the prior year from a favorable mix of direct-to-consumer sales partially offset by higher tariff expenses. For the first six months of fiscal year 2021, gross margins grew by 30 basis points to 46.5% of sales due to a stronger mix of direct-to-consumer sales.

Selling, general, and administrative expenses ("SG&A") were $17.1 million, or 15.7% of sales, compared to $17.9 million, 18.5% of sales, in the prior year. The improved results are from spending and cost controls as well as integration efficiencies in the Delta Group segment, which more than offset the additional costs incurred in the integration of our new Phoenix distribution facility. SG&A expenses for the first six months of 2021 were $33.1 million, or 16.3% of sales, compared to $35.9 million, or 18.7% of sales, in the prior year.

Other income for the 2021 and 2020 quarters includes profits related to our Honduran equity method investment. The first six months of 2021 other expense includes $1.3 million of expenses related to the impact of two hurricanes that disrupted our Honduran manufacturing facilities in the December 2020 quarter in addition to $0.4 million of long-lived asset impairment charges as the result of a strategic decision in the March 2021 quarter to exit branded Soffe retail stores. The prior year included valuation changes in our contingent consideration liabilities.

Operating profit in the second quarter increased to $7.6 million, more than double the $3.6 million of operating profit in the prior year. For the first six months of fiscal year 2021, operating income increased by 72% to $10.6 million. Operating income, adjusted for $1.3 million of hurricane-related expenses, was $12.0 million for the first half of fiscal 2021, an increase of 48% from the prior year operating income of $8.1 million, adjusted for the $1.9 million of plant curtailment costs.

> The Delta Group segment had operating income of $8.2 million, or 8.8% of net sales, compared to $5.1 million, or 6.0% of net sales, in the prior year. The expanded operating profitability was driven by favorable gross margins, continuing cost controls, and $1.9 million of plant curtailment costs in the prior year. Adjusting for $1.3 million of hurricane-related disruption costs, operating income was $15.9 million, or 8.7% of sales, for the first half of fiscal 2021, compared to $14.2 million, or 8.2% of sales, in the prior year adjusted for $1.9 million of plant curtailment costs.

> The Salt Life Group segment had operating income of $1.9 million, 13.5% of sales compared to the prior year operating income of $1.5 million, 11.8% of sales. For the first six months, operating income improved by $1.0 million to $1.8 million. The increases over the prior year are due to the stronger mix of direct-to-consumer sales and continued cost controls.

Net interest expense for the second quarters of fiscal year 2021 and 2020 was $1.8 million in both years. Net interest expense for the first six months of 2021 was $3.5 million compared to $3.6 million in the prior year first six months.

Our effective tax rate on operations for the six-month period ended March 2021 was 27.6%. This compares to an effective tax rate of 20.3% for the same period in the prior year and a 23.6% rate for the full fiscal year 2020. See Note K—Income taxes for more information.

We achieved net earnings for the March 2021 of $4.4 million, or $0.62 per diluted share, compared to $1.3 million, or $0.19 per diluted share, in the prior year. Net income for the first six months was $5.3 million, or $0.75 per diluted share, compared to $2.2 million, or $0.32 per diluted share, in the prior year. Adjusted for the $1.1 million after-tax expense, or $0.15 per diluted share, impact of the hurricane disruptions, net income for the first half of fiscal year 2021 was $6.4 million, or $0.90 per diluted share. Adjusted for the $1.5 million after-tax expense, or $0.20 per diluted share, impact of the plant curtailments in March 2020, net income for the first half of fiscal year 2020 was $3.7 million or $0.52 per diluted share.

Accounts receivable were $66.1 million at March 2021, compared to $60.1 million as of September 2020. Days sales outstanding ("DSO") as of March 2021 were 53 days compared to 51 days at September 2020.

Net inventory as of March 2021 was $148.5 million, an increase of $3 million from September 2020, but down $48.8 million, or approximately 25%, from a year ago. The strong sales in the first six months, along with the temporary hurricane disruptions during the December 2020 quarter slowed the normal seasonal build of inventory during the quarter. We have increased production during the March 2021 quarter and are now producing at record levels.

Total net debt, including capital lease financing and cash on hand, was $135.2 million at March 2021, an increase of $13.0 million from September 2020. Cash on hand and availability under our U.S. revolving credit facility totaled $44.2 million at March 2021, a $2.9 million decrease from September 2020 due primarily to the seasonal working capital build.

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 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 imitations 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 or our results as reported under U.S. GAAP. These non-GAAP measures may not be comparable to similarly titled measures used by other companies.

Liquidity and Capital Resources

Operating Cash Flows

Operating activities provided $0.7 million of cash for the six months ended March 2021 compared to $10.2 million of cash used in the prior year. The improved operating cash flows in the current year are due to operating income expansion coupled with a lower build of inventory resulting from the strong sales demand for our products. This was partially offset by increased payments to suppliers due to higher production in the current period.

Investing Cash Flows

Total capital expenditures for the six months ended March 2021 were $8.4 million and primarily related to investments in digital printing capacity and our new Phoenix, Arizona distribution center. Cash outflows for capital expenditures were $1.2 million during the first six months of 2021 compared to $3.9 million in the same period in the prior year. As of March 2021, there were $11.9 million of capital expenditures financed under a capital lease arrangement and $0.3 million in unpaid expenditures. In addition, we received proceeds of $2.3 million during the first six months of fiscal 2021 from finance lease arrangements related to prior year capital expenditure cash outflows. Total capital expenditures during the first six months of fiscal 2020 were $6.7 million and primarily related to investments in our distribution expansion, retail stores, and machinery and equipment.

We anticipate our fiscal 2021 capital expenditures, including those financed under capital leases, to be approximately $20 million and to be focused primarily on our distribution expansion, digital print equipment, manufacturing equipment, information technology, and direct-to-consumer investments, including additional Salt Life retail store openings.

Financing Activities

During the six months ended March 2021, cash used by financing activities was $4.3 million and primarily related to scheduled loan principal payments and DTG2Go contingent earnout payments, partially offset by advances to fund operations, working capital needs, and capital expenditures.

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.

Prior to the amendments executed on April 27, 2020 and August 28, 2020 (collectively, the "Bridge Amendments"), our U.S. revolving 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 Bridge Amendments amend the financial covenant provisions from the amendment dates through July 3, 2021, 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. Our availability at March 2021 was above both the minimum availability threshold per the Bridge Amendments as well as the higher thresholds in the U.S. credit agreement that would trigger an FCCR covenant requirement. Had we been subject to the FCCR requirements at March 2021, we would have been in compliance with this covenant.

Our credit facility, as well as cash flows from operations, are intended to fund our day-to-day working capital needs, and along with finance lease arrangements, to fund our planned capital expenditures. However, any material deterioration in our results of operations, such as those that could occur due to the COVID-19 pandemic, may result in the loss of our ability to borrow or issue letters of credit to suppliers under our U.S. revolving credit facility, 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. Additionally, a significant deterioration in our business results 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 March 2021 quarter, we did not purchase any shares of our common stock (see Note N—Repurchase of Common Stock). As of March 2021, there was $7.5 million of repurchase authorization remaining under our Stock Repurchase Program.

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 fiscal 2020, and there have been no changes in those policies since the filing of that Annual Report on Form 10-K with the SEC, except as disclosed in Note C—New Accounting Standards related to the adoption of the cloud computing standard.

Environmental and Other 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. The labeling, distribution, importation, marketing, and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Consumer Product Safety Commission and state attorneys general in the United States. Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act (the "FCPA") and other anti-bribery laws applicable to our operations.

The environmental and other regulations applicable to our business are becoming increasingly stringent, and we incur capital and other expenditures annually to achieve compliance with these environmental standards and regulations. We currently do not expect that the amount of expenditures required to comply with these environmental standards or other regulatory matters 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 compliance with all applicable environmental and other regulatory 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 the end of period covered by this quarterly report ("the Evaluation Date") and, based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of the Evaluation Date.

Changes in Internal Control Over Financial Reporting

There were no changes during the March 2021 quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

None

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

(c) Repurchases of Common Stock

See Note N—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)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELTA APPAREL, INC.
(Registrant)

Date May 6, 2021

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

EXHIBIT 31.1
CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert W. Humphreys, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: May 6, 2021

/s/ Robert W. Humphreys
Chairman and Chief Executive Officer

EXHIBIT 31.2
CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Deborah H. Merrill, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: May 6, 2021

/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 April 3, 2021, of the Company, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 6, 2021

/s/ Robert W. Humphreys
Robert W. Humphreys
Chairman and Chief Executive Officer

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

EXHIBIT 32.2

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

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

1. The Quarterly Report on Form 10-Q for the quarterly period ended April 3, 2021, of the Company, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 6, 2021

/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.