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 July 1, 2023
OR

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

For the transition period from __________ to __________

Commission File Number 1-15583

DELTA APPAREL, INC.

(Exact name of registrant as specified in its charter)

Georgia	**58-2508794**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2750 Premier Parkway, Suite 100 **Duluth, Georgia**	**30097**
(Address of principal executive offices)	(Zip Code)

(678) 775-6900

(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 August 4, 2023, there were outstanding 7,010,020 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)

	June 2023	September 2022
Assets		
Cash and cash equivalents	$ 296	$ 300
Accounts receivable, less allowances of $98 and $109, respectively	41,733	68,215
Other receivables	889	1,402
Income tax receivable	1,898	1,969
Inventories, net	226,196	248,538
Prepaid expenses and other current assets	4,221	2,755
Total current assets	275,233	323,179
Property, plant and equipment, net of accumulated depreciation of $115,383 and $108,534, respectively	69,040	74,109
Goodwill	37,897	37,897
Intangibles, net	22,264	24,026
Deferred income taxes	3,105	1,342
Operating lease assets	54,054	50,275
Equity method investment	9,356	9,886
Other assets	2,020	2,967
Total assets	$ 472,969	$ 523,681
Liabilities and Equity		
Liabilities:		
Accounts payable	$ 63,897	$ 83,553
Accrued expenses	17,424	27,414
Income taxes payable	695	379
Current portion of finance leases	8,942	8,163
Current portion of operating leases	8,980	8,876
Current portion of long-term debt	10,180	9,176
Total current liabilities	110,118	137,561
Long-term income taxes payable	2,131	2,841
Long-term finance leases	15,871	16,776
Long-term operating leases	46,664	42,721
Long-term debt	131,461	136,750
Deferred income taxes	-	4,310
Total liabilities	$ 306,245	$ 340,959
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 7,001,020 and 6,915,663 shares outstanding as of June 2023 and September 2022, respectively	96	96
Additional paid-in capital	61,448	61,961
Retained earnings	149,756	166,600
Accumulated other comprehensive income	21	141
Treasury stock - 2,645,952 and 2,731,309 shares as of June 2023 and September 2022, respectively	(43,896)	(45,420)
Equity attributable to Delta Apparel, Inc.	167,425	183,378
Equity attributable to non-controlling interest	(701)	(656)
Total equity	166,724	182,722
Total liabilities and equity	$ 472,969	$ 523,681

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		Nine Months Ended	
	June 2023	June 2022	June 2023	June 2022
Net sales	$ 106,319	$ 126,875	$ 323,949	$ 369,319
Cost of goods sold	92,384	96,182	280,181	282,100
Gross profit	13,935	30,693	43,768	87,219
Selling, general and administrative expenses	18,491	22,416	56,658	59,613
Other (income), net	(95)	(1,018)	(452)	(1,947)
Operating (loss) income	(4,461)	9,295	(12,438)	29,553
Interest expense, net	4,049	1,971	10,662	5,370
(Loss) earnings before (benefit from) provision for income taxes	(8,510)	7,324	(23,100)	24,183
(Benefit from) provision for income taxes	(2,218)	1,087	(6,214)	4,149
Consolidated net (loss) earnings	(6,292)	6,237	(16,886)	20,034
Net (loss) income attributable to non-controlling interest	(5)	(3)	(45)	11
Net (loss) earnings attributable to shareholders	$ (6,287)	$ 6,240	$ (16,841)	$ 20,023
Basic (loss) earnings per share	$ (0.90)	$ 0.90	$ (2.41)	$ 2.87
Diluted (loss) earnings per share	$ (0.90)	$ 0.88	$ (2.41)	$ 2.84
Weighted average number of shares outstanding	7,001	6,946	6,985	6,966
Dilutive effect of stock awards	-	119	-	95
Weighted average number of shares assuming dilution	7,001	7,065	6,985	7,061

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		Nine Months Ended	
	June 2023	June 2022	June 2023	June 2022
Net (loss) earnings attributable to shareholders	$ (6,287)	$ 6,240	$ (16,841)	$ 20,023
Other comprehensive (loss) income related to unrealized (loss) gain on derivatives, net of income tax	(159)	186	(121)	779
Consolidated comprehensive (loss) income	$ (6,446)	$ 6,426	$ (16,962)	$ 20,802

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 2022	9,646,972	$ 96	$ 61,961	$ 166,600	$ 141	2,731,309	$ (45,420)	$ (656)	$ 182,722
Net loss	-	-	-	(3,565)	-	-	-	-	(3,565)
Other comprehensive income	-	-	-	-	69	-	-	-	69
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(34)	(34)
Vested stock awards	-	-	(2,067)	-	-	(85,357)	1,524	-	(543)
Stock based compensation	-	-	665	-	-	-	-	-	665
Balance as of December 2022	9,646,972	$ 96	$ 60,559	$ 163,035	$ 210	2,645,952	$ (43,896)	$ (690)	$ 179,314
Net loss	-	-	-	(6,992)	-	-	-	-	(6,992)
Other comprehensive loss	-	-	-	-	(30)	-	-	-	(30)
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(6)	(6)
Stock based compensation	-	-	353	-	-	-	-	-	353
Balance as of March 2023	9,646,972	$ 96	$ 60,912	$ 156,043	$ 180	2,645,952	$ (43,896)	$ (696)	$ 172,639
Net loss	-	-	-	(6,287)	-	-	-	-	(6,287)
Other comprehensive loss	-	-	-	-	(159)	-	-	-	(159)
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(5)	(5)
Stock based compensation	-	-	536	-	-	-	-	-	536
Balance as of June 2023	9,646,972	$ 96	$ 61,448	$ 149,756	$ 21	2,645,952	$ (43,896)	$ (701)	$ 166,724

	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 2021	9,646,972	$ 96	$ 60,831	$ 146,860	$ (786)	2,672,312	$ (42,149)	$ (658)	$ 164,194
Net income	-	-	-	3,645	-	-	-	-	3,645
Other comprehensive income	-	-	-	-	212	-	-	-	212
Net income attributable to non-controlling interest	-	-	-	-	-	-	-	25	25
Purchase of common stock	-	-	-	-	-	74,232	(2,143)	-	(2,143)
Vested stock awards	-	-	(1,766)	-	-	(76,460)	674	-	(1,092)
Stock based compensation	-	-	140	-	-	-	-	-	140
Balance as of December 2021	9,646,972	$ 96	$ 59,205	$ 150,505	$ (574)	2,670,084	$ (43,618)	$ (633)	$ 164,981
Net income	-	-	-	10,137	-	-	-	-	10,137
Other comprehensive income	-	-	-	-	381	-	-	-	381
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(11)	(11)
Vested stock awards	-	-	-	-	-	-	-	-	-
Purchase of common stock	-	-	-	-	-	28,015	(846)	-	(846)
Stock based compensation	-	-	714	-	-	-	-	-	714
Balance as of March 2022	9,646,972	$ 96	$ 59,919	$ 160,642	$ (193)	2,698,099	$ (44,464)	$ (644)	$ 175,356
Net income	-	-	-	6,240	-	-	-	-	6,240
Other comprehensive income	-	-	-	-	186	-	-	-	186
Net loss attributable to non-controlling interest	-	-	-	-	-	-	-	(3)	(3)
Purchase of common stock	-	-	-	-	-	33,934	(968)	-	(968)
Stock based compensation	-	-	903	-	-	-	-	-	903
Balance as of June 2022	9,646,972	$ 96	$ 60,822	$ 166,882	$ (7)	2,732,033	$ (45,432)	$ (647)	$ 181,714

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	June 2023	June 2022
Operating activities:		
Consolidated net (loss) earnings	$ (16,886)	$ 20,034
Adjustments to reconcile net (loss) earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,397	11,272
Amortization of deferred financing fees	519	244
Provision for inventory market reserves	(3,707)	1,484
Change in reserves for allowances on accounts receivable	(11)	(160)
(Benefit from) provision for deferred income taxes	(6,033)	488
Non-cash stock compensation	1,554	1,756
Loss on disposal of equipment	135	348
Loss on impairment	831	-
Other, net	(710)	(2,263)
Changes in operating assets and liabilities:		
Accounts receivable	27,006	(1,251)
Inventories	26,049	(67,452)
Prepaid expenses and other current assets	(1,985)	602
Other non-current assets	2,023	199
Accounts payable	(19,524)	23,390
Accrued expenses	(9,816)	(1,737)
Net operating lease liabilities	268	409
Income taxes	(323)	264
Other liabilities	-	(1,049)
Net cash provided by (used in) operating activities	10,787	(13,422)
Investing activities:		
Purchases of property and equipment	(3,551)	(10,931)
Proceeds from sale/leaseback	4,417	-
Proceeds from sale of equipment	19	33
Cash paid for intangible asset	-	(132)
Cash paid for business	-	(583)
Net cash used in investing activities	885	(11,613)
Financing activities:		
Proceeds from long-term debt	363,438	411,600
Repayment of long-term debt	(367,723)	(383,919)
Repayment of finance lease obligations	(6,849)	(5,604)
Payment of deferred financing cost	-	(850)
Repurchase of common stock	-	(3,934)
Payment of withholding taxes on stock awards	(542)	(1,092)
Net cash (used in) provided by financing activities	(11,676)	16,201
Net decrease in cash and cash equivalents	(4)	(8,834)
Cash and cash equivalents at beginning of period	300	9,376
Cash and cash equivalents at end of period	$ 296	$ 542
Supplemental cash flow information		
Finance lease assets exchanged for finance lease liabilities	$ 6,708	$ 10,381
Operating lease assets exchanged for operating lease liabilities	$ 11,039	$ 6,869

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 7,100 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®, 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 our customers' supply chains. 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, eRetailers, 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 go-to-market strategy allows us to capitalize on our strengths in providing 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, with more than 90% of the apparel units that we sell sewn in our own 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 Duluth, Georgia. Our common stock trades on the NYSE American exchange under the symbol “DLA."

We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. Our 2023 fiscal year is a 52-week year and will end on September 30, 2023 ("fiscal 2023"). Accordingly, this Quarterly Report on Form 10-Q presents our results for our third quarter of fiscal 2023. Our 2022 fiscal year was a 52-week year and ended on October 1, 2022 ("fiscal 2022").

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

Period Ended	Fiscal Year	Date Ended
June 2022	Fiscal 2022	July 2, 2022
September 2022	Fiscal 2022	October 1, 2022
December 2022	Fiscal 2023	December 31, 2022
March 2023	Fiscal 2023	April 1, 2023
June 2023	Fiscal 2023	July 1, 2023

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 months ended June 2023 are not necessarily indicative of the results that may be expected for our fiscal 2023. Although our various product lines are sold on a year-round basis, the demand for specific products or styles reflects some seasonality. By diversifying our product lines and go-to-market strategies over the years, we have reduced the overall seasonality of our business. Consumer demand for apparel is cyclical and dependent upon the overall level of demand for soft goods, which may or may not coincide with the overall level of discretionary consumer spending. These levels of demand change as regional, domestic and international economic conditions change. Therefore, the distribution of sales by quarter in fiscal 2023 may not be indicative of the distribution in future years. 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 2022, 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 nine months ended June 2023 and June 2022, we received dividends from this investment of $1.2 million and $1.1 million, respectively. Our Ceiba Textiles manufacturing facility is leased under an operating lease arrangement with this Honduran company. During the nine months ended June 2023 and June 2022, we paid approximately $1.3 million in rent under this arrangement.

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., 2750 Premiere Parkway, Suite 100, Duluth, Georgia 30097. 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 2022, filed with the SEC. See Note C for consideration of recently issued accounting standards.

Note C—New Accounting Standards

Standards Not Yet Adopted

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 year 2024. 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 websites; 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			
	June 2023		June 2022	
Retail	$ 4,830	5%	$ 4,412	3%
Direct-to-consumer ecommerce	1,870	2%	1,145	1%
Wholesale	99,619	93%	121,318	96%
Net sales	$ 106,319	100%	$ 126,875	100%

	Nine Months Ended			
	June 2023		June 2022	
Retail	$ 11,441	4%	$ 9,685	3%
Direct-to-consumer ecommerce	4,542	1%	3,199	1%
Wholesale	307,966	95%	356,435	96%
Net sales	$ 323,949	100%	$ 369,319	100%

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

	Three Months Ended June 2023			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 89,118	0.0%	0.4%	99.6%
Salt Life Group	17,201	28.0%	8.9%	63.1%
Total	$ 106,319			

	Three Months Ended June 2022			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 106,020	0.1%	0.4%	99.5%
Salt Life Group	20,855	20.8%	3.4%	75.8%
Total	$ 126,875			

	Nine Months Ended June 2023			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 277,471	0.1%	0.3%	99.6%
Salt Life Group	46,478	24.4%	8.2%	67.4%
Total	$ 323,949			

	Nine Months Ended June 2022			
	Net Sales	Retail	Direct-to-consumer ecommerce	Wholesale
Delta Group	$ 323,276	0.1%	0.3%	99.6%
Salt Life Group	46,043	20.3%	5.0%	74.7%
Total	$ 369,319			

Note E—Inventories

Inventories, net of reserves of $14.0 million and $17.7 million as of June 2023 and September 2022, respectively, consisted of the following (in thousands):

	June 2023	September 2022
Raw materials	$ 20,500	$ 22,603
Work in process	18,684	23,501
Finished goods	187,012	202,434
	$ 226,196	$ 248,538

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, August 28, 2020, June 2, 2022, January 3, 2023, February 3, 2023, and March 23, 2023.

On June 2, 2022, the Borrowers entered into the Seventh Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the "Seventh Amendment"). The Seventh Amendment, (i) removes LIBOR based borrowing and utilizes SOFR (Secured Overnight Financing Rate) as the primary pricing structure, (ii) amends the pricing structure based on SOFR plus a CSA (Credit Spread Adjustment) defined as 10 bps for 1 month and 15 bps for 3-month tenors, (iii) sets the SOFR floor to 0 bps, (iv) reloads the fair market value of real estate and intellectual property within the borrowing base calculation and resets their respective amortization schedules, (v) sets the maturity date to 5 years from the closing date, and (vi) updates the requirement for our Fixed Charge Coverage Ratio ("FCCR") for the preceding 12-month period to not be less than 1.0 (previously 1.1).

On January 3, 2023, the Borrowers entered into the Eighth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein (the "Eighth Amendment"). The Eighth Amendment essentially clarifies the Amended Credit Agreement's provisions regarding the inclusion of eligible in-transit inventory in the borrowing base and amends the definition of Increased Reporting Event to include 12.5% of the lesser of the borrowing base and the maximum revolver amount as opposed to 12.5% of the line cap.

On February 3, 2023, the Borrowers entered into the Ninth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein ("Ninth Amendment"). The Ninth Amendment adds an Accommodation Period beginning on the amendment date and continuing through the date following September 30, 2023, upon which Borrowers satisfy minimum availability thresholds and during which: (i) the minimum borrowing availability thresholds applicable to the Amended Credit Agreement are (a) through (and including) April 1, 2023, $7,500,000, (b) on and after April 2, 2023 through (and including) June 4, 2023, $9,000,000, (c) on and after June 5, 2023, through the date following September 30, 2023, upon which Borrowers satisfy minimum availability thresholds, $10,000,000; and (d) at all times thereafter, $0; (ii) the FCCR covenant is suspended; (iii) Borrowers must maintain specified minimum EBITDA levels for trailing three-month periods starting March 4, 2023; (iv) the Applicable Margin with respect to loans under the Amended Credit Agreement is increased by 50 basis points; and (v) a Cash Dominion Trigger Event occurs if availability is less than $2,000,000.

On March 23, 2023, the Borrowers entered into the Tenth Amendment to the Fifth Amended and Restated Credit Agreement with Wells Fargo and the other lenders set forth therein to account for specified costs and expenses in calculating EBITDA for purposes of the Amended Credit Agreement.

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) 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 2023, we had $126.4 million outstanding under our U.S. revolving credit facility at an average interest rate of 7.8%. Our cash on hand combined with the availability under the U.S. revolving credit facility totaled $14.4 million. At June 2023 and September 2022, there was $16.4 million and $24.9 million, respectively, of retained earnings free of restrictions to make cash dividend payments or stock repurchases to the extent permitted under our U.S. revolving credit facility.

Honduran Debt

Since March 2011, we have entered into term loans and a revolving credit facility with Banco Ficohsa, a Honduran bank, to finance investments in 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. Additionally, in May 2022, we entered into a new term loan with a five-year term with a principal amount of $3.7 million. These loans are secured by a first-priority lien on the assets of our Honduran operations and are not guaranteed by our U.S. entities. These loans are denominated in U.S. dollars, and the carrying value of the debt approximates 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 borrowed are classified as long-term debt.

El Salvador Debt

In September 2022, we entered into a new term loan with a five-year term with a principal amount of $3.0 million with Banco Ficohsa, a Panamanian bank, to finance investments in our El Salvador operations. This loan is secured by a first-priority lien on the assets of our El Salvador operations and is not guaranteed by our U.S. entities. The loan is denominated in U.S. dollars, and the carrying value of the debt approximates its fair value. Information about this loan and the outstanding balance as of March 2023 is listed as part of the long-term debt schedule below.

Additional information about these loans and the outstanding balances as of June 2023 is as follows (in thousands):

	June 2023
Revolving credit facility with Banco Ficohsa, a Honduran bank, with interest at 7.9%, due August 2025	$ 3,909
Term loan with Banco Ficohsa, a Honduran bank, interest at 7.75%, quarterly installments which began September 2021 and are due through December 2025.	5,072
Term loan with Banco Ficohsa, a Honduran bank, interest at 7.75%, quarterly installments which began March 2023 and are due through May 2027.	3,308
Term loan with Banco Ficohsa, a Panamanian bank, interest at the prevailing market rate within the Panamanian Banking Market, monthly installments which began October 2022 and are due through August 2027.	2,627

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 $5.6 million for the June 2023 and June 2022 quarters, respectively. Distribution costs included in SG&A expenses totaled $16.3 million and $16.8 million for the nine months ended June 2023 and June 2022, respectively. In addition, SG&A expenses include costs related to sales associates, administrative personnel, advertising and marketing expenses, retail store build-outs, 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 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. While employed by the Company or serving as a director, unvested awards 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 disability. 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. On August 2, 2023, our Board of Directors, upon the recommendation of its Compensation Committee, approved a Declaration of Amendment to the 2020 Stock Plan. See Part II, Item 5 of this Quarterly Report on Form 10-Q for more information.

Compensation expense is recorded within SG&A in our Condensed Consolidated Statements of Operations over the vesting periods. During the June 2023 and June 2022 quarters, we recognized $0.6 million and $1.1 million in stock-based compensation expense, respectively. Associated with this compensation cost are income tax benefits recognized of $0.2 million and $0.2 million, respectively, for each of the three-month periods ended June 2023 and June 2022. During the nine-months ended June 2023 and June 2022, we recognized $1.6 million and $2.4 million respectively, in stock-based compensation expense. Associated with the compensation cost are income tax benefits recognized of $0.5 million and $0.4 million, respectively, for each of the nine-months periods ended June 2023 and June 2022.

During the December 2022 quarter, restricted stock units representing 105,000 shares of our common stock vested with the filing of our Annual Report on Form 10-K for fiscal 2022 and were issued in accordance with their respective agreements. Of these vested awards, all were payable in common stock.

During the December 2022 quarter, performance stock units and restricted stock units representing 5,000 and 18,000 shares of our common stock, respectively, were forfeited.

As of June 2023, there was $2.0 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 2.4 years.

Note I—Purchase Contracts

We have entered into agreements, and have fixed prices, to purchase yarn, finished fabric, and finished apparel and headwear products. At June 2023, minimum payments under these contracts were as follows (in thousands):

Yarn	$	19,123
Finished fabric		1,952
Finished products		7,542
	$	28,617

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 the following business units, which are primarily focused on core activewear styles: DTG2Go and Delta Activewear.

DTG2Go is a market leader in the on-demand, direct-to-garment digital print and fulfillment industry, bringing technology and innovation to the supply chains of our many customers. Our 'On-Demand DC' digital solution provides retailers and brands with immediate access to utilize DTG2Go's broad network of print and fulfillment facilities, while offering the scalability to integrate digital fulfillment within the customer's own distribution facilities. 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. Via our multi-facility fulfillment footprint across the United States, DTG2Go offers a robust digital supply chain shipping custom graphic products within 24 to 48 hours to consumers in the United States and to over 100 countries internationally. DTG2Go has made significant investments in its "digital first" retail model providing digital graphic prints that meet the high-quality standards of brands, retailers and intellectual property holders. Through integration with Delta Activewear, DTG2Go also services the eRetailer, ad-specialty, promotional and screen print marketplaces, among others.

Delta Activewear is a preferred supplier of activewear apparel to regional and global brands as well as direct-to-retail and wholesale markets. The Activewear business is organized around three key customer channels – Delta Direct, Global Brands, and Retail Direct – that are distinct in their go-to-market strategies and how their respective customer bases source their various apparel needs. Our Delta Direct channel services the screen print, promotional, and eRetailer markets as well as retail licensing customers that sell through to many mid-tier and mass market retailers. Delta Direct products include a broad portfolio of apparel and accessories under the Delta, Delta Platinum, and Soffe brands as well as sourced items from select third party brands. Our fashion basics line includes our Platinum Collection, which offers fresh, fashionable silhouettes with a luxurious look and feel, as well as versatile fleece offerings. We offer innovative apparel products, including the Delta Dri line of performance shirts built with moisture-wicking material to keep athletes dry and comfortable; ringspun garments with superior comfort, style and durability; and Delta Soft, a collection with an incredible feel and price. We also offer our heritage, mid- and heavier-weight Delta Pro Weight® and Magnum Weight® tee shirts.

The iconic Soffe brand offers activewear for spirit makers and record breakers and is widely known for the original "cheer short" with the signature roll-down waistband. Soffe carries a wide range of activewear for the entire family. Soffe's heritage is anchored in the military, and we continue to be a proud supplier to both active duty and veteran United States military personnel worldwide. The Soffe men's assortment features the tagline "anchored in the military, grounded in training" and offers everything from physical training gear certified by the respective branches of the military, classic base layers that include the favored 3-pack tees, and the iconic "ranger panty." Complementing the Delta and Soffe brand apparel, we offer customers a broad range of nationally recognized branded products including polos, outerwear, headwear, bags and other accessories. Our Soffe products are also available direct to consumers at www.soffe.com.

Our Global Brands channel serves as a key supply chain partner to large multi-national brands, major branded sportswear companies, trendy regional brands, and all branches of the United States armed forces, providing services ranging from custom product development to the shipment of branded products with "retail-ready" value-added services including embellishment, hangtags, and ticketing.

Our Retail Direct channel serves brick and mortar and online retailers by providing our portfolio of Delta, Delta Platinum, and Soffe products directly to the retail locations and ecommerce fulfillment centers of a diversified customer base including sporting goods and outdoor retailers, specialty and resort shops, farm and fleet stores, department stores, and mid-tier and mass retailers. As a key element of the integrated Delta Group segment, each of Activewear's primary channels offer a seamless solution for replenishment strategies, small-run decoration needs, and quick reaction programs with on-demand digital print services, powered by DTG2Go.

The Salt Life Group is comprised of our Salt Life business, which is built on the authentic, aspirational Salt Life lifestyle brand that represents a passion for the ocean, the salt air, and, more importantly, a way of life and all it offers, from surfing, fishing, and diving to beach fun and sun-soaked relaxation. The Salt Life brand combines function and fashion with a tailored fit for the active lifestyles of those that "live the Salt Life." With increased worldwide appeal, Salt Life has continued to provide the cotton graphic tees and logo decals that originally drove awareness for the brand, and expanded into performance apparel, swimwear, board shorts, sunglasses, bags, and accessories. Consumers can also seamlessly experience the Salt Life brand through retail partners including surf shops, specialty stores, department stores, and outdoor merchants or by accessing our Salt Life ecommerce site at www.saltlife.com.

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 2022, 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 2023	June 2022	June 2023	June 2022
Segment net sales:				
Delta Group	$ 89,118	$ 106,020	$ 277,471	$ 323,276
Salt Life Group	17,201	20,855	46,478	46,043
Total net sales	$ 106,319	$ 126,875	$ 323,949	$ 369,319
Segment operating earnings:				
Delta Group	$ (3,616)	$ 10,701	$ (10,974)	$ 33,557
Salt Life Group	1,642	3,574	6,509	7,037
Total segment operating (loss) earnings	$ (1,974)	$ 14,275	$ (4,465)	$ 40,594

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

	Three Months Ended		Nine Months Ended	
	June 2023	June 2022	June 2023	June 2022
Segment operating (loss) earnings	$ (1,974)	$ 14,275	$ (4,465)	$ 40,594
Unallocated corporate expenses	2,487	4,980	7,973	11,041
Unallocated interest expense	4,049	1,971	10,662	5,370
Consolidated (loss) earnings before (benefit from) provision for income taxes	$ (8,510)	$ 7,324	$ (23,100)	$ 24,183

Note K—Income Taxes

The Tax Cuts and Jobs Act of 2017 enacted on December 22, 2017, 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 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). In addition, 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.

Our effective income tax rate on operations for the nine-months ended June 2023 was 27.0% compared to a rate of 17.2% in the same period of the prior year, and an effective rate of 17.9% for fiscal 2022. 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. The current year tax expense decreased relative to prior periods due to US operating losses expected to generate a US tax benefit.

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 June 2023, all of our other comprehensive income was attributable to shareholders; none related to the non-controlling interest. Outstanding instruments as of June 2023 are as follows:

	Effective Date	Notional Amount	Fixed LIBOR Rate	Maturity Date
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 2023 and September 2022 (in thousands):

	June 2023	September 2022
Deferred tax assets	$ (7)	$ (48)
Other assets	28	189
Accumulated other comprehensive gain	$ 21	$ 141

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 2023 and September 2022.

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				
June 2023	$ 21	—	$ 21	—
September 2022	$ 141	—	$ 141	—

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 2023 and September 2022, 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).

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. We did not purchase any shares of our common stock during the June 2023 quarter. Through June 2023, we have purchased 3,735,114 shares of our common stock for an aggregate of $56.4 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 2023, $3.6 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):

	June 2023			September 2022			
	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	$ 16,000	$ (5,251)	$ 10,749	$ 16,000	$ (4,851)	$ 11,149	20 – 30 yrs
Customer relationships	7,400	(3,768)	3,632	7,400	(3,213)	4,187	20 yrs
Technology	10,083	(3,284)	6,799	10,083	(2,610)	7473	10 yrs
License agreements	2,100	(1,017)	1,083	2,100	(940)	1,160	15 – 30 yrs
Non-compete agreements	1,657	(1,656)	1	1,657	(1,600)	57	4 – 8.5 yrs
Total intangibles	$ 37,240	$ (14,976)	$ 22,264	$ 37,240	$ (13,214)	$ 24,026	

Goodwill represents the acquired goodwill net of the $0.6 million impairment losses recorded in fiscal year 2011. As of June 2023, the Delta Group segment assets include $18.0 million of goodwill, and the Salt Life Group segment assets include $19.9 million of goodwill.

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 for the June 2023 and June 2022 quarters was $0.6 million and $0.6 million, respectively. Amortization expense for the nine-months ended June 2023 and June 2022 was $1.8 million and $1.8 million, respectively. Amortization expense is estimated to be approximately $2.3 million for the year ended September 2023, approximately $2.3 million for each of the years ended September 2024 and 2025, and approximately $2.2 million for each of the years ended September 2026 and 2027.

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 impact of the COVID-19 pandemic and government/social actions taken to contain its spread on our operations, financial condition, liquidity, and capital investments, including recent labor shortages, inventory constraints, and supply chain disruptions;
- 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 or in areas in which we, or our suppliers or vendors, operate;
- 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;
- the inability of suppliers or other third-parties, including those related to transportation, to fulfill the terms of their contracts with us;
- 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 2022, 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 law.

Business Outlook

We are seeing indications of stabilizing demand in the activewear market and believe that the elevated inventory levels in the retail supply chain following last year's heavy buying activity may be moderating. In addition, we continue to make steady progress towards a more normalized operating environment for our business, with our decision last year to reduce production levels to align with the lower demand environment and purchase less price-inflated cotton proving effective in positioning Delta Apparel for improved operating results going forward.

During our third quarter we were able to work through much of the trailing expense impacts of our curtailed production levels and last year's historically high-priced cotton flowing through our cost of sales. Our Activewear business, which houses our nearshore manufacturing platform and serves the channels hit hardest by the over-inventoried retail environment, was the most directly impacted by these unique cost-driving events. Now that we are inputting lower cotton cost in our inventory and running our manufacturing facilities at levels closer to capacity, we believe our Activewear business is well-positioned to take advantage of market improvements going forward.

We expect to complete a significant strategic initiative before the end of our fiscal year involving the transition of our more expensive offshore production capacity into our lower cost Central American platform. This initiative, along with several other recent restructuring activities, should generate annual cost savings of up to $6 million. We also made substantial progress during the quarter on inventory and debt reduction initiatives intended to counteract the challenging operating environment seen in recent periods, including an approximately 20% reduction in inventory and an approximately 15% reduction in long-term debt from our most recent high points. We expect further inventory and debt reductions as we move through our fourth quarter and plan to continue to tightly manage our spending and reduce capital expenditures year-over-year.

Our Salt Life business continued to expand its direct-to-consumer footprint during the quarter, opening its 24th and 25th retail locations across the country. Salt Life's branded retail footprint now extends across nine states including California, Texas, Alabama, Georgia, Florida, South Carolina, Delaware, New Jersey and, most recently, two locations in New York. In addition, Salt Life's ecommerce business grew over 100% during the June quarter and achieved significant gains across key metrics including site traffic and conversion rates. Salt Life's four new retail locations in the Northeast U.S. market are a great example of our omni-channel consumer strategy and data-driven approach to retail store site selection, with ecommerce order activity in New Jersey and New York and adjacent states consistently among the most active on our site in recent periods. We expect for Salt Life's direct-to-consumer retail and ecommerce channels to continue to expand and anticipate additional sales growth at Salt Life going forward.

Our DTG2Go business recently achieved a variety of key milestones, including the recalibration of our entire "Digital First" technology fleet, a consumer satisfaction initiative involving the rationalization of size and color offerings within our "Digital First" channel, and the launch of a proprietary online portal geared towards quick reaction programs not suited for traditional decoration platforms. The gains flowing from these initiatives and the near-term demand creation opportunities from the new portal should provide a solid foundation for improved operating results and double-digit sales growth at DTG2Go going forward. Moreover, DTG2Go is poised to further capitalize on the ongoing digital disruption in the decorated apparel market through its industry-leading print capacity, nationwide fulfillment network, proprietary technology and processes, and vertical blank supply through Delta Direct.

With two very significant cost-driving trends now moving behind us and a streamlined cost structure in place moving ahead, Delta Apparel is in an excellent position to take advantage of favorable changes in demand as they arise across our five go-to-market channels. We expect to see steady improvement in our overall operating results as we close out our fourth quarter and move into our next fiscal year. For fiscal year 2024, we currently anticipate net sales in a range of $410 to $425 million generating operating profit margins of 3.25% to 4.25%, with gross margins sequentially increasing into the low-to-mid 20% range and improving operating profit margins beginning in the second quarter, as well as revenue growth in the second half of the year. We remain keenly focused on growth, profitability, and above all, creating value for shareholders for many years to come.

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 were $106.3 million in the third quarter of fiscal 2023, a decline of 16% compared to the prior year third quarter net sales of $126.9 million. For the first nine months, net sales were $323.9 million compared to prior year period net sales of $369.3 million.

> Net sales in the Delta Group segment declined 16% to $89.1 million in the third quarter of fiscal 2023 compared to $106.0 million in the prior year third quarter. Delta Direct channel sales were down from the prior year but sequentially grew 9% from the March quarter. Retail Direct and Global Brand channel sales declined primarily due to customers being overstocked. Net sales in the Delta Group segment for the first nine months of fiscal 2023 were $277.5 million, a 14% decrease from the prior year.
>
> Net sales in the Salt Life Group segment for the third quarter of fiscal 2023 declined 18% to $17.2 million compared to $20.9 million in the prior year third quarter. Salt Life direct-to-consumer sales continued their strong growth trend with over 100% sales growth in ecommerce and 11% sales growth in the branded Salt Life stores over the prior year. This was offset by lower wholesale sales year-over-year due to sales in the prior year quarter being skewed by significant sales shifting from the March quarter to the June quarter in connection with transportation delays. For the first nine months of 2023, net sales were $46.5 million, up $0.5 million from the prior year's net sales of $46.0 million.

Gross margins were 13.1% for the third quarter of fiscal 2023, a decline from 24.2% in the prior year third quarter driven by production curtailments to match manufacturing output with market demand as well as inflationary cotton costs (collectively "Production Curtailment & Cotton Costs"). Excluding these Production Curtailment & Cotton Costs, third quarter adjusted gross margins were 22.7%. Gross margins for the first nine months were 13.5% compared to 23.6% in the prior year period, driven primarily by the Production Curtailment & Cotton Costs coupled with the impacts of the restructuring actions actions we undertook to better optimize our overall cost structure (collectively "Restructuring Costs"). Excluding the Production Curtailment & Cotton Costs and Restructuring Costs, adjusted gross margins for the first nine months were 22.7%.

> The Delta Group segment gross margins were 5.9% for the third quarter of fiscal 2023 compared to 19.1% in the prior year third quarter. Excluding the Production Curtailment & Cotton Costs, adjusted gross margins were 17.4%. Gross margins for the first nine months of fiscal 2023 declined from 19.6% in the prior year to 6.5% in the current year. However, when excluding the Production Curtailment & Cotton Costs and Restructuring Costs we took earlier this year, Delta Group segment adjusted gross margins were 17.2%.
>
> The Salt Life Group segment gross margins were 50.5% in the third quarter of fiscal 2023, an improvement of 30 basis points compared to 50.2% in the prior year third quarter resulting from a favorable mix of sales, including increased Salt Life branded retail store sales. For the first nine months of fiscal year 2023, gross margins grew to 55.4% of sales from 51.6% in the prior year.

Selling, general, and administrative expenses ("SG&A") were $18.5 million in the third quarter of fiscal 2023, or 17.4% of sales, compared to $22.4 million, or 17.7% of sales, in the prior year's third quarter. The decrease in SG&A expenses of $3.9 million compared to the prior year third quarter was primarily driven by lower variable selling and distribution costs as well as lower compensation costs. SG&A expenses for the first nine months of fiscal 2023 were $56.7 million, or 17.5% of sales, compared to $59.6 million, or 16.1% of sales, in the prior year.

Other income for the 2023 and 2022 third fiscal quarters include profits related to our Green Valley Industrial Park equity method investment. Other income for the third fiscal quarter of 2022 also includes a valuation change in our contingent consideration liabilities of $0.8 million. Other income for the first nine months of fiscal 2023 includes a discrete gain of $2.5 million from the settlement of a commercial litigation matter recorded in the first quarter of fiscal 2023 as well as profits in our Honduran equity method investment, offset by costs incurred to better align our offshore manufacturing cost structure with market demand. Other income for the first nine months of fiscal 2022, included profits related to our Honduran equity method investment and a valuation adjustment of our contingent consideration.

Operating loss in the third quarter of fiscal 2023 was $4.5 million, or (4.2)% of sales. This is a decrease of 148.0% over the prior year third fiscal quarter's $9.3 million of operating profit. However, excluding the Production Curtailment & Cotton Costs, third quarter adjusted operating income was $5.8 million, or 5.5% of sales. Operating income for the first nine months of fiscal 2023 declined year-over-year from $29.6 million, or 8% of sales, to an operating loss of $12.4 million, or (3.8%) of sales. However, excluding the Production Curtailment & Cotton Costs and Restructuring Costs, operating income was $20.5 million, or 6.3% of sales. For the first nine months of fiscal year 2022, operating income was $29.6 million.

The Delta Group segment experienced an operating loss of $3.6 million in the third fiscal quarter of 2023, or (4.1%) of net sales, compared to operating profit of $10.7 million, or 10.1% of net sales, in the prior year third quarter. Excluding the Production Curtailment & Cotton Costs, third quarter adjusted operating income was $6.7 million, or 7.5% of net sales. Operating loss was $11.0 million, or (4.0)% of sales, for the first nine months of fiscal 2023, compared to operating income of $33.6 million, or 10.4% of sales, in the prior year period. However, excluding the Production Curtailment & Cotton Costs and Restructuring Costs, Delta Group segment adjusted operating income was $22.0 million, or 7.9% of sales.

The Salt Life Group segment achieved operating income of $1.6 million in the third fiscal quarter of 2023, or 9.6% of net sales, compared to $3.6 million, or 17% of net sales, in the prior year third quarter. The lower operating income was driven by lower sales volume and increased selling costs partially offset by increased gross margins as a percentage of sales. For the first nine months of fiscal 2023, operating income was $6.6 million, or 14.1% of sales, compared to $7 million, or 15.3% of sales, in the prior year period.

Net interest expense for the third quarters of fiscal year 2023 and 2022 was $4.0 million and $2.0 million, respectively. Net interest expense for the first nine months of 2023 was $10.7 million compared to $5.4 million in the prior year first nine months. The increases in interest expense are over the prior year periods is primarily due to increased interest rates.

Our effective tax rate on operations for the nine-month period ended June 2023 was 27.0%. This compares to an effective tax rate of 17.2% for the same period in the prior year and 17.9% for the full fiscal year 2022. Changes in the mix of U.S. taxable income compared to profits in tax-free or lower-tax jurisdictions drove this change in our effective tax rate.

Net loss attributable to shareholders for the third fiscal quarter of 2023 was $6.3 million, or $0.90 per diluted share, compared to net income of $6.2 million, or $0.88 per diluted share, in the prior year. Excluding the Production Curtailment & Cotton Costs, third quarter adjusted net income was $1.2 million, or $0.17 per diluted share. Net loss attributable to shareholders for the first nine months of fiscal 2023 was $16.8 million, or $2.41 per diluted share, compared to net income of $20.0 million, or $2.84 per diluted share, in the prior year. However, excluding the Production Curtailment & Cotton Costs along with Restructuring Costs, adjusted net income was $7.2 million, or $1.02 per diluted share, for the first nine months of fiscal 2023.

Accounts receivable were $41.7 million at June 2023, compared to $68.2 million as of September 2022. Days sales outstanding ("DSO") as of June 2023 were 36 days compared to 52 days at September 2022.

Net inventory as of June 2023 was $226.2 million, a decrease of $22.3 million from September 2022. The inventory value is lower than both the prior third quarter and fiscal year end as a result of lower input costs impacting materials, transportation and labor combined with a decrease in units on hand.

Total net debt, including capital lease financing and cash on hand, was $166.2 million at June 2023, a decrease of $4.4 million from September 2022. Cash on hand and availability under our U.S. revolving credit facility totaled $14.4 million at June 2023, a $20.3 million decrease from September 2022 principally driven by investments in the business to support working capital needs and increased input costs due to inflationary pressures.

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 margins, operating income and net income 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 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.

Reconciliation of GAAP gross margins to non-GAAP gross margins, GAAP operating income to non-GAAP operating income, and GAAP net income to non-GAAP net income are presented below. A description of the amounts excluded on a non-GAAP basis are provided in conjunction with the below information. Non-GAAP gross margin, non-GAAP operating income, and non-GAAP net income should be evaluated in light of the Company's financial statements prepared in accordance with GAAP.

Reconciliation of Gross Margin, Operating Income and Net Income to Non-GAAP Measures Adjusted Gross Margin, Adjusted Operating Income, and Adjusted Net Income
Unaudited
(in thousands)

	Three Months Ended		Nine Months Ended	
	June 2023	**June 2022**	**June 2023**	**June 2022**
Gross Margin	$ 13,935	$ 30,693	$ 43,768	$ 87,219
Production Curtailment Costs (1)	3,340	-	7,589	-
Cotton Costs (2)	6,906	-	22,027	-
Adjusted Gross Margin	$ 24,181	$ 30,693	$ 73,384	$ 87,219
Percent of Sales	22.7%	24.2%	22.7%	23.6%
Operating (Loss) Income	$ (4,461)	$ 9,295	$ (12,438)	$ 29,553
Production Curtailment Costs (1)	3,340	-	7,589	-
Cotton Costs (2)	6,906	-	22,027	-
Restructuring Costs (3)	32	-	3,344	-
Adjusted Operating Income	$ 5,817	$ 9,295	$ 20,522	$ 29,553
Net (Loss) Income	$ (6,287)	$ 6,240	$ (16,841)	$ 20,023
Production Curtailment Costs (1)	3,340	-	7,589	-
Cotton Costs (2)	6,906	-	22,027	-
Restructuring Costs (3)	32	-	3.344	-
Tax Impact	(2,775)	-	(8,950)	-
Adjusted Operating Income	$ 1,216	$ 6,240	$ 7,169	$ 20,023

Reconciliation of Delta Group Segment Gross Margin and Operating Income to Delta Group Segment Adjusted Gross Margin and Adjusted Operating Income
Unaudited
(in thousands)

	Three Months Ended		Nine Months Ended	
	June 2023	**June 2022**	**June 2023**	**June 2022**
Gross Margin	$ 5,254	$ 20,227	$ 18,013	$ 63,470
Production Curtailment Costs (1)	3,340	-	7,589	-
Cotton Costs (2)	6,906	-	22,027	-
Adjusted Gross Margin	$ 15,500	$ 20,227	$ 47,629	$ 63,470
Percent of Sales	17.4%	19.1%	17.2%	19.6%
Operating (Loss) Income	$ (3,621)	$ 10,701	$ (10,979)	$ 33,557
Production Curtailment Costs (1)	3,340	-	7,589	-
Cotton Costs (2)	6,906	-	22,027	-

Restructuring Costs (3)	32	-	3,344	-
Adjusted Operating Income	$ 6,657	$ 10,701	$ 21,981	$ 33,557
Percent of Sales	7.5%	10.1%	7.9%	10.4%

(1) Production Curtailment Costs consist of unabsorbed fixed costs, temporary unemployment benefit payments, and other expense items resulting from the Company's decision to reduce production levels to better align with the significantly reduced demand across the activewear industry due to high inventory levels stemming from the heavy replenishment activity following pandemic-related supply chain challenges.

(2) Cotton Costs consist of the amount of the cotton component of the Company's cost of sales in excess of the average price per pound of cotton over a recent 10-year period ($0.78 per pound) as well as a reasonable estimate of the additional cost for what the industry refers to as "basis" typically required to be purchased in connection with the delivery of cotton ($0.15 per pound). As such, Cotton Costs consist of the cotton component of the Company's cost of sales in excess of $0.93 per pound.

(3) Restructuring Costs consist of employee severance benefits paid in connection with the transition of our more expensive Mexico manufacturing capacity to our more efficient Central America manufacturing platform, employee severance benefits paid in connection of leadership restructuring, expenses incurred in connection with the closure of a legacy facility we acquired via acquisition and the absorption of the print capacity at that facility into our nationwide network of dual purpose digital print and blank garment distribution facilities, and additional cost items incurred from restructuring activities.

Liquidity and Capital Resources

Operating Cash Flows

Operating activities resulted in cash provided of $10.8 million for the nine months ended June 2023 compared to net cash used in operations of $13.4 million in the prior year period. The increase in cash provided by operating cash flows in the current year is due to a decline in inventory compared to the prior year build from increased input costs and manufacturing output. This was partially offset by decreased earnings in the business and change in the timing of payments to suppliers in the current period.

Investing Cash Flows

Cash outflows for capital expenditures were $3.5 million during the first nine months of 2023 compared to $11.6 million in the same period in the prior year. We anticipate our fiscal 2023 capital expenditures, including those financed under capital leases, to be approximately $8.0 million for fiscal 2023 and to be focused primarily on our information technology and direct-to-consumer investments, including additional Salt Life retail store openings.

Financing Activities

During the nine months ended June 2023, cash used in financing activities was $11.7 million and primarily related to repayments of debt partially offset by debt drawdowns to fund our operating activities, working capital needs, and certain capital investments offset by scheduled loan principal payments.

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 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, 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. Our availability at June 2023 was above the applicable minimum thresholds specified in our credit agreement, and we were in compliance with the applicable EBITDA covenant minimum thresholds.

We currently believe that our results of operations should be sufficient to allow us to satisfy our liquidity needs and comply with the covenants in our U.S. revolving credit facility. Our ability to satisfy our liquidity needs and meet the covenants in our U.S. revolving credit facility is dependent upon our ability to achieve operating results that reflect improvement over our results for the nine months ended June 2023. Although we are currently in compliance with the applicable EBITDA covenant in our U.S. revolving credit facility as of June 2023, the minimum thresholds applicable to that covenant increase in the coming quarter. Means for improving our profitability include successfully meeting sales targets, expense management and the realization of pricing, productivity and efficiency initiatives, as well as increased production volumes, all of which may not be within our control. If we are unable to achieve the improved results required to comply with this covenant, we will need to pursue certain actions including, but not limited to, reducing capital expenditures for machinery & equipment and technology and seeking to implement additional cost reductions within the organization, all of which may not be within our control. Some of those actions might adversely affect our results of operations and financial performance.

Share Repurchase Program

We did not purchase any shares under our previously announced share repurchase program in the June 2023 quarter. The total amount repurchased during the life of the program is $56.4 million. At the end of the third quarter of fiscal 2023, we had $3.6 million of remaining repurchase capacity under our existing authorization.

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 2022, 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 principal accounting officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and principal accounting officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report ("the Evaluation Date") and, based on their evaluation, our Chief Executive Officer and principal accounting 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 June 2023 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

Amendment to Delta Apparel, Inc. 2020 Stock Plan to Include "Double Trigger" Vesting Provisions

On August 2, 2023 ("Effective Date"), the Board of Directors of Delta Apparel, Inc. ("Board") approved the recommendation of the Compensation Committee of the Board ("Committee") to enter into a Declaration of Amendment ("Amendment") to the Delta Apparel, Inc. 2020 Stock Plan ("Plan"). The Plan was approved by the shareholders on February 6, 2020, and filed as Exhibit 1 to Delta Apparel's Proxy Statement filed on December 17, 2019.

The Amendment essentially operates to add "double trigger" vesting provisions to the Plan in the event of a Change in Control. More specifically, the Amendment replaces Section 9(c) of the Plan entirely with the following terms that apply to grants of Awards made to Participants after the Effective Date and in the event of a Change in Control: (i) to the extent a successor or surviving company does not assume or substitute an Award granted prior to the Change in Control, the Award shall become fully vested, exercisable (if applicable), earned and payable to the fullest extent of the original grant of the applicable Award, provided that, performance-based Awards shall be deemed earned at target unless otherwise provided in an individual Award Agreement; (ii) if a successor or surviving company assumes, continues, or substitutes an Award granted prior to the Change in Control on substantially similar terms and if the employment or Service of a Participant is terminated for Cause or Good Reason within one year after the effective date of the Change in Control, the Award will become fully vested, exercisable (if applicable), earned and payable to the fullest extent of the original grant of the applicable Award, provided that, performance-based Awards shall be deemed earned at target; (iii) definitions are provided for the terms Cause and Good Reason; and (iv) unless an individual Award Agreement states otherwise, if the Participant has entered into an employment agreement or similar agreement or arrangement, the Participant is entitled to the greater of benefits provided upon a Change in Control under the Plan or the respective employment agreement or similar agreement or arrangement. The Amendment also provides that Awards outstanding as of the Effective Date shall continue in accordance with their terms and are not affected by the Amendment.

The foregoing summary of the Amendment does not purport to be complete and is qualified in its entirety by reference to the text of the Amendment, which is filed herewith as Exhibit 10.1 to this Quarterly Report on Form 10-Q and which is incorporated herein by reference.

Item 6. Exhibits

Exhibits

10.1	Exhibit 10.1 Declaration of Amendment of Delta Apparel, Inc. 2020 Stock Plan.
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 Principal Accounting 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 Principal Accounting 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 August 9, 2023

By: /s/ Nancy P. Bubanich
Nancy P. Bubanich
Chief Accounting Officer

DECLARATION OF AMENDMENT TO
DELTA APPAREL, INC. 2020 STOCK PLAN

THIS DECLARATION OF AMENDMENT (the "Amendment"), is made effective as of August 2, 2023 (the "Effective Date"), by Delta Apparel, Inc. (the "Company"), to the Delta Apparel, Inc. 2020 Stock Plan (the "Plan").

R E C I T A L S:

WHEREAS, the Board of Directors of the Company (the "Board") has deemed it advisable to amend Section 9(c) of the Plan to modify the terms that apply to future grants of Awards in the event of a Change in Control (it being understood that (i) Awards that are outstanding as of the Effective Date shall continue in accordance with their terms and shall not be effected by the Amendment, and (ii) terms not defined herein shall have the meaning given such terms in the Plan); and

WHEREAS, the Company desires to evidence such amendment by this Declaration of Amendment.

NOW, THEREFORE, IT IS DECLARED that, effective as of the date above, the Plan shall be and hereby is amended as follows:

1. Amendment to Section 9(c) ("Events Affecting Outstanding Awards - Change in Control"). Section 9(c) is hereby amended by deleting the current Section 9(c) in its entirety and inserting the following in lieu thereof:

"9(c). Change in Control

(i) With respect to awards granted before August 2, 2023, the following shall apply: In the event of a Change in Control, all outstanding Stock Options and SARs shall become fully vested and exercisable, all restrictions on Restricted Stock and Restricted Stock Units shall be terminated, all performance goals shall be deemed achieved at target levels and all other terms and conditions met to deliver all Performance Stock, and pay out all Performance Units and Restricted Stock Units, subject to compliance with Section 409A of the Code.

(ii) With respect to Awards granted on or after August 2, 2023, the following shall apply:

(A) To the extent that the successor or surviving company in the Change in Control event does not assume or substitute for an Award (or in which the Company is the ultimate parent corporation and does not continue the Award) on substantially similar terms or with substantially equivalent economic benefits (as determined by the Committee) as Awards outstanding under the Plan immediately prior to the Change in Control event, (1) all outstanding Options and SARs shall become fully vested and exercisable, whether or not then otherwise vested and exercisable; and (2) any restrictions, including, but not limited to, the Restricted Period, Performance Period, and/or performance factors or criteria applicable to any outstanding Awards other than Options or SARs shall be deemed to have been met, and such Awards shall become fully vested, earned and payable to the fullest extent of the original grant of the applicable Award, provided that, in the case of performance-based Awards, the earning of which is based on attaining a target level of performance, such Awards shall be deemed earned at target, unless otherwise provided in an individual Award Agreement.

(B) Further, in the event that an Award is substituted on substantially similar terms or with substantially equivalent economic benefits (as determined by the Committee), assumed or continued, the Award will nonetheless become vested (and, in the case of Options and SARs, exercisable) in full and any restrictions, including, but not limited to, the Restricted Period, Performance Period, and/or performance factors or criteria applicable to any outstanding Award other than Options or SARs shall be deemed to have been met, and such Awards shall become fully vested, earned and payable to the fullest extent of the original award, provided that, in the case of performance-based Awards, the earning of which is based on attaining a target level of performance, such Awards shall be deemed earned at target (unless otherwise provided in an individual Award Agreement), if the employment or Service of the Participant is terminated within one year after the effective date of a Change in Control and such termination of employment or Service (1) is by the Company not for Cause or (2) is by the Participant for Good Reason. For clarification, for the purposes of this Section 9(c), the "Company" shall include any successor to the Company.

(C) For the purposes herein, unless the Committee determines otherwise or an Award Agreement provides otherwise, "Cause" means a Participant's termination of employment or Service resulting from (1) the Participant's termination for "Cause" as defined under the Participant's employment agreement or similar agreement with the Company or an Affiliate, if any, or (2) if the Participant has not entered into any agreement (or if any such agreement does not define "Cause"), then any of the following: (A) the Participant's commission of fraud; (B) the Participant's commission of embezzlement; (C) the Participant's conviction of a felony; (D) the willful or continued failure or refusal by the Participant to perform and discharge the Participant's duties, responsibilities and obligations; (E) any act of moral turpitude or willful misconduct by the Participant intended to result in personal enrichment of the Participant at the expense of the Company or any of its Affiliates or which has a material adverse impact on the business or reputation of the Company or any of its Affiliates; (F) gross negligence or intentional misconduct by the Participant resulting in damage to the property, reputation or business of the Company; or (G) the ineligibility of the Participant to perform the Participant's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company.

(D) For the purposes herein, unless the Committee determines otherwise or an Award Agreement provides otherwise, Good Reason means, in the context of a Change in Control, a Participant's termination of employment or Service resulting from the Participant's (1) termination for "Good Reason" as defined under the Participant's employment agreement or similar agreement with the Company or an Affiliate, if any, or (2) if the Participant has not entered into any agreement (or if any such agreement does not define "Good Reason"), then a Participant's termination shall be for "Good Reason" if termination results due to any of the following without the Participant's consent:

1. the assignment to Participant by the Company of duties inconsistent with, or the reduction of the powers and functions associated with, Participant's position, duties, and responsibilities immediately prior to a Change of Control, or an adverse change in Participant's titles or offices as in effect immediately prior to a Change of Control, or any removal of the Participant from or any failure to re-elect Participant to any of such positions, except in connection with the termination of Participant's employment for disability (as provided in Section 9(a)) or Cause or as a result of Participant's death, except to the extent that a change in duties relates to the elimination of responsibilities attendant to the Company or its parent company, as applicable, no longer being a publicly traded company;
2. a reduction by the Company in the Participant's salary or compensation as in effect on the date of a Change of Control, or as the same may be subsequently increased from time to time during Participant's employment;
3. the Company shall require the Participant to be based anywhere other than at or within a 25-mile radius of the location where the Participant is based on the date of a Change of Control, or if Participant agrees to such relocation, the Company fails to reimburse the Participant for moving and all other expenses reasonably incurred in connection with such move;
4. a significant increase in Participant's required travel on behalf of the Company; and
5. the Company shall fail to continue in effect any Company-sponsored plan or benefit that is in effect on the date of a Change of Control and pursuant to which Participant has received awards or benefits and is participating and that provides (a) incentive or bonus compensation, (b) fringe benefits such as paid time off, medical benefits, life insurance and accident insurance, (c) reimbursement for reasonable expenses incurred by the Participant in connection with the performance of duties with the Company, or (d) retirement

benefits such as an Internal Revenue Code Section 401(k) plan, except to the extent that such plans taken as a whole are replaced with substantially comparable plans.

Notwithstanding the foregoing, with respect to members of the Board ("Directors"), unless the Committee determines otherwise, a Director's termination from Service on the Board shall be for "Good Reason" if the Participant ceases to serve as a Director or, if the Company is not the surviving company in the Change in Control event, a member of the board of directors of the surviving entity, in either case, due to the Participant's failure to be nominated to serve as a director of such entity or the Participant's failure to be elected to serve as a director of such entity, but not due to the Participant's decision not to continue Service on the Board or the board of directors of the surviving entity, as the case may be. An event or condition that would otherwise constitute "Good Reason" shall constitute Good Reason only if the Company fails to rescind or cure such event or condition within 30 days after receipt from the Participant of written notice of the event which constitutes Good Reason, and Good Reason shall cease to exist for any event or condition described herein on the 90th day following the later of the occurrence or the Participant's knowledge thereof, unless the Participant has given the Company written notice thereof prior to such date.

(E) Notwithstanding any other provision of the Plan to the contrary, and unless an individual Award Agreement provides otherwise, in the event that a Participant has entered into an employment agreement or similar agreement or arrangement with the Company, the Participant shall be entitled to the greater of the benefits provided upon a change in control of the Company under this Plan or the respective employment agreement or similar agreement, and such change in employment agreement or similar agreement or arrangement shall not be construed to reduce in any way the benefits otherwise provided to a Participant upon the occurrence of a Change in Control under the Plan."

2. Continued Effect. Except as set forth herein, the Plan shall be unchanged and shall remain in full force and effect.

IN WITNESS WHEREOF, this Declaration of Amendment is executed on behalf of Delta Apparel, Inc. effective as of the day and year first above written.

DELTA APPAREL, INC.

By: /s/ Justin M. Grow

Name: Justin M. Grow

Title: Executive Vice President & Chief Administrative Officer

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: August 9, 2023

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

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL ACCOUNTING 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, Nancy P. Bubanich, 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: August 9, 2023

/s/ Nancy P. Bubanich
Chief Accounting Officer

EXHIBIT 32.1

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

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Robert W. Humphreys, the Chief Executive Officer of Delta Apparel, Inc. (the "Company"), hereby certifies that to the best of his knowledge:

1. The Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2023, 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: August 9, 2023

/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 PRINCIPAL ACCOUNTING 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, Nancy P. Bubanich, the Chief Accounting 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 July 1, 2023, 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: August 9, 2023

/s/ Nancy P. Bubanich
Nancy P. Bubanich
Chief Accounting 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.