

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-17** | Period of Report: **1994-04-02**  
SEC Accession No. **0000806624-94-000005**

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FILER

**DELTA WOODSIDE INDUSTRIES INC /SC/**

CIK: **806624** | IRS No.: **570535180** | State of Incorpor.: **SC** | Fiscal Year End: **0628**  
Type: **10-Q** | Act: **34** | File No.: **001-10095** | Film No.: **94529160**  
SIC: **2211** Broadwoven fabric mills, cotton

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended April 2, 1994

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 1-10095

DELTA WOODSIDE INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

SOUTH CAROLINA 57-0535180  
(State or other jurisdiction of I.R.S. Employer  
Incorporation or organization) Identification No.)

233 North Main Street  
Hammond Square, Suite 200  
Greenville, South Carolina 29601  
(Address of principal executive offices) (Zip Code)

803/232-8301

Registrant's telephone number, including area code

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed  
all reports required to be filed by Section 13 or 15(d) of the  
Securities Exchange Act of 1934 during the preceding 12 months  
(or for such shorter period that the registrant was required  
to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. Yes X No .

Indicate the number of shares outstanding of each of the

issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 Par Value-- 24,243,812 shares as of May 3, 1994.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## DELTA WOODSIDE INDUSTRIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	April 2, 1994	July 3, 1993
	(Unaudited)	
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 580	\$ 3,730
Accounts receivable:		
Factor	47,875	70,985
Trade	75,860	74,491
	123,735	145,476
Less allowances for doubtful accounts and returns	6,019	5,537
	117,716	139,939
Inventories		
Finished goods	116,688	111,372
Work in process	69,998	63,027
Raw materials and supplies	23,796	23,865
	210,482	198,264
Prepaid and other current assets	5,286	3,615
Deferred income taxes	15,879	713
 TOTAL CURRENT ASSETS	 349,943	 346,261
PROPERTY, PLANT AND EQUIPMENT		
Cost	274,105	254,115
Less accumulated depreciation	87,918	68,969
	186,187	185,146
INTANGIBLE ASSETS	38,619	41,085
OTHER ASSETS	1,778	1,454

DELTA WOODSIDE INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS--Continued

	April 2, 1994	July 3, 1993
	(Unaudited)	
	(In thousands)	
LIABILITIES AND SHAREHOLDERS'		
EQUITY		
CURRENT LIABILITIES		
Note payable to bank	\$ 28,688	
Trade accounts payable	38,176	\$ 62,374
Accrued and sundry liabilities	51,948	21,776
TOTAL CURRENT LIABILITIES	118,812	84,150
LONG-TERM DEBT, less current portion	151,798	130,464
DEFERRED INCOME TAXES AND OTHER LIABILITIES	25,218	23,083
SHAREHOLDERS' EQUITY		
Common Stock, par value \$.01-- authorized 50,000,000 shares, issued and outstanding 24,241,883 shares at April 2, 1994 and 26,400,371 shares at July 3, 1993	242	264
Additional paid-in capital	161,834	186,381
Retained earnings	118,623	149,604
	280,699	336,249
	\$576,527	\$573,946

See notes to condensed consolidated financial statements

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DELTA WOODSIDE INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	April 2, 1994	March 27, 1993	April 2, 1994	March 27, 1993
	(In thousands, except per share data)			
Net sales	\$155,194	\$176,412	\$450,964	\$492,012
Cost of goods sold	127,038	141,911	380,450	401,016
Gross profit on sales	28,156	34,501	70,514	90,996
Selling, general and administrative expenses	20,008	18,586	62,641	50,058
Litigation charge (credit)	(5,904)		27,096	
Restructuring charge (credit)	(559)		12,101	
	14,611	15,915	(31,324)	40,938
Other expense (income):				
Interest expense	2,346	1,556	6,195	5,470
Interest income and other	(1,029)	(600)	(2,101)	(961)
	1,317	956	4,094	4,509
INCOME (LOSS) BEFORE INCOME TAXES	13,294	14,959	(35,418)	36,429
Income taxes				

(benefit)	6,713	6,042	(11,798)	13,684
Income (loss) before cumulative effect of accounting change	6,581	8,917	(23,620)	22,745
Cumulative effect of change in the method of accounting for income taxes				(875)
NET INCOME (LOSS)	\$ 6,581	\$ 8,917	\$ (23,620)	\$ 21,870

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Income per share before cumulative effect of accounting change	\$ .27	\$ .35	\$ (.96)	\$ .86
Cumulative effect adjustment				(.04)
Net income per share	\$ .27	\$ .35	\$ (.96)	\$ .82
Dividends per share of common stock	\$ .10	\$ .10	\$ .30	\$ .30
Weighted average shares outstanding	24,240	26,435	24,651	26,415

See notes to condensed consolidated financial statements

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DELTA WOODSIDE INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Nine Months Ended

	April 2, 1994	March 27, 1993
	(In thousands)	
OPERATING ACTIVITIES		
Net income (loss)	\$(23,620)	\$21,870
Depreciation	13,977	12,042
Amortization	1,282	1,215
Other	(548)	4,089
Changes in operating assets and liabilities	13,115	10,220
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,206	28,996
INVESTING ACTIVITIES		
Acquisition of business net of cash acquired	(1,600)	(20,153)
Property, plant and equipment purchases	(22,102)	(31,532)
Other	(355)	560
NET CASH (USED) BY INVESTING ACTIVITIES	(24,057)	(51,125)
FINANCING ACTIVITIES		
Net proceeds from short-term line of credit	28,688	
Proceeds from revolving line of credit	33,000	195,395
Principal payments on revolving line of credit	(11,000)	(163,213)
Scheduled principal payments of long-term debt and capital lease obligations	(1,424)	(1,333)
Repurchase of Common Stock	(25,312)	
Dividends paid	(7,361)	(7,925)
Other	110	223
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,701	23,147
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,150)	1,018
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Cash and cash equivalents at beginning of period	3,730	850
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 580	\$1,868



DELTA WOODSIDE INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

APRIL 2, 1994

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Delta Woodside Industries, Inc. ("the Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended April 2, 1994 are not necessarily indicative of the results that may be expected for the year ending July 2, 1994. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended July 3, 1993.

NOTE B--INCOME TAXES

During the third quarter the Company changed its estimated effective tax benefit rate for fiscal 1994 to 33%. The catchup effect of this change resulted in a tax rate of 50% for the quarter ended April 2, 1994. The lower tax benefit rate is generally attributable to a variety of factors including certain writedowns of goodwill which are not deductible for income tax purposes. The effect of the change in estimated tax rate on the quarter ended April 2, 1994 was a decrease in net income of \$2,285,000 or \$.09 per share.

Reserves for litigation and restructuring have resulted in an increase since July 3, 1993 of approximately \$13 million in current deferred income taxes. Income tax expense for the prior year includes a cumulative effect adjustment of \$875,000 related to the adoption in fiscal 1993 of a new standard of accounting for income taxes.

NOTE C--REPURCHASE OF COMMON STOCK

During the first six months of fiscal 1994 the Company repurchased 2.3 million shares of its Common Stock for \$25.3 million.

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DELTA WOODSIDE INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

APRIL 2, 1994

NOTE D--NOTE PAYABLE

On October 6, 1993 the Company increased a short-term line of credit with a bank from \$15 million to \$50 million, and on October 19, 1993 obtained an additional short-term line of credit for \$25 million.

NOTE E--LITIGATION AND RESTRUCTURING CHARGES

Losses in the current fiscal year include a charge to income of \$27.1 million for reserves and related expenses in connection with an Alabama jury award on November 24, 1993 to a former Duck Head Apparel Company sales representative and two of his associates on their claims against Duck Head regarding disputes as to commissions paid. The reduced jury award was for approximately \$22.9 million and included approximately \$852,000 for contractual compensatory damages, \$7.0 million for mental anguish, and \$15 million as punitive damages. The Company is in the process of seeking reversal or reduction of this jury award. However, there is no assurance that these challenges will be successful, and the Company has established the litigation reserve noted above for this judgment and costs associated with the post judgment and appeal process. During the third quarter of fiscal 1994 the amount of the jury award was reduced by the circuit court judge from \$29,056,000 to \$22,852,000. Also during the quarter just ended, the Company charged income for \$300,000 to increase its reserve for legal costs associated with the Alabama Supreme Court appeal.

During the fiscal quarter ended April 2, 1994, the Securities and Exchange Commission released guidelines on accounting for and disclosing restructuring charges. As a result of its interpretation of these guidelines, the Company has reviewed its restructuring reserves established in the quarter ended January 1, 1994. As a result of this review, the restructuring provision was reduced in the third quarter of fiscal 1994 by approximately \$559,000.

Of the \$12.1 million restructuring charge, \$8.5 million relate to asset writedowns, \$.6 million has been expended in the current fiscal year and \$3.0 million relate to future expenditures. These restructuring decisions include plans to sell the Company's Harper Brothers office products business, and the consolidation of Duck Head Apparel Company's warehouse and distribution operations.

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DELTA WOODSIDE INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

APRIL 2, 1994

NOTE F--CONTINGENT LIABILITIES

The Company's Nautilus business has been named as a "Potentially Responsible Party" ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") with respect to three sites, one each in North Carolina, South Carolina, and Mississippi. To the Company's knowledge, all of the transactions with these sites were conducted by a corporation (the "Selling Corporation") whose assets were sold in 1990 pursuant to the terms of an order of the United States Bankruptcy Court to another corporation, the stock of which was subsequently acquired by the Company in January 1993.

At the North Carolina site, the Company's information is that there are over 1,400 PRPs and that the Selling Corporation is listed as a "de minimis" party. The Company's most recent information indicates that the Selling Corporation's share of the costs of the surface removal action (the removal of drums, equipment and materials) for this site will be immaterial. The Company does not currently have information respecting the soil and groundwater cleanup costs that may be incurred with respect to this site.

At the South Carolina site, there are over 700 PRPs, and the Selling Corporation has been listed as an "insolvent" party and would appear to qualify as a "de minimis" party. The site's PRP group has completed a surface removal action, the Selling Corporation's share of the cost of which is immaterial. The PRP Group is investigating soil and groundwater contamination at the site, but there is currently insufficient information available to estimate the cost of remediating that contamination.

At the Mississippi site, the PRP group is in the process of performing a surface removal action and is investigating soil

and groundwater contamination, both at the site and in the surrounding area. The Company's latest information is that the Selling Corporation is ranked 11th out of a total of over 300 PRPs in contributions of material to the site, and, based on volume, the Selling Corporation contributed approximately 3% of the site's material. To the Company's knowledge, latest estimates of costs to clean up the site range up to \$4 million. Trichloroethane, one of the substances delivered by the Selling Corporation to the site, has been found in the site's groundwater and at nearby residential drinking water wells.

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DELTA WOODSIDE INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
APRIL 2, 1994

#### NOTE F--CONTINGENT LIABILITIES

Although no assurance can be provided, the Company believes that it is shielded from liability at these three sites by the order of the United States Bankruptcy Court pursuant to which the Selling Corporation sold its assets to the corporation subsequently acquired by the Company. The Company, therefore, has denied any responsibility at the sites and has declined to participate as a member of the respective PRP groups. Accordingly, the Company has not provided for any reserves for costs or liabilities attributable to the Selling Corporation.

A law suit with allegations similar to those in the Alabama case referred to above is pending in the United States District Court for the Western District of Kentucky brought by an individual who previously served as an independent sales representative for the Duck Head division. The amount of damages claimed in this suit has not yet been determined, and the ultimate impact of this suit on the Company is yet unknown.

As of April 2, 1994, the Company had a \$175 million credit facility provided by a Credit Agreement with its principal lenders and two additional bank credit lines that aggregate \$75 million which will reduce to \$15 million in October 1994. The Company's loan covenants generally limit the Company's total indebtedness to \$225 million plus any amount required to fund the Alabama jury award outlined above. Under this limit, the unused amount of the Company's credit facilities at April 2, 1994 was \$30.3 million. The amount outstanding under the Company's credit lines fluctuates from time to time based on, among other things, inventory levels and accounts receivable

payments.

The Company intends to continue examining near- and long-term alternatives to strengthen its balance sheet. Such alternatives may include debt financings.

From time to time, the Company and its subsidiaries are defendants in other legal actions involving claims arising in the normal course of business, including product liability claims. The Company believes that, as a result of its legal defenses, insurance arrangements, reserves and indemnification provisions with financially capable parties, none of these other actions should have a material adverse effect on its operations or financial condition.

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## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net sales for the third quarter ended April 2, 1994 were \$155,194,000 as compared to \$176,412,000 in the prior year third quarter, a decrease of 12%. Net earnings, including the pretax credit to earnings described below, were \$6,581,000 for the quarter ended April 2, 1994, a decrease of 30% from the \$9,340,000 earned in the prior year third quarter. On a per share basis, earnings were \$.27 on the 24,240,000 average shares outstanding in the third quarter of fiscal 1994 as compared to \$.35 per share on the 26,435,000 average shares outstanding in the third quarter of fiscal 1993.

Earnings in the third quarter ended April 2, 1994, included a pretax credit to income of \$6.2 million from a reduction by the Alabama trial court of the \$29.1 million jury verdict in the case of former independent sales representatives previously decided against a subsidiary of the Company and fully reserved in the quarter ended January 1, 1994. The Company intends to pursue an appeal to the Alabama Supreme Court. Without this credit, pretax earnings would have been \$7,090,000 in the quarter ended April 2, 1994, and net income, after provision for income taxes, would have been approximately \$3,510,000 or \$.14 per share.

Net sales for the nine months ended April 2, 1994, totalled \$450,964,000 compared to \$492,012,000 for the nine months ended March 27, 1993, a decrease of 8%. Sales of the Nautilus division acquired in January 1993 account for approximately \$20.3 million of sales in the current fiscal year to date versus \$2.7 million in the first nine months of fiscal 1993. Net loss for the nine months ended April 2, 1994, was \$23,620,000 as compared to net earnings of \$21,870,000 for the nine months ended March 27, 1993. On a per share basis, losses were \$.96 per share on

the 24,651,000 average shares outstanding in the nine months ended April 2, 1994, as compared to earnings of \$.82 per share on the 26,415,000 average shares outstanding in the nine months ended March 27, 1993. The nine month fiscal 1994 loss includes a pretax charge to income, net of the credit described above, of \$27,096,000 for reserves and related expenses in connection with the Alabama court verdict and a pretax restructuring charge against income of approximately \$12,101,000.

Consolidated gross margin was 18% of sales in the latest fiscal quarter as compared to 20% in the same quarter of fiscal 1993. For the nine months ended April 2, 1994, the consolidated gross margin was 16% as compared to 18% in the nine months ended March 27, 1993.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued  
Fiscal 1994 third quarter sales and operating profits in the Company's textile sector were both down 15% from last year's third fiscal quarter levels. Sales of woven textiles were lower and sales of knitted textiles in the quarter were higher than in the same quarter of the previous year. The weakness in woven womens' wear and unfinished fabrics noted in the previous quarter continued throughout the most recent quarter. Knitted fabric sales improved due to better performance in our recently consolidated knit finishing plant and due to better market demand than at this time last year. Gross profit margins improved slightly in both woven and knitted sectors. Incoming order rates for knitted fabrics have shown some improvement in recent weeks. Cotton fiber prices have risen sharply in the last four months. The Company has not yet been able to recover these cost increases in woven fabric prices, but is making some progress in this direction in the knitted fabrics area. The textile segment accounted for 60% of consolidated sales and 42% of consolidated gross profit in the latest quarter compared to 61% and 38%, respectively, in the same quarter of fiscal 1993.

Sales in the apparel segment were 16% lower and gross profits were 33% lower in the third quarter of fiscal 1994 than in the third quarter of fiscal 1993. Sales of knitted apparel were slightly higher and sales of branded apparel were lower than in the same quarter last year. Gross profit margins were lower in both sectors due principally to lower sales prices caused by continuing oversupply in the knitted apparel markets and by higher sales of closeout inventories of branded apparel relating principally to a Fall 1993 line that was poorly received by retailers. The apparel segment accounted for 32% of

consolidated sales and 42% of gross profit in the latest fiscal quarter as compared to 34% and 51%, respectively, in the same quarter last year.

In the quarter ended April 2, 1994, the contribution by the Company's other businesses, office products and fitness equipment, to consolidated sales and gross profit was 8% and 17%, respectively. These operations contributed 5% of consolidated sales and 10% of consolidated gross profit in the quarter ended March 27, 1993.

Selling, general, and administrative expenses increased by approximately \$1.4 million in the quarter just ended over the same period last year. Decreases in these expenses in the textile and apparel segments were more than offset by increases in these expenses at Nautilus International, Inc. which was included for the months of February and March only in fiscal 1993. Expenses in the latest fiscal quarter included costs related to the marketing of the Company's planned line of Nautilus equipment for individual consumers.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

During the third quarter the Company changed its estimated effective tax benefit rate for fiscal 1994 to 33%. The catchup effect of this change resulted in a tax rate of 50% for the quarter ended April 2, 1994. The lower tax benefit rate is generally attributable to a variety of factors including certain writedowns of goodwill which are not deductible for income tax purposes. The effect of the change in estimated tax rate on the quarter ended April 2, 1994 was a decrease in net income of \$2,285,000 or \$.09 per share.

The total order backlog at April 2, 1994, was \$155,172,000 compared with the order backlog of \$188,920,000 at March 27, 1993. Order backlogs in all segments were below those at the same time last year, with the major portion of the decrease being in the woven fabrics area.

Inventories increased from \$198.3 million at July 3, 1993 to \$210.5 million at April 2, 1994. Increases in inventories in the textile segment were principally caused by lower than expected sales of woven blended and unfinished fabrics. Apparel inventories have decreased slightly and other inventories have increased slightly during the period.

During the last quarter, the Company ran relatively full manufacturing schedules in all of its operations except woven blended and unfinished fabrics. The Company does not expect any major production curtailments in the fourth quarter of the

current fiscal year, except in those facilities that produce unfinished woven fabrics and woven blended fabrics.

During the fiscal quarter ended April 2, 1994, the Securities and Exchange Commission released guidelines on accounting for and disclosing restructuring charges. As a result of its interpretation of these guidelines, the Company has reviewed its restructuring reserves established in the quarter ended January 1, 1994. As a result of this review, the restructuring provision was reduced in the third quarter of fiscal 1994 by approximately \$559,000. Also during the quarter just ended, the Company charged income for \$300,000 to increase its reserve for legal costs associated with the Alabama Supreme Court appeal. Of the \$12.1 million restructuring charge, \$8.5 million relate to asset writedowns, \$.6 million has been expended in the current fiscal year and \$3.0 million relate to future expenditures.

The Company's Nautilus business has been named as a "Potentially Responsible Party" ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") with respect to three sites, one each in North Carolina, South Carolina, and Mississippi. To the

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

Company's knowledge, all of the transactions with these sites were conducted by a corporation (the "Selling Corporation") whose assets were sold in 1990 pursuant to the terms of an order of the United States Bankruptcy Court to another corporation, the stock of which was subsequently acquired by the Company in January 1993.

At the North Carolina site, the Company's information is that there are over 1,400 PRPs and that the Selling Corporation is listed as a "de minimis" party. The Company's most recent information indicates that the Selling Corporation's share of the costs of the surface removal action (the removal of drums, equipment and materials) for this site will be immaterial. The Company does not currently have information respecting the soil and groundwater cleanup costs that may be incurred with respect to this site.

At the South Carolina site, there are over 700 PRPs, and the Selling Corporation has been listed as an "insolvent" party and would appear to qualify as a "de minimis" party. The site's PRP group has completed a surface removal action, the Selling Corporation's share of the cost of which is immaterial. The PRP Group is investigating soil and groundwater contamination at the site, but there is currently



insufficient information available to estimate the cost of remediating that contamination.

At the Mississippi site, the PRP group is in the process of performing a surface removal action and is investigating soil and groundwater contamination, both at the site and in the surrounding area. The Company's latest information is that the Selling Corporation is ranked 11th out of a total of over 300 PRPs in contributions of material to the site, and, based on volume, the Selling Corporation contributed approximately 3% of the site's material. To the Company's knowledge, latest estimates of costs to clean up the site range up to \$4 million. Trichloroethane, one of the substances delivered by the Selling Corporation to the site, has been found in the site's groundwater and at nearby residential drinking water wells.

Although no assurance can be provided, the Company believes that it is shielded from liability at these three sites by the order of the United States Bankruptcy Court pursuant to which the Selling Corporation sold its assets to the corporation subsequently acquired by the Company. The Company, therefore, has denied any responsibility at the sites and has declined to participate as a member of the respective PRP groups. Accordingly, the Company has not provided for any reserves for costs or liabilities attributable to the Selling Corporation.

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## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

A law suit with allegations similar to those in the Alabama case referred to above is pending in the United States District Court for the Western District of Kentucky brought by an individual who previously served as an independent sales representative for the Duck Head division. The amount of damages claimed in this suit has not yet been determined, and the ultimate impact of this suit on the Company is yet unknown.

As of April 2, 1994, the Company had a \$175 million credit facility provided by a Credit Agreement with its principal lenders and two additional bank credit lines that aggregate \$75 million which will reduce to \$15 million in October 1994. The Company's loan covenants generally limit the Company's total indebtedness to \$225 million plus any amount required to fund the Alabama jury award outlined above. Under this limit, the unused amount of the Company's credit facilities at April 2, 1994 was \$30.3 million. The amount outstanding under the Company's credit lines fluctuates from time to time based on, among other things, inventory levels and accounts receivable payments.

The Company intends to continue examining near- and long-term alternatives to strengthen its balance sheet. Such alternatives may include debt financings.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In its Form 8-K, dated January 11, 1994, and Form 10-Q for the fiscal quarter ended January 1, 1994, the Company has previously reported the award on November 24, 1993 by a jury in the Circuit Court of Montgomery County, Alabama (the "Circuit Court"), of \$29,056,000 to a former Duck Head sales representative (Ken Hoots) and two of his salesmen (Terry Long and Bill Pace) against a subsidiary of the Company in a suit captioned "Ken Hoots, Terry Long and Bill Pace v. Duck Head Apparel Company Inc., et. al." (the "Hoots Suit").

After a hearing, the Circuit Court judge reduced the jury's verdict to \$22,852,000 and entered judgment against the Company's subsidiary on March 28, 1994 as follows:

- (a) \$852,000 to the plaintiffs on their claim of breach of contract
- (b) \$4,000,000 to Ken Hoots, \$2,000,000 to Terry Long and \$1,000,000 to Bill Pace for mental anguish on their claim for fraud, and
- (c) \$15,000,000 to the plaintiffs as punitive damages on their claim of fraud.

The Company believes that the verdict is fundamentally unjust and intends vigorously to seek its reversal on appeal. On April 9, 1994, the Company's subsidiary filed a notice of appeal of judgment with the Alabama Supreme Court.

In order to prevent execution of the judgment during the appellate process the Company has guaranteed payment of the final adjudicated award and will post bond or other security in the amount of 125% of the judgment amount.

The Company is seeking recovery of a portion of the award under certain of its insurance policies. At this time, however, there is no assurance that any portion of the award will be recovered by the Company through insurance.

Alabama law permits the plaintiffs to recover interest at the rate of 12% per annum on the amount of the final adjudicated award from the date the original judgment

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PART II. OTHER INFORMATION--Continued

was entered (November 24, 1993) until the date that any final adjudicated award is paid to the plaintiffs.

A lawsuit with allegations similar to those in the Hoots Suit is pending against a subsidiary of the Company in the United States District Court for the Western District of Kentucky brought by an individual (Donnie Cecil) who previously served as an independent sales representative for the Duck Head division. The suit was filed on October 1, 1993. The amount of damages claimed in the suit has not yet been determined, and the ultimate impact of the suit on the Company is as yet unknown.

Item 2. Changes in Securities\*

Item 3. Defaults upon Senior Securities\*

Item 4. Submission of Matters to a Vote of Security Holders\*

Item 5. Other Information\*

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K

4.2.4 Waiver and Amendment No. 3 to credit agreement dated as of June 24, 1992.

(b) The Company filed Form 8-K dated January 11, 1994 and reported:

Item 5. Other Events

\* Items 2, 3, 4 and 5 are not applicable

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### 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 Woodside Industries, Inc.  
(Registrant)

Date May 16, 1994

/s/ E. Erwin Maddrey, II  
E. Erwin Maddrey, II  
President and  
Chief Executive Officer

Date May 16, 1994

/s/ Douglas J. Stevens  
Douglas J. Stevens  
Controller and  
Assistant Secretary



EXHIBIT

AMENDMENT NO. 3  
to  
Credit Agreement  
dated as of June 24, 1992

AMENDMENT NO. 3 entered into as of April 29, 1994 among DELTA WOODSIDE INDUSTRIES, INC., a South Carolina corporation (the "Borrower"), the Lenders (as defined in the Credit Agreement as hereinafter defined), and THE FIRST NATIONAL BANK OF BOSTON, a national banking association, as agent (the "Agent") for the Lenders.

Preliminary Statement

The Borrower, the Lenders and the Agent are parties to a Credit Agreement dated as of June 24, 1992 as amended by Amendment No. 1 dated as of September 23, 1993 and Waiver and Amendment No. 2 dated as of February 11, 1994 (said Agreement, as so amended, the "Credit Agreement"; terms defined therein, unless otherwise defined herein, being used herein as therein defined).

As security for its obligations in respect of the Alabama Judgment, Alchem proposes to furnish to the Circuit Clerk, Circuit Court, 15th Judicial District, Montgomery County, Alabama, a letter of credit in the stated amount of \$28,565,000 for the benefit of said Circuit Clerk. In connection with the issuance by it of said letter of credit, the Bank has requested that each of Delta Woodside and each Subsidiary Guarantor (other than Alchem) guarantee the reimbursement obligation of Alchem in respect thereof in substantially the same form, mutatis mutandis, in which the Obligations of the Borrower under the Credit Agreement are guaranteed by the Subsidiary Guarantors. Delta Woodside and Alchem have agreed to cause such guaranties to be delivered by the Subsidiary Guarantors, subject to the consent to such delivery of the Majority Lenders.

NOW, THEREFORE, in consideration of the Credit Agreement, the mutual covenants set forth therein and herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Amendment to Credit Agreement. Subject to the provisions of Section 2, the Credit Agreement is hereby amended by amending Section 9.3 Guaranties in its entirety, to read as follows:

Section 9.3. Guaranties. After the Effective Date, become or remain liable with respect to any Guaranty of any obligation of

any other Person, except for Existing Guaranties, the Subsidiary Guaranties and (a)

Guaranties of the obligations of Alchem in respect of the Alabama Judgment, provided that the liability of the Borrower and its Consolidated Subsidiaries thereunder shall not exceed an amount equal to the sum of \$36.4 million, plus the expenses, if any, of enforcement of such Guaranties and (b) in the case of the Borrower, Guaranties in respect of obligations of its Consolidated Subsidiaries (i) to trade or similar creditors, incurred by such Subsidiaries in the ordinary course of their respective businesses, (ii) in connection with contracts with their respective customers entered into in the ordinary course of their respective businesses and (iii) under leases of property used by such Subsidiaries in their respective businesses.

Section 2. Effectiveness. The provisions of Section 1 hereof shall become effective as of the date hereof on the date (the "Amendment Effective Date") on which counterparts of this Amendment duly executed by the Borrower and the Majority Lenders, and of the Consent attached to this Amendment duly executed by each of the Subsidiary Guarantors, shall have been received by the Agent.

Section 3. Effect of Amendment. This Amendment shall be limited precisely as written and shall not be deemed to (i) be a consent to the modification or waiver of any term or condition of the Credit Agreement not modified or waived herein or of any of the instruments or agreements referred to therein, or (ii) prejudice any right or rights which the Lenders or the Agent may now have under or in connection with the Credit Agreement, as amended by this Amendment. Except as expressly modified hereby, all of the terms and provisions of the Credit Agreement, shall continue in full force and effect and the Borrower hereby confirms each and every one of its obligations under the Credit Agreement, as amended by this Amendment. On and after the effective date of this Amendment, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof" or words of like import referring to the Credit Agreement, and each reference in the Notes and the other Loan Documents to "the Credit Agreement," "thereunder," "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Amendment.

Section 4. General Provisions.



(a) This Amendment shall be governed by and construed in accordance with the laws of the State of Georgia.

(b) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and shall be binding upon all parties, their successors and assigns, and all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, each of the undersigned has caused this Amendment to be executed and delivered by its duly authorized officer as of the date first above written.

DELTA WOODSIDE INDUSTRIES, INC.

By: /s/ Bettis C. Rainsford  
Title: Executive Vice President

THE FIRST NATIONAL BANK OF BOSTON,  
as Agent and as a Lender

By: /s/ William C. Purinton  
Title: Vice President

NATIONSBANK OF NORTH CAROLINA,  
NATIONAL ASSOCIATION

By: /s/ E. Phifer Helms  
Title: Senior Vice President

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION)

By: /s/ Philip A. Mousin  
Title: Vice President

THE BANK OF NEW YORK

By: /s/ Gregory L. Batson  
Title: Assistant Vice President

NATIONAL WESTMINSTER BANK USA

By: /s/ Kurt S. Pohmer  
Title: Assistant Treasurer

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION

By: /s/ Wayne H. Riess  
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION

By: /s/ James A. Fink  
Title: Vice President

THE SOUTH CAROLINA NATIONAL BANK

By: /s/ Thomas F. Snider  
Title: Vice President

#### CONSENT

Each of the undersigned, each a Subsidiary Guarantor under a Subsidiary Guaranty (each, a "Guaranty") with respect to the Borrower's Obligations under the Credit Agreement referred to in the foregoing Amendment No. 3, hereby consents to the said Amendment No. 3 and hereby confirms and agrees that the Guaranty made by it is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that, on and after the effective date of the said Amendment No. 3, each reference in such Guaranty to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the

Credit Agreement shall mean and be a reference to the Credit Agreement as amended by the said Amendment No. 3.

ALCHEM CAPITAL CORPORATION  
(successor by merger to Duck Head  
Apparel Company, Inc. (NC) and  
Alchem Capital Corporation (SC))

By: /s/ Bettis C. Rainsford  
Name: Bettis C. Rainsford  
Title: Executive Vice President

CARGUD, SOCIEDAD ANONIMA

By: /s/ Bettis C. Rainsford  
Name: Bettis C. Rainsford  
Title: Executive Vice President

DELTA CONSOLIDATED CORPORATION  
(f/k/a Carwood Sales Corporation)

By: /s/ Bettis C. Rainsford  
Name: Bettis C. Rainsford  
Title: Executive Vice President

DELTA MERCHANDISING, INC.

By: /s/ Bettis C. Rainsford  
Name: Bettis C. Rainsford  
Title: Executive Vice President

DELTA MILLS, INC. (f/k/a Delta  
Holding, Inc., successor by merger  
to Stevcoknit Acquisition Company,  
Inc. and Delta Mills, Inc.)

By: /s/ Bettis C. Rainsford  
Name: Bettis C. Rainsford  
Title: Executive Vice President

DUCK HEAD APPAREL COMPANY, INC.  
(f/k/a Delta Apparel, Inc.)

By: /s/ Bettis C. Rainsford  
Name: Bettis C. Rainsford  
Title: Executive Vice President

NAUTILUS INTERNATIONAL, INC.

By: /s/ Bettis C. Rainsford  
Name: Bettis C. Rainsford  
Title: Executive Vice President