

DELTA GALIL INDUSTRIES LTD
Form 20-F/A
April 25, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 25, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
AMENDMENT No. 2

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

COMMISSION FILE NUMBER 0-30020

DELTA GALIL INDUSTRIES LTD.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

ISRAEL
(JURISDICTION OF INCORPORATION OR ORGANIZATION)

2 Kaufman Street, Tel Aviv 68012, Israel
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

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

NONE
(Title of each class)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

ORDINARY SHARES (1)
(Title of Class)

AMERICAN DEPOSITARY SHARES (2)
(Title of Class)

-
- (1) Not for trading, but only in connection with the listing of the American Depositary Shares.
 - (2) Evidenced by American Depositary Receipts, each American Depositary Share representing one ordinary share, par value NIS 1.00 per share.

Securities for which there is a reporting obligation pursuant to
Section 15(d) of the Act:

NONE

(Title of class)

Indicate the number of outstanding shares of each of the issuer's
classes of capital or common stock at the close of the period covered by the
annual report:

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AS OF DECEMBER 31, 2004 THE REGISTRANT HAD 19,947,849 ORDINARY SHARES OUTSTANDING (INCLUDING 1,206,802 ORDINARY SHARES OWNED BY THE REGISTRANT AND 45,882 ORDINARY SHARES HELD BY A TRUSTEE IN CONNECTION WITH THE REGISTRANT'S STOCK OPTION PLANS).

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 which financial statement item the Registrant elected to follow:

Item 17 Item 18

EXPLANATORY NOTE

Delta Galil Industries Ltd. (the "Company") is filing this Amendment No. 2 on Form 20-F/A to its Form 20-F for the year ended December 31, 2004, originally filed on June 27, 2005 ("Original Form 20-F"). On April 12, 2006, the Company filed Amendment No. 1 to the original Form 20-F ("Amendment No. 1"). Amendment No. 1 included a revised section entitled "Liquidity and Capital Resources" under "Item 5 - Operating and Financial Review and Prospectus", following the correction of an error contained in the statement of cash flows for the year ended December 31, 2004.

The purpose of this Amendment No. 2 is to

- a) Include revised Item 5 in its entirety; and
- b) Amend Item 15 within the Original Form 20-F to clarify the opinion of our Chief Executive Officer and of our Chief Financial Officer with respect to the effectiveness of our internal controls over financial reporting as of December 31 2004. We hereby replace Item 15 of the Original Form 20-F with the amended Item 15 included in this Amendment No. 2.

Except as otherwise expressly stated herein and to reflect the changes referred to above, this amended annual report on Form 20-F/A speaks as of the filing date of the Original Form 20-F, and does not purport to reflect events or developments subsequent to the original filing date of the Original Form 20-F.

PART I

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH DELTA GALIL'S CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES TO THOSE FINANCIAL STATEMENTS INCLUDED IN ITEM 18 OF THIS ANNUAL REPORT. DELTA GALIL'S CONSOLIDATED FINANCIAL STATEMENTS ARE PREPARED IN CONFORMITY WITH US GAAP.

OVERVIEW

Following is a discussion of certain topics that will help you to better

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understand our results of operations discussed below:

REVENUES

Delta Galil's revenues in 2004 increased by 13% and amounted to \$654.3 million compared to \$580.1 million in 2003.

The following table shows Delta Galil's revenues by geographical area, stated in million U.S. dollars and as a percentage of total revenues, for the years ended December 31, 2002, 2003 and 2004:

| | YEAR ENDED DECEMBER 31, | | | | | |
|-------------------------|-------------------------|-------|-------|-------|-------|-------|
| | 2002 | | 2003 | | 2004 | |
| | \$ | % | \$ | % | \$ | % |
| North America..... | 303.1 | 53.4 | 300.7 | 51.8 | 334.8 | 51.2 |
| United Kingdom..... | 181.3 | 32.0 | 187.9 | 32.4 | 202.8 | 31.0 |
| Europe (excluding U.K.) | 44.4 | 7.8 | 48.7 | 8.4 | 64.7 | 9.9 |
| Israel..... | 38.5 | 6.8 | 42.8 | 7.4 | 52.0 | 7.9 |
| Total..... | 567.3 | 100.0 | 580.1 | 100.0 | 654.3 | 100.0 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

In 2004, sales to North America increased by 11.3% to \$334.8 million representing 51.2% of total sales. The increase in sales to North America is attributed mainly to the acquisitions of Auburn in 2003 and Burlen in 2004. Delta Galil's sales to its top customer, the U.K. chain Marks & Spencer, increased by 5.5% to \$189.0 million in 2004, compared to \$179.1 million in 2003. The increase in the sales to Marks & Spencer is attributed to the strengthening of the pound sterling versus the dollar. Delta Galil's sales to the European market increased by 32.8% to \$64.7 million in 2004 compared to \$48.7 million in 2003, mainly due to acquisition of Auburn in 2003 and the strengthening of the euro versus the dollar. Delta Galil's sales to the Israeli market increased by 21.5% to \$52.0 million in 2004 compared to \$42.8 million in 2003. The increase in sales to the Israeli market is attributed mainly to different mix of products and to the opening of new stores.

Effective January 1, 2005, the World Trade Organization's 148 member nations lifted all quotas on apparel and textiles. As a result, all textiles and textile apparel manufactured in a member nation will no longer be subject to quota restrictions. This will allow retailers, apparel firms and others to import unlimited quantities of apparel and textile items from China, India and other low-cost countries. As a result, prices of textiles and apparel, including our products, have faced downward pressure and may continue to decline. If prices decline faster than we are able to cut costs, our business and results of operations could be affected adversely.

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The following table shows Delta Galil's revenues by product categories,

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stated as a percentage of total revenues, for the years ended December 31, 2002, 2003, and 2004:

| | YEAR ENDED DECEMBER 31 | | |
|-------------------------------|------------------------|-------|-------|
| | 2002 | 2003 | 2004 |
| Ladies' Intimate Apparel..... | 59.2% | 61.1% | 53.6% |
| Socks..... | 15.2 | 16.4 | 23.0 |
| Men's Underwear..... | 11.2 | 10.1 | 12.9 |
| Babywear..... | 7.2 | 6.8 | 4.4 |
| Leisurewear..... | 3.6 | 3.0 | 3.7 |
| Fabrics and Others..... | 3.6 | 2.6 | 2.4 |
| Total..... | 100% | 100% | 100% |

The decrease in revenues in the Ladies Intimate Apparel in 2004 compared to 2003 is attributed to a decrease in sales to US mass-market customers. The increase in revenues in the Socks category in 2004 compared to 2003 is attributed to the acquisition of Auburn in the fourth quarter of 2003.

ACQUISITION OF BURLLEN

In December 2004, Delta acquired Burlen Corp., a leading private label manufacturer of ladies intimate apparel.

As consideration for all of the share capital of Burlen Corp., Delta paid Burlen's selling shareholders \$48.2 million in cash and \$2.2 million in ordinary shares comprised of 215,684 ordinary shares valued at \$10.43 per share transferred from Delta's treasury shares. In addition, Delta paid \$8.2 million of Burlen's bank debt. Delta Galil also accrued \$1.0 million in other deal cost related to the transaction, which will be paid in 2005. Delta is also obligated to pay the selling shareholders additional amounts if Burlen meets specified sales and profitability targets in 2005, 2006, and 2007.

An intangible asset related to customer relations, which amounted to \$14.8 million will be amortized over a period of 20 years. The excess of cost of acquisition over the fair value of net assets on acquisition date - \$3.9 million - was allocated to goodwill and is included as part of Delta USA segment. Customer relations and goodwill are deductible for tax purposes.

ACQUISITION OF A MANUFACTURING PLANT IN THAILAND

In December 2004, Delta Galil acquired a manufacturing sewing and cutting facility in Thailand for a total consideration of \$2.4 million. Of this amount \$0.9 million was paid for the shares and \$0.8 million to pay off debt to the former shareholders. In addition, Delta assumed bank debt of \$0.7 million. Delta Galil accounted for this acquisition as an acquisition of a business. The excess of the cost of the acquisition over the fair value of the net assets on the acquisition date, which was approximately \$1.0 million, was allocated to goodwill and is included as part of Europe segment.

ACQUISITION OF AUBURN HOSIERY MILLS

On November 13, 2003 Delta Galil completed the acquisition of the outstanding shares of Auburn Hosiery Mills. Auburn manufactures, markets and sells branded sport socks under exclusive licenses to brand names both in the

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United States and Europe.

As consideration for all of the share capital of Auburn Hosiery, Delta Galil paid \$10.8 million to Kellwood and recorded liabilities in respect of restructuring costs in the amount of \$6.2 million. The total purchase price amounted to approximately \$17.0 million. During 2004, Delta Galil finalized the restructuring plan, and actual liabilities in respect of restructuring costs, were \$1.9 million less than originally anticipated which resulted in a decrease in the excess of cost of the acquisition over the fair value of the net assets on the acquisition date. The decrease was allocated \$1.4 million to the goodwill (which off set the entire goodwill initially recognized) and \$0.5 million to property, plant and equipment.

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LOGISTIC CENTER IN HUNGARY

In November 2002, Delta Galil, through a wholly owned subsidiary, purchased the operations of Komar Textile Trading, a logistic center, which included real estate, movables and receivables from subcontractors in Hungary. The acquisition price was \$5.6 million, and the excess of the cost of the acquisition over the fair value of net assets amounted to \$0.8 million. During the fourth quarter of 2004, Delta Galil decided to close the logistic center, and accrued \$1.5 million for restructuring expenses. During the first half of 2005 the logistic center was closed.

ACQUISITION OF INNER SECRETS

In 2001, Delta Galil, through its wholly owned subsidiary, Wundies Industries Inc., completed the acquisition of all of the outstanding shares of Inner Secrets Inc., a New Jersey corporation, and its subsidiaries. Inner Secrets manufactures and markets private label brassieres and other ladies' intimate apparel.

As consideration for all of the share capital of Inner Secrets, Delta Galil paid \$48.7 million in cash, of which \$14.4 million was for retirement of bank and other debt, and \$5.9 million in ordinary shares, comprised of 454,020 ordinary shares valued at \$13.05 per ordinary share. The goodwill attributed to the purchase of Inner Secrets amounted to approximately \$24.3 million.

In April 2003, Delta Galil USA paid \$2.0 million as an adjustment to the purchase price. A provision was made in 2002 for this payment, which was allocated as part of the goodwill.

In accordance with the acquisition agreement, and as a result of the performance of Delta Galil USA in 2003, Delta Galil paid the selling shareholders of Inner Secrets additional performance payment of \$6.7 million during April 2004. This payment was allocated as part of the goodwill.

SALE OF INTERESTS IN ARAD TOWELS AND STANDARD TEXTILE (EUROPE) LTD.

On December 31, 1998, Delta Galil sold its 40.7% interest in Arad Towels Ltd. to Standard Textile (Europe) Ltd. ("STE") for \$12.4 million in cash and a 15% interest in STE. The capital gain on this transaction totaled \$ 5.2 million, of which \$3.1 million was applied to income in 1998 and the balance of \$2.1 million was applied to income in 1999.

On August 6, 2000 Delta Galil entered into an agreement with S.T.I. Industries and Technologies Ltd., S.T.I.A. Holdings Ltd. and STE, for the sale of its 15% holdings in STE for \$9 million. The transaction is to be carried out in four installments, subject to adjustments as stipulated in the agreement. The

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first installment, 25% of the shares held by Delta Galil, was transferred to the buyers upon the signing of the agreement, for \$2.25 million. The second installment was transferred on January 15, 2002, for consideration of \$2.48 million, the third installment was transferred on January 15, 2003 for consideration of \$2.57 million and the fourth and final installment was transferred on January 15, 2004 for consideration of \$2.64 million. Delta Galil recognized a capital gain of \$0.9 million in 2003 and a capital gain of \$1.0 million in 2004 for this transaction.

STOCK REPURCHASES

In September 2001 Delta Galil's Board of Directors approved a plan for the repurchase of up to \$3 million of its ordinary shares within the following 12 months. By the end of 2002, Delta Galil completed the repurchase of 378,500 ordinary shares at an average price of \$7.9 per share.

In December 2002, Delta Galil successfully completed a self-tender offer in which it purchased 565,000 ordinary shares at a price per share of \$11.0, for aggregate consideration of \$6.2 million.

EMPLOYEE STOCK OPTION PLAN

In October 2002, Delta Galil's Board of Directors approved an employee stock option plan for the grant, without consideration, of options exercisable to purchase 1,100,000 ordinary shares. The plan provides for forfeited options to return to the pool for future grants. In November 2002, the Company granted 1,004,500 options to 97 employees of the group (including 100,000 options granted to the CEO) at an exercise price of \$9.0 per share. In May 2003 Delta Galil granted an aggregate of 30,000 options to three employees

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at an exercise price of \$10.76. In March 2004, Delta Galil granted 80,000 options to six employees at an exercise price of \$15.35 and in August 2004 Delta Galil granted an additional 30,000 options to one employee at an exercise price of \$12.74. The options granted in May 2003 and in 2004 are subject to the same terms and conditions as those granted in 2002.

The options are exercisable over a three-year period, following one year after the vesting date of the first batch and on the vesting date of the second, third and fourth batches. All options granted after January 1, 2003 may be exercised only following the elapse of two years after the end of the year in which the options were granted.

RESULTS OF OPERATIONS

The following table sets forth Delta Galil's results of operations expressed as a percentage of total revenues for the periods indicated:

| | YEAR ENDED DECEMBER 31 | | |
|---|------------------------|--------|--------|
| | 2002 | 2003 | 2004 |
| Revenues..... | 100.0% | 100.0% | 100.0% |
| Cost of revenues..... | (80.1) | (80.0) | (81.5) |
| Gross profit..... | 19.9 | 20.0 | 18.5 |
| Selling, marketing, general and administrative..... | (14.8) | (14.1) | (15.1) |

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| | | | |
|--|-------|-------|-------|
| Restructuring expenses..... | (0.2) | (0.2) | (0.1) |
| Gain (loss) on sales of assets and subsidiary shares..... | * | 0.6 | 0.1 |
| Operating income..... | 4.9 | 6.3 | 3.4 |
| Financial expenses - net..... | (1.0) | (0.9) | (1.0) |
| Other income- net..... | 0.2 | * | 0.2 |
| Income before taxes on income..... | 4.1 | 5.4 | 2.6 |
| Taxes on income..... | (1.0) | (1.2) | (0.4) |
| Income after taxes on income..... | 3.1 | 4.2 | 2.2 |
| Share in profits (losses) of associated companies - net..... | * | (0.1) | (0.1) |
| Minority interests- net..... | (0.2) | (0.1) | (0.2) |
| Net income..... | 2.9% | 4.0% | 1.9% |

* Less than 0.1%.

SEGMENT RESULTS

We have five principal segments: Delta USA, U.S. Upper Market, Europe, Socks and Delta Marketing Israel. Delta USA, U.S. Upper Market and Europe segments are engaged in manufacturing and marketing of intimate apparel to various customers in the U.S. and European markets. The Socks segment is engaged in manufacturing and marketing of socks to various customers in the U.S. and European markets. Delta Marketing Israel is engaged in marketing ladies intimate apparel, men's underwear and socks to various customers in Israel through retail and wholesale operations.

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The following table sets forth Delta Galil's revenues and operating results relating to the various segments:

| SALES BY SEGMENT | | | |
|-----------------------------------|---------|---------|---------|
| (\$ MILLION) | | | |
| | 2002 | 2003 | 2004 |
| Delta USA(1) | \$202.0 | \$213.2 | \$186.3 |
| U.S. Upper Market(2) | 111.1 | 88.3 | 111.9 |
| Europe | 171.0 | 177.4 | 193.8 |
| Socks(3) | 83.9 | 89.4 | 144.2 |
| Delta Marketing Israel(3)..... | 34.8 | 37.6 | 46.5 |
| Adjustments(4)..... | (35.5) | (25.8) | (28.4) |
| Total | \$567.3 | \$580.1 | \$654.3 |

- (1) 2004 sales include \$3.6 million for Burlen, which was acquired in the fourth quarter of 2004.
- (2) US Upper Market and the textile divisions were merged. Numbers included above have been reclassified accordingly.
- (3) Socks marketing operation in Israel was transferred to the managerial responsibility of Delta Marketing Israel. Numbers

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- included above have been reclassified accordingly.
- (4) Adjustments include inter-segment sales and results of hedging transactions.

SALES BY SEGMENT IN 2004 VS. 2003

The decrease in sales by Delta USA is attributed mainly to a decrease in sales to Wal-Mart and Target. The increase in sales by the U.S. Upper Market segment resulted primarily from an increase in sales to Calvin Klein and JC Penney. The increase in sales by the European segment is attributed to the strengthening of the pound sterling and the euro against the U.S. dollar as well as sales to new customers. The increase in sales by the Socks segment is attributed to the acquisition of European operation of Auburn. The increase in sales by the Israeli market segment is attributed mainly to different mix of products and to the opening of new stores.

SALES BY SEGMENT IN 2003 VS. 2002

The increase in sales by Delta USA segment resulted primarily from an increase in sales to existing customers. The decrease in sales by the U.S. Upper Market segment resulted primarily from Delta Galil's decision to reduce the number of customers, as well as general weakness in this market, part of which is reflected in a decrease in sales to Victoria's Secret, this segment's largest customer. The increase in sales by the European segment is attributed to the strengthening of the pound sterling and the euro against the U.S. dollar. In pound sterling and euro terms, sales declined. The increase in sales by the Socks segment is attributed to the consolidation of Auburn in the fourth quarter of 2003.

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| | OPERATING INCOME (LOSS) BY SEGMENT | | |
|-------------------------------------|------------------------------------|--------|--------|
| | (\$ MILLION) | | |
| | 2002 | 2003 | 2004 |
| Delta USA..... | \$14.6 | \$24.8 | \$5.9 |
| U.S. Upper Market(1)..... | (4.7) | (8.9) | (0.6) |
| Europe(2)..... | 10.2 | 4.4 | 4.9 |
| Socks(3)..... | 8.3 | 9.0 | 9.1 |
| Delta Marketing Israel(3)..... | (1.3) | 2.4 | 4.8 |
| Adjustments and Capital Gains(4)... | 0.7 | 5.1 | (1.7) |
| | ----- | ----- | ----- |
| Total | \$27.8 | \$36.8 | \$22.4 |
| | ===== | ===== | ===== |

- (1) In the beginning of 2005, US upper market and the textile divisions were merged. Numbers included above have been reclassified accordingly.
- (2) Operating profit in 2004 includes restructuring expenses relating to the closure of a logistic center in Hungary in the amount of \$1.5 million, \$1.0 million in 2003 for the closure of sewing facility in Scotland and in Israel, and \$0.7 million in 2002 for the closure of facilities in Scotland.
- (3) Socks marketing operation in Israel was transferred to the managerial responsibility of Delta Marketing Israel. Numbers included above have been reclassified accordingly.
- (4) Adjustments include mainly cancellation of unrealized profits and hedging transactions results. In 2003 adjustments include mainly capital gain from the sale of the real estate in London.

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OPERATING INCOME (LOSS) BY SEGMENT IN 2004 VS. 2003

The decrease in the operating income of Delta USA was due primarily to a decrease in sales and to losses from operations with certain customers. The decrease in the operating loss in the U.S. Upper Market segment is primarily due to an increase in sales volumes. The erosion in the operating margin in the Socks segment is attributed to the acquisition of Auburn, which contributed to an increase in sales, which had no substantial operating income. The increase in operating income in Delta Marketing Israel is attributed to the improvement of procurement sources and to increased in sales volumes.

OPERATING INCOME (LOSS) BY SEGMENT IN 2003 VS. 2002

The increase in operating income in Delta USA resulted from an increase in sales in 2003, as well as the write-off of doubtful accounts receivable from K-mart in 2002, which reduced operating income in 2002. The decrease in operating income in the U.S. Upper Market segment is primarily due to reduced sales volumes. The reduction in operating income was less than the reduction in sales due to the change in the mix of customers, towards sales to more profitable customers. The decline in operating income of the European segment, despite the favorable exchange rates, is due primarily to costs associated with the closure of a manufacturing and warehousing center in Scotland and the integration of a new logistics center in Hungary that replaced part of the Scottish operation. The increase in operating income of the Socks segment resulted primarily from the strengthening of the pound sterling and the euro against the U.S. dollar. The Adjustments in 2003 include mainly a capital gain from the sale of real estate in London.

YEAR ENDED DECEMBER 31, 2004 COMPARED WITH YEAR ENDED DECEMBER 31, 2003 - CONSOLIDATED

REVENUES. Total revenues in 2004 increased by 12.8% and amounted to \$654.3 million compared to \$580.1 million in 2003. Excluding sales of Burlen, which was acquired in the fourth quarter of 2004, and Auburn, which was acquired in the fourth quarter of 2003, sales from continuing operations increased by 4.5%, reaching \$598.7 million in 2004 compared to \$573.0 million in 2003. The increase in revenues from continuing operations is due mainly to the strengthening of the pound sterling and the Euro against the US dollar and to the increase in sales in the Israeli market.

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COST OF REVENUES. Delta Galil's cost of revenues is comprised mainly of cost of materials, salaries and related expenses, work performed by subcontractors, depreciation and amortization and the changes in inventories of finished products and products in process. While costs associated with depreciation and indirect salaries are generally fixed, cost of materials, work performed by subcontractors and direct salaries are variable. Cost of revenues in 2004 increased by 14.9% and amounted to \$533.0 million (81.5% of revenues) compared to \$463.9 million (80.0% of revenues) in 2003. Most of the increase in the cost of revenues is attributed to an increase in sales volume.

GROSS PROFIT. Gross profit in 2004 increased by 4.3% over 2003 and totaled \$121.2 million (18.5% of revenues), compared to \$116.3 million (20.0% of revenues) in 2003.

SELLING AND MARKETING EXPENSES. Delta Galil's selling and marketing expenses are comprised mainly of salaries and related expenses, professional expenses, packaging, transportation and delivery, advertising, royalties, depreciation and amortization, commissions and leases. While costs associated with salaries, professional expenses, depreciation and amortization and leases

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are generally fixed, packaging, transportation, delivery, advertising, royalties and commissions are more variable. Selling and marketing expenses increased by 24.2 % to \$ 81.2 million (12.4% of revenues) in 2004 compared to \$65.4 million (11.3% of revenues) in 2003. The increase in selling and marketing expenses is attributed mainly to the acquisition of Auburn, to a \$2.5 million increase in salaries and related expenses due to the strengthening of the pound sterling and the NIS versus the dollar, to a \$1.4 million increase in lease expenses mainly due to the strengthening of the pound sterling versus the dollar and to the increased activity in the Israeli market.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses are comprised mainly of salaries and related expenses, entertainment and travel expenses, professional fees, doubtful accounts and bad debts, depreciation and amortization and other office expenses. General and administrative expenses increased from \$16.7 million in 2003 to \$17.4 million in 2004. The increase in general and administrative expenses is attributed mainly to the acquisition of Auburn.

CAPITAL GAIN (LOSS) FROM REALIZATION OF FIXED ASSETS. In 2004 Delta Galil recorded capital gain of \$0.9 million mainly from the sale of real estate in Ireland. In 2003 Delta Galil recorded a \$3.9 million capital gain from the sale of real estate in London, which was offset by \$0.3 million of capital loss from realization of other fixed assets.

GOODWILL AMORTIZATION. Based on FAS 142, which Delta Galil adopted on January 1, 2002, goodwill is no longer amortized. Prior to January 1, 2002 Delta Galil amortized goodwill in equal annual installments usually over a period of 40 years. See "Critical Accounting Policies - Valuation of Intangible Assets-Goodwill".

RESTRUCTURING EXPENSES. Restructuring expenses in 2004 related to the closure of the logistic center in Hungary. In 2003 restructuring expenses related to the closure of sewing plants in Scotland and in Israel.

OPERATING INCOME. Operating income in 2004 decreased by 39.1% compared to 2003 and totaled \$22.4 million (3.4% of revenues) compared to \$36.8 million (6.3% of revenues) in 2003. The decrease in the operating profit is primarily due to losses from operations with certain of Delta USA's customers, and to losses incurred from the operation of the logistic center in Hungary.

FINANCIAL EXPENSES - NET. Financial expenses increased by 10.5% to \$6.2 million in 2004 from \$5.6 million in 2003 mainly due to increased bank loans due to the acquisition of Auburn and to the increase in the average interest rate. Financial expenses were composed mainly of interest and exchange differences.

OTHER INCOME- NET. Other income in 2004 increased by \$0.7 million compared to 2003. In 2004 other income included \$1.0 million capital gain from realization of the investment in an associated company, as described above "Sales of Arad Towels and Standard Textile (Europe) Ltd.", while in 2003 a similar capital gain of \$0.9 million was offset by the write-off of other investments.

TAXES ON INCOME. Income taxes for 2004 were provided for at an effective tax rate of 16.6% compared to 23.4% in 2003. The decrease in the effective tax rate in 2004 compared to 2003 is mainly due to a decrease in pre-tax earnings of subsidiaries that are subject to higher tax rates.

SHARE IN LOSSES OF ASSOCIATED COMPANIES. Delta Galil's share in losses of associated companies includes its investment in Edomit Ltd., which is accounted for by the equity method. In 2004 this share amounted to a loss of \$0.2 million compared to a loss of \$0.3 million in 2003.

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MINORITY INTEREST- NET. Delta Galil operates sewing facilities in Jordan through a partially owned subsidiary - Century Wear Corporation (WLL). Minority interests in profit of this subsidiary and starting April 2003, also 10% of Delta Elastic Tapes, amounted to \$1.4 million in 2004 compared to \$0.4 million in 2003.

NET INCOME. Net income in 2004 decreased by 45.7% and totaled \$12.7 million (1.9% of sales) compared to \$23.4 million (4.0% of sales) in 2003.

YEAR ENDED DECEMBER 31, 2003 COMPARED WITH YEAR ENDED DECEMBER 31, 2002 - CONSOLIDATED

REVENUES. Total revenues in 2003 increased by 2.3% and amounted to \$580.1 million compared to \$567.3 million in 2002. Sales in 2003 include \$7.1 million that resulted from the consolidation of Auburn Hosiery starting in November. Excluding these sales, the total sales in 2003 increased by 1% and amounted to \$573.0 million, compared to \$567.3 million in 2002. Revenues in North America decreased by 0.8% and amounted to \$300.7 million in 2003 compared to \$303.1 million in 2002. The decrease is attributed to a decrease in Delta's North America sales to specialty and department stores, which dropped 25% in 2003, totaling \$75.8 million, compared to \$101.1 million in 2002. This decrease was offset by the revenues from the US mass market, which increased 11.3% in 2003 totaling \$224.9 million, compared to \$202.0 million in 2002. The increase in revenues in the U.K. is attributed to the strengthening of the pound sterling against the US dollar. Revenues from the Israeli market increased by 11.2% from \$38.5 million in 2002 to \$42.8 million in 2003. The increase in revenues from the Israeli market resulted from the increase of Delta Plus retail chain stores activity reaching 79 stores, improved procurement sources, and the strengthening of the NIS versus the dollar. Delta Galil's sales to the European market increased by 9.7% to \$48.7 million in 2003 compared to \$44.4 million in 2002, mainly due to the strengthening of the euro versus the US dollar.

COST OF REVENUES. Cost of revenues in 2003 increased by 2.1% and amounted to \$463.9 million (80.0% of revenues) compared to \$454.2 million (80.1% of revenues) in 2002. While cost of work performed by sub-contractors increased by 25% compared to 2002, materials consumption and wages and salaries decreased by 14% and 6% respectively.

GROSS PROFIT. Gross profit in 2003 increased by 2.8% over 2002 and totaled \$116.3 million (20.0% of revenues), compared to \$113.1 million (19.9% of revenues) in 2002.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses increased by 4.3 % to \$ 65.4 million (11.3% of revenues) in 2003 compared to \$62.7 million (11.1% of revenues) in 2002. The increase in selling and marketing expenses is attributed mainly to a \$1.8 million increase in salaries and related expenses due to the strengthening of the pound sterling and the NIS versus the dollar and \$1.0 million increase in lease expenses due to the increase in the number of stores in the Israeli local retail chain and to the strengthening of the pound sterling versus the dollar.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased from \$21.4 million in 2002 to \$16.7 million in 2003. The decrease in general and administrative expenses is attributed mainly to a decrease in provision for doubtful accounts receivable, which accounted for \$3.9 million of the decrease.

CAPITAL GAIN (LOSS) FROM REALIZATION OF FIXED ASSETS. In 2003 Delta Galil recorded a \$3.9 million capital gain from the sale of real estate in

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London, which was offset by \$0.3 million of capital loss from realization of other fixed assets, versus a loss of \$0.1 million in 2002.

RESTRUCTURING EXPENSES. Restructuring expenses, which are comprised in large part of expenses relating to the closure of sewing plants, decreased from \$1.1 million in 2002 to \$1.0 million in 2003.

OPERATING INCOME. Operating income in 2003 increased by 32.6% compared to 2002 and totaled \$36.8 million (6.3% of revenues) compared to \$27.8 million (4.9% of revenues) in 2002. The increase in the operating profit margin is primarily due to the capital gain from the sale of the real estate in London and to the decrease in the general and administrative expenses as described above.

FINANCIAL EXPENSES - NET. Financial expenses increased by 3.3% to \$5.6 million in 2003 from \$5.5 million in 2002. Financial expenses are comprised mainly of interest and exchange differences.

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OTHER INCOME- NET. Other income in 2003 decreased by \$0.7 million compared to 2002, and consists of a \$1.0 million capital gain from realization of the investment in an associated company, as described above "Sales of Arad Towels and Standard Textile (Europe) Ltd", offset by \$0.7 million impairment of other investments.

TAXES ON INCOME. Income taxes for 2003 were provided for at an effective tax rate of 23.4% compared to 24.8% in 2002. The decrease in the effective tax rate in 2003 compared to 2002 is mainly due to an increase in pre-tax earnings of subsidiaries that are subject to lower tax rates.

SHARE IN PROFITS (LOSSES) OF ASSOCIATED COMPANIES. Delta Galil's share in profits (losses) of associated companies includes its investment in Edomit Ltd., which is accounted for by the equity method, and in 2002 also its investment in STE. In 2003 this share amounted to a loss of \$0.3 million in 2003 compared to a profit of \$0.2 million in 2002.

MINORITY INTEREST- NET. Delta Galil operates sewing facilities in Jordan through a partially owned subsidiary - Century Wear Corporation (WLL). Minority interests in profit of this subsidiary in 2003 amounted to \$0.4 million compared to \$1.0 million in 2002. Starting April 2003, following the sale of 10% of Delta Galil's holding in Delta Elastic Tapes, minority interest includes income of \$0.1 million relating to this activity.

NET INCOME. Net income in 2003 increased by 40.4% and totaled \$23.4 million (4.0% of sales) compared to \$16.6 million (2.9% of sales) in 2002.

CRITICAL ACCOUNTING POLICIES

To improve your understanding of Delta Galil's financial statements, it is important to obtain some degree of familiarity with Delta Galil's principal or significant accounting policies. These policies are described in Note 1 to the Consolidated Financial Statements listed in Item 18. Delta Galil, in conjunction with its audit committee and its external auditors, reviews its financial reporting, disclosure practices and accounting policies annually to ensure that the financial statements developed, in part, on the basis of these accounting policies provide complete, accurate and transparent information concerning the financial condition of Delta Galil. As part of this process, Delta Galil has reviewed the selection and application of its critical accounting policies and financial disclosure as at December 31, 2004, and it believes that the Consolidated Financial Statements listed in Item 18 present

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fairly, in all material respects, the consolidated financial position of Delta Galil as at that date.

In preparing Delta Galil's financial statements in accordance with GAAP, Delta Galil's management must often make estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures as at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and consequently actual results may differ from those estimates. However, Delta Galil believes that, given the facts and circumstances before it at the time of making the relevant judgments, estimates or assumptions, it is unlikely that applying any such other reasonable judgment would cause a material adverse effect on Delta Galil's consolidated results of operations, financial position or liquidity for the periods presented in the Consolidated Financial Statements listed in Item 18.

Delta Galil is also subject to risks and uncertainties that may cause actual results to differ from estimates and assumptions, such as changes in the economic and political environment, competition, foreign exchange, taxation and governmental programs. Certain of these risks, uncertainties and assumptions are discussed in Item 3 - Risk Factors.

Delta Galil considers its most significant accounting policies to be those relating to fixed assets and inventory valuation, both of which, as well as Delta Galil's accounting policy relating to goodwill valuation are discussed below.

FIXED ASSETS VALUATION

Fixed assets are stated at cost, net of related investment grants. Depreciation is computed using the straight - line method on the basis of the estimated useful life of the assets. Due to rapid changes in technology and in the specifics of the business and due to the materiality of the fixed assets and depreciation rates on its financial results, Delta Galil considers this to be a critical issue. On January 1, 2002 Delta Galil

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adopted FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". FAS 144 requires that long-lived assets be held and used by an entity, be reviewed for impairment and, if necessary, written down to the estimated fair value, whenever events or changes in circumstances indicate the carrying amount of assets may not be recoverable through undiscounted future cash flows.

Delta tests long-lived assets for impairment, in the event an indication of impairment exists. An impairment loss would be recognized, and the assets would be written down to their estimated fair values, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets.

INVENTORY VALUATION

Inventory, which is a material part of Delta Galil's total assets, is valued at the lower of cost or market value. Cost of raw and packaging materials and purchased products is determined mainly on a "moving average" basis. Cost of finished products and products in process is determined as follows: the raw material and packaging component -is determined mainly on a "moving average" basis; while labor and overhead is determined on an average basis over the production period. If actual market prices for finished goods prove less favorable than those projected by management, additional inventory write-downs may be required. Inventory is written down for estimated obsolescence based upon

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assumptions about future demand and market conditions. Likewise, favorable future demand and market conditions could positively impact future operating results if inventory that has been written down is sold.

VALUATION OF INTANGIBLE ASSETS - GOODWILL

Goodwill represents the excess of cost of investments in subsidiaries acquired over the fair value of the net assets at acquisition. Until December 31, 2001, Goodwill was amortized in equal annual installments usually over a 40-year period, the maximum allowed period under U.S. GAAP. As from January 1, 2002, pursuant to FAS 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized but rather is tested for impairment annually. Delta completed the transitional impairment review of goodwill on June 30, 2002, as required by FAS 142. The various reporting units, for which separately identifiable cash flow information is available, were identified and the fair values of such reporting units were determined using the net income multiple of comparable publicly traded companies in the textile industry. Consequently, Delta has determined that there is no indication of impairment with respect to goodwill as of January 1, 2002. Delta has selected September 30 as the date on which it will perform its annual impairment test for indefinite life intangible assets. As of December 31, 2004, based on the review made by Delta Galil, no impairment was required.

NEW ACCOUNTING STANDARDS UNDER US GAAP

FAS 123 (revised 2004) Share-based Payment

In December 2004, the Financial Accounting Standards Board ("FASB") issued the revised Statement of Financial Accounting Standards ("FAS") No. 123, Share-Based Payment (FAS 123R), which addresses the accounting for share-based payment transactions in which the company obtains employee services in exchange for (a) equity instruments of the company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC's interpretation of FAS 123R.

FAS 123R eliminates the ability to account for employee share-based payment transactions using APB Opinion No. 25 - "Accounting for Stock Issued to Employees", and requires instead that such transactions be accounted for using the grant-date fair value based method. This Statement will be effective for public companies at the beginning of their next fiscal year that begins after June 15, 2005 (first quarter of 2006 for the Company). Early adoption of FAS 123R is encouraged. This Statement applies to all awards granted or modified after the Statement's effective date. In addition, compensation cost for the unvested portion of previously granted awards that remain outstanding on the Statement's effective date shall be recognized on or after the effective date, as the related services are rendered, based on the awards' grant-date fair value as previously calculated for the pro-forma disclosure under FAS 123.

Delta Galil estimates that there will not be any cumulative effect of adopting FAS 123R, as of its adoption date by the company (1 January 2006), based on the awards outstanding as of December 31, 2005. This estimate does not include the impact of additional awards, which may be granted, or forfeitures, which may occur subsequent to December 31, 2005 and prior to the adoption of FAS 123R.

Delta Galil expects that upon the adoption of FAS 123R, as of January 1, 2006, Delta Galil will apply the modified prospective application transition method, as permitted by the Statement. Under such transition method, upon the adoption of FAS 123R, Delta Galil's financial statements for periods prior to the effective date of the Statement will not be restated. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using

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the compensation cost calculated for pro-forma disclosure purposes under FAS 123.

Delta Galil does not expect this statement to have a material effect on the company's financial statements or its result of operations in future periods.

FAS 151 Inventory Costs - an amendment of ARB 43, Chapter 4

In November 2004, the FASB issued FAS No. 151, "Inventory Costs - an Amendment of ARB 43, Chapter 4" ("FAS 151"). This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (January 1, 2006 for the company). Earlier application of FAS 151 is permitted. The provisions of this Statement shall be applied prospectively. Delta Galil does not expect this statement to have a material effect on its financial statements, its results of operations or cash flows.

FAS 154 Accounting Changes and Error Corrections - a replacement of Accounting Principles Board Opinion ("APB") No. 20 and FASB Statement No. 3.

In June 2005, the Financial Accounting Standards Board issued FAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". This Statement generally requires retrospective application to prior periods' financial statements of changes in accounting principle. Previously, Opinion No. 20 required that most voluntary changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income of the period of the change. FAS 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for the company). Delta Galil does not expect the adoption of this statement will have a material impact on its results of operations, financial position or cash flows.

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FAS 153 In December 2004, the FASB issued FAS No. 153, "Exchanges of Non-monetary Assets - An Amendment of APB Opinion No. 29" (FAS 153). FAS 153 amends APB Opinion No. 29, "Accounting for Non-monetary Transactions" (Opinion 29). The amendments made by FAS 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the exception for non-monetary exchanges of similar productive assets and replace it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The provisions in FAS 153 are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 (July 1, 2005 for the Company). Early application of the FAS 153 is permitted. The provisions of this Statement shall be applied prospectively. Delta Galil does not expect the adoption of FAS 153 to have a material effect on its financial statements or its results of operations.

FAS 155

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In February 2006, the FASB issued FAS 155, accounting for certain Hybrid Financial Instruments, an amendment of FASB statements No.133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided that no interim period financial statements have been issued for the financial year. Management is currently evaluating the impact of this statement, if any, on the Delta Galil's financial statements or its results of operations.

FAS 156

In March 2006 the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Reporting No. 156 ("SFAS 156"). This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities, and is effective for financial periods beginning after September 15, 2006. Delta Galil does not currently engage in transfers of financial fixed assets and accordingly does not anticipate that the adoption of this statement will have a material impact on its financial statements.

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LIQUIDITY AND CAPITAL RESOURCES

Delta Galil finances its operations mainly from cash flow from operations, supplemented, if needed, by revolving short-term bank loans and long-term bank loans. Delta Galil repays short-term bank loans if the cash flow from operations exceeds the cash needs for operations and investment.

Following is a breakdown of Delta Galil's cash flows for the last three years in US \$ millions:

| | YEAR ENDED DECEMBER 31 | | |
|--|------------------------|--------|-----------|
| | 2002 | 2003 | 2004 |
| | | | (RESTATE) |
| Net cash flow provided by operating activities *..... | \$26.3 | \$42.9 | \$22.4 |
| Net cash flow used in investing activities **..... | (19.7) | (18.4) | (68.9) |
| Net cash flow provided by financing activities (excluding dividends to shareholders and cost of acquisition of treasury shares)..... | 10.5 | (11.8) | 59.1 |
| Dividends to shareholders..... | (7.0) | (9.5) | (8.3) |
| Cost of acquisition of treasury shares..... | (8.4) | - | - |
| Translation differences on cash equivalents of foreign currency consolidated subsidiary..... | - | - | 0.1 |
| | - | - | - |
| Increase in cash and cash equivalents..... | \$1.7 | \$3.2 | \$4.4 |

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* Net cash provided by operating activities has been decreased by \$ 4.8 million due to a correction of an error in classification of payments made in 2004 relating to restructuring expenses recorded as part of the acquisition of Auburn Hosiery Mills (see note 1A3 of the Notes to the Consolidated Financial Statements).

** Net cash used in investing activities has been increased by \$4,800 thousand due to the correction of an error in classification of payments made in the year 2004, relating to restructuring expenses recorded as part of the acquisition of Auburn Hosiery Mills (see note 1A3 of the Notes to the Consolidated Financial Statements).

In 2002, 2003 and 2004 Delta Galil generated excess cash flow from operations of \$26.3 million, \$42.9 million and \$22.4 million respectively. The decrease in net cash flow provided by operating activities from \$42.9 million in 2003 to \$22.4 million in 2004 is mainly attributed to the decrease in net income. The increase in the net cash flow used in investing activities is mainly attributed to the acquisition of Burlen in the fourth quarter of 2004. Net cash flow used in financing activities in 2004 amounted to \$59.1 million while in 2003 the net cash flow provided by financing activities amounted to \$11.8 million. The decrease in cash flow used in financing activities is attributed mainly to the increase in bank debt in connection with the acquisition of Burlen.

DEBT

Set forth in the table below are Delta Galil's bank debt for the last three years in US \$ millions:

| | YEAR ENDED DECEMBER 31 | | |
|---|------------------------|---------|---------|
| | 2002 | 2003 | 2004 |
| | ---- | ---- | ---- |
| SHORT-TERM: | | | |
| Bank loans..... | \$96.4 | \$94.5 | \$55.6 |
| Current maturities of long-term loans | 10.3 | 10.4 | 27.9 |
| | ----- | ----- | ----- |
| Total Short-term..... | 106.7 | 104.9 | 83.5 |
| | ----- | ----- | ----- |
| LONG-TERM: | | | |
| Total Long-term bank loans..... | 23.0 | 13.6 | 98.4 |
| | ----- | ----- | ----- |
| Total Debt..... | \$129.7 | \$118.5 | \$181.9 |
| | ===== | ===== | ===== |

Delta Galil has incurred bank debt mainly for acquisitions, working capital, capital expenditures and general corporate purposes. Delta Galil's bank loans bear interest at annual variable rates ranging from approximately 3.8% to 5.5% (mainly 3.8%) and are secured by liens on Delta Galil's assets. Delta Galil's bank loans are issued under secured bank lines of credit of up to \$332.4 million of which, as of December 31, 2004, Delta Galil had \$150.5 million available for additional borrowings under the same prevailing rates.

Delta Galil's bank lines of credit permit either short-term or long-term borrowings. All of Delta Galil's short-term loans have maturities of up to three months. Part of Delta Galil's borrowings is for shorter periods in order to maintain cash management flexibility. Long-term bank loans mature in periods up to December 2009.

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Delta Galil USA Inc. is a party to a credit agreement, which was amended as of December 2004, with Bank Leumi USA and Bank Hapoalim B.M. Borrowings under the credit agreement are secured by substantially all of the assets of Delta Galil USA Inc. The credit agreement provides for up to \$130 million in loans of which \$70 million are term loans and the remainder is revolving credit. The principal of the term loans are payable in 20 equal quarterly installment of approximately \$3.5 million each until December 1,

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2009. As of December 31, 2004 \$15.2 million of this credit line was unutilized. Under this agreement Delta Galil USA is obliged to preserve certain financial covenants.

WORKING CAPITAL AND CAPITAL EXPENDITURES

Working capital at December 31, 2004 was \$127.4 million, compared to \$56.6 million at December 31, 2003. The increase is attributed to the acquisition of Burlen and to the decrease in short-term loans. Delta Galil believes that its working capital is sufficient for its present requirements. Delta Galil has no material commitment for capital expenditures, but is currently constructing a production facility in China in which it expects to invest approximately \$5.0 million in 2005.

Set forth below are our contractual obligations and other commercial commitments as of December 31, 2004:

| CONTRACTUAL OBLIGATIONS | PAYMENTS DUE BY PERIOD | | | |
|---|------------------------|---------------------|------------|----------------------|
| | TOTAL | LESS THAN 1 YEAR | 2- 4 YEARS | MORE THAN 5 YEARS |
| | (U.S. \$ IN MILLIONS) | | | |
| Long-Term Debt (1)..... | \$137.9 | \$32.1 | \$82.8 | \$23.0 |
| Capital Lease Obligations..... | 1.0 | 0.1 | 0.2 | 0.7 |
| Operating Leases..... | 43.3 | 7.6 | 19.1 | 16.6 |
| Letter of credits and bank guarantees..... | 32.0 | 26.5 | 2.7 | 2.8 |
| | ----- | ----- | ----- | ----- |
| Total Contractual Cash Obligations..... | \$214.2 | \$66.3 | \$104.8 | \$43.1 |
| | ===== | ===== | ===== | ===== |

(1) Includes expected interest expenses on long-term debt, based on interest rates in effect as of December 31, 2004.

See Item 11: "Quantitative and Qualitative Disclosures About Market Risk" regarding obligations related to forward currency contracts.

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PART II

ITEM 15: CONTROLS AND PROCEDURES

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Delta Galil's chief executive officer and chief financial officer, after evaluating the effectiveness of Delta Galil's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2004, have concluded that, as of such date, Delta Galil's disclosure controls and procedures were effective. Information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to Delta Galil's management, including Delta Galil's chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the periods specified by the SEC's rules and forms.

There were no changes in Delta Galil's internal controls over financial reporting identified with the evaluation thereof that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, Delta Galil's internal control over financial reporting.

PART III

ITEM 17: FINANCIAL STATEMENTS

Not applicable

ITEM 18: FINANCIAL STATEMENTS

The Consolidated Financial Statements and related notes thereto required by this item are contained on pages F-1 through F-54 of Amendment No. 1.

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ITEM 19: EXHIBITS

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| | Notes to Consolidated Financial Statements..... | F-10 |
| | Reports of Independent Auditors with respect to consolidated subsidiaries..... | F-56 |
| (B) | EXHIBITS | |
| 1.1 | Memorandum of Association, as amended** | |
| 1.2 | Articles of Association** | |
| 2.1 | Form of Deposit Agreement and ADR* | |
| 4.1 | Stock Purchase Agreement dated as of December 8, 2004 by and among Steven Klein, Kristina Nettesheim, and Gary Beggs, as selling shareholders and Delta Galil Industries Ltd. and Delta Galil USA Inc. as Purchaser relating to the acquisition of Burlen Corp. + ***** | |

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- 4.2 Second Amended and Related Credit and Security Agreement dated as of December 9, 2004 by and among Delta Galil USA Inc., as Borrower; Bank Leumi USA and Bank Hapoalim B.M., as Lenders and Bank Leumi USA, as Agent. *****
- 4.3 Agreement for Purchase and Sale of Stock of Auburn Hosiery Mills, Inc. dated October 30, 2003, by and among Delta Galil USA Inc., Delta Galil Industries Ltd., Delta Galil Holland B.V., CGW Holdings, Inc., GCI Spainco, S.L. and Kellwood Company ****
- 4.4 Option Plan to 13 employees of Delta Galil and/or its subsidiaries*
- 4.5 Option Plan to Arnon Tiberg*
- 4.6 Option Plan to 70 employees of Delta Galil and/or its subsidiaries***
- 4.7 Delta Galil Industries Ltd. 2002 Share Option Plan*****
- 4.8 Form of Indemnification Undertaking*****
- 8.1 List of subsidiaries *****
- 12.1 Section 302 Certification of Dov Lautman
- 12.2 Section 302 Certification of Yossi Hajaj
- 13.1 Section 906 Certification of Dov Lautman
- 13.2 Section 906 Certification of Yossi Hajaj
- 14.1 Consent of Kesselman & Kesselman++
- 14.2 Consent of Baker Tilly++
- 14.3 Consents of Allied for Accounting & Auditing, Member Firm of Ernst & Young Global++

* Previously filed as an exhibit to Delta Galil's Registration Statement on Form F-1 (Registration No. 333-10062) filed with the Securities and Exchange Commission on February 26, 1999 and incorporated herein by reference.

** Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No.0-30020) filed with the Securities and Exchange Commission on June 8, 2001 and incorporated herein by reference

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*** Previously filed as an exhibit to Delta Galil's Registration Statement on Form S-8 (Registration No. 333-12608) filed with the Securities and Exchange Commission on September 26, 2000 and incorporated herein by reference.

**** Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No. 0-30020) filed with the Securities and Exchange Commission on June 23, 2004 and incorporated herein by reference.

***** Previously filed as an exhibit to Delta Galil's Registration Statement on Form S-8 (Registration No. 353-102247) filed with the Securities and Exchange Commission on December 30, 2002 and incorporated herein by reference.

***** Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No. 0-30020) filed with the Securities and Exchange Commission on June 26, 2003 and incorporated herein by reference.

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***** Previously filed as an exhibit to Delta Galil's Annual Report on Form 20-F (File No. 0-30020) filed with the Securities and Exchange Commission on June 27, 2005 and incorporated herein by reference.

++Previously filed as an Exhibit to Amendment No. 1 to Delta Galil's Annual Report on Form 20-F/A (Filed No. 0-30020) filed with the Securities and Exchange Commission on April 12, 2006.

+Portions of this exhibit have been omitted and have been filed separately with the secretary of the Securities and Exchange Commission pursuant to a confidential treatment request.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

DELTA GALIL INDUSTRIES LTD.

By: Yossi Hajaj

Name: Yossi Hajaj

Title: Chief Financial Officer

Date: April 25, 2006

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