Delta Galil Industries Ltd.

Quarterly Report as of September 30, 2009

Report of the Board of Directors
on the state of corporate affairs

For the period ended September 30, 2009

We hereby present to you the report of the Board of Directors of Delta Galil Industries Ltd. (hereinafter: "**the Company**", "**Delta**") with respect to the consolidated report of the company and its subsidiaries in Israel and overseas (hereinafter: "**the Group**") for the quarter ended September 30, 2009 pursuant to Securities Regulations (Periodic and Immediate Reports), 1970.

1. Summary description of the corporation and its business environment

1.1 Overview

The Company is engaged in design, development, production, marketing and sales of underwear and socks for men, women and children.

Group customers include leading retailers such as: Wal-Mart, Marks & Spencer, Target, Victoria's Secret, Kohl's, Hema, as well as leading brands including: Nike, Hugo Boss, Calvin Klein, Tommy Hilfiger and others.

The Group also sells its products under franchise brands, including:

Maidenform®, Converse®, Wilson®, Nicole Miller®, Lucky® etc. and under its "Delta" private label in its domestic operations in Israel.

Delta designs and develops its products primarily in Israel and in the US, whereas production is mostly done in its facilities in the Middle East, Far East and via sub-contractors in those locations.

1.2 Material events in corporate operations during the reported period

1.2.1 Purchase of shares by Isaac Dabah CEO and a Director.

On January 8th and March 3rd 2009, Mr. Isaac Dabah purchased (through GMM Capital LLC) 1,130,512 and 48,325 Delta shares in an average price of 7.0 and 6.1 NIS respectively, resulting that the holding percentage owned by him is 54.25% (Reference no. 2009-01-000129, 2009-01-050181).

1.2.2 Agreement to Purchase Assets and Activity in the Socks Segment

On April 2, 2009 the transaction of purchasing assets and part of the activity of Gibor sports active wear (GSAW) Ltd ("Gibor") in the design, development marketing and selling of socks was completed, after the conditioned terms in the agreement (which were detailed in the immediate report published by the company on February 16th 2009[1]), were met.

The purchase of Gibor's assets is synergic to the Company's activity in the socks segment and designated to expand and leverage its activity in it. The purchase of Gibor's activity is in line with the Company's growth strategy in the socks activity in the last few years mainly in:

- Focusing on market leaders – strengthening our position as strategic partners to NIKE.
- Strengthening and widening the Company's technological advantage – getting into a technological niche with significant technological potential.
- Widening our brands activity.

Most of the activity purchased was versus NIKE which is an anchor customer, market leader.

The activity will allow a quick and high standard entrance into the soccer socks niche which characterized in relevantly low standard suppliers and with higher profitability.

Due to the fact that most of the activity purchased was mainly from Nike, it will allow synergy in a few fields:

1. Relying on the marketing and sales existing alignment with a small reinforcement.
2. The manufacturing activity of Gibor focused on the Israeli, Jordanian and Turkish sites in which the Company has significant attendance; this fact helps the operational alignment to absorb the activity in a relevantly short time and

[1] Reference no. 2009-01-038259

also allows an operational flexibility in manufacturing orders transfer between sits.

3. Improving the purchasing force from materials suppliers and other suppliers.
4. Integrating part of the purchased development activity into the existing development alignment of the Company.
5. Enforcing all synergies mentioned above while reducing overhead of the purchased activity, which will bring an improvement in the gross and operational profit margins.

The Company expects the transaction to double its sales to NIKE and will be a significant step towards tightening its relations with NIKE. The Company expects that the transaction will increase its sport socks sales to NIKE by 20$ million on an annual basis - from it 75% of sales in Europe and the rest in the US; and the Company will become the major socks supplier to NIKE, in general, and in the unique sports socks niche (Performance and sport Culture), in particular. In addition, the transaction is expected to allow the Company to enter into new customers in the soccer socks niche, a new category in which the Company had no activity[2].

The sales of the purchased activity in 2007, 2008 and in the third quarter of 2008 and at the six months ended on September 30th 2008 amounted to $32.7, $32.6, $7.3 and $16.8 million, respectively.

The sales of the purchased activity in the third quarter and six months from the date of the purchase in 2009 amounted to $6.9 and $12.2 million respectively, while the contribution to the operating profit amounted to $0.5 and $0.7 million. See section 2.3.3 below.

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[2] To be noted that the mentioned in this report, is an estimation only and future observation, as defined in the securities law 1968, that may not executed or executed differently than expected, resulting from reasons not dependent on the Company only and due to its being based on information known at the time of the repost, including Company's estimations, assumptions and intentions, fitted to the report date.

1.2.3 Changes in the Company's senior functionaries list:

1.2.3.1 On July 22nd, 2009 Mr. Zvika Shamir ceased his positioning as the manager of the Intimate Apparel division.

1.2.3.2 On July 23rd, 2009 it was decided that Mr. Shlomo Doron will be appointed as the COO and Deputy CEO. Noted that his employment and service terms were approved by the Company's Audit committee and the Board of directors (for more details see immediate report from July 23rd, 2009 reference no. 177156-01-2009).

On November 9th Mr. Doron started his employment in the Company. (for more detail see immediate report from November 9th, 2009 reference no. 2009-01-277797)

On November 9th 2009, the Company's Board of directors approved the grant of 250,000 options to Mr. Doron. The options grant is in accordance with the resolutions of the Audit Committee and Board of Directors as mentioned above and according to the conditions included in his employment agreement. The exercise price for each option is $3.072 and the value per each option based on the Black and Scholes model is $2.44.

1.2.3.3 On July 23rd, 2009 Mr. Gil Admoni was nominated as the manager of Delta Israeli marketing division instead of Mr. Yoram Weinberger (see immediate report reference no. 2009-01-177168).

1.2.3.4 Due to the fact that the special general meeting approved on August 26th 2008 the nomination of Mr. Isaac Dabah as the Company's CEO in addition to his position as the Chairman of the board to a period of 12 months that will execute on August 26th 2009, and because Mr. Isaac Dabah has notified the Company on August 20th 2009, that he has decided to end his positioning as the Chairman of the board, the Board members decided to nominate Mr. Gideon Chitayat as the Company's Chairman of the Board. The employment and service terms of Mr. Gideon Chitayat were approved by the Company's Audit committee, Board of Directors and the special general meeting with accordance to the law. In addition, the Board of directors has decided to continue Mr. Isaac Dabah nomination as the CEO of the Group. Mr. Isaac Dabah's employment and service terms were approved by the Company's Audit committee, Board of Directors and the special general meeting with accordance to the law[3].

1.2.3.5 On August 20th 2009, Mr. Noam Lautman was nominated as a member of the Company's Audit committee, instead of Mr. Gideon Chitayat.

1.2.3.6 On September 30th 2009 Mr. Giora Morag ceased positioning as a director in the Company (see immediate report reference no. 2009-01-253803). On the General and special meeting held on October 20th 2009, Mr. Shaul Ben Zeev was nominated as a director in the Company instead of Mr. Giora Morag.

1.2.3.7 On October 20th 2009 Mrs. Leiora Meridor ceased her positioning as a director in the Company.

1.2.3.8 On a General and special shareholders meeting held on October 20th 2009 Mrs. Tzipora Carmon was nominated as a director in the Company.

1.2.4 On October 15th 2009 the Company has published a Corporate Citizenship report for 2008 (for more details see immediate report from October 15th 2009 reference no. 2009-01-255945).

1.2.5 On October 20th 2009 a General and Special shareholder meeting was held which adopted the following resolutions:

a. Nominating Part of the serving non-external directors (i.e. Israel Baum, Isaac Dabah, Izhak Weinstock, Noam Lautman and Gideon Chitayat) for an additional serving period and the nomination of Mrs. Tzipora Carmon as a director in the Company until the next annual meeting.

b. Nominating Mr. Shaul Ben Zeev as an external director instead of Mr. Giora Morag.

c. Appointing PwC as the Company's external auditor for 2010 and authorizing the Company's board of directors to determine their fee according to the extension and nature of services given to the Company during 2010.

d. Approving Mr. Isaac Dabah, CEO, director and principal shareholder of the Company, serving terms as the CEO of the Company. Those terms include a

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[3] Regarding this subject see immediate reports published on September 6th & 22nd and October 18th & 20th.

grant of 720,000 Company's options (non-tradable) that can be converted to Company's shares amounted to 1 NIS per share, for a purchase price of 3.27$ per option. For more details regarding the options grant including execution terms and fair value, see private and material offer report published on September 6th 2009, completion report published on September 22nd 2009 and corrected reports from October 18th 2009.

e. Approving Gideon Chitayat's serving terms as the Chairman of the board.

f. Approving and adopting option plan for American offerres.

g. Approving a grant of 10,000 Company's options (non-tradable) to the Company's directors, Israel Baum, Shaul Ben Zeev, Tzipora Carmon, Noam Lautman and Gideon Chitayat, that can be converted to 10,000 Company's ordinary shares for a purchase price of 5$ per option. In addition, it was approved to grant 10,000 options to the Chairman of the board that can be converted to 10,000 Company's ordinary shares amounted to 1 NIS per share under the same conditions.

h. Approval of the consultant agreement with Mr. Israel Baum.

i. Increasing the Company's registered capital by 10,000,000 ordinary shares amounted to 1 NIS per share so that the Company's registered capital will stand on 36,000,000 NIS divided to 36,000,000 amounted to 1 NIS per share.

For more details see an immediate report from October 20th 2009, reference no. 2009-01-260757.

1.2.6 On October 21st 2009, the Company published a Prospectus offer report, in virtual of the Company's shelf registration from May 29th 2008, to offer issuing rights to the Company's shareholders, to be registered at the stock exchange market at the end of the trading day, November 2nd 2009, so that every shareholder that holds 4 shares will be able to purchase a right in the price of 17 NIS. The trading day in the rights will be on November 12th 2009. (for more details see immediate report from October 21st 2009 reference no. 2009-01-261918 and from October 27th 2009, reference no. 2009-01-266835).

1.2.7 On October 28th 2009, the Company published a private offer with reference of granting 10,000 Company's options (non-registered) to Mr. Yehezkel Dovrat, a nominee to a Company's director. In addition, the Company notified the assembling of the General and special meeting on December 7th 2009 on 17:30 at the Company's offices, that will decide on appointing Mr. Dovrat as the Company's external director instead of Mr. Amnon Neubach that will cease his positioning on December 12th 2009, and the approval to grant 10,000 options as mentioned above (for more details see immediate report from October 28th 2009, reference no. 2009-01-267591).

2. Analysis of financial position

2.1 Balance sheet

The Group's consolidated balance sheet as of September 30, 2009 amounted to $375.8 million, compared to $421.5 million as of September 30, 2008.

The Group's consolidated current assets as of September 30, 2009 amounted to $215.1 million, compared to $248.0 million as of September 30, 2008.

The decrease in the consolidated balance sheet and consolidated current assets amount as of September 30, 2009 compared to September 30, 2008 is mainly due to the decrease in inventory.

The Group's consolidated current liabilities as of September 30, 2009 amounted to $211.7 million, compared to $237.0 million on September 30, 2008.

The decrease in consolidated liabilities as of September 30, 2009 compared to September 30, 2008 is mainly due to a decrease in short term bank loans due to the decrease in working capital.

Group equity as of September 30, 2009 amounted to $151.8 million, or 40.4% of total balance sheet, compared to $150.1 million, or 39.5% of total balance sheet as of December 31, 2008.

The increase in Group equity as of September 30, 2009 compared to December 31, 2008 is due to the net profit in the first nine months of 2009 which amounted to $1.9 million.

2.2 Operating results

During the third quarter of 2009 an improvement was made in the operating results versus the same quarter last year, despite the decrease in the Company's sales. The improvement in the results suited the Company's expectations and was achieved due to the implementation of the restructuring plan which was announced by the Company at the end of 2008. These steps included decrease in overhead, improvement in the on time delivery to customers, decrease in failure costs, improvement in inventory management and increase of the inventory turns, increase in bra sales and implementation of the activity purchased from Gibor.

2.2.1 Below are Group summary income statements for the third quarter and the first nine months of 2009 and 2008 and for the year 2008, in $ thousands:

	Third quarter		First nine months		Yearly
	2009	**2008**	**2009**	**2008**	**2008**
	Un Audited				**Audited**
Sales	**162,506**	167,674	**421,843**	479,332	622,834
Cost of sales	**130,301**	140,212	**347,349**	394,308	517,155
Gross profit	**32,205**	27,462	**74,494**	85,024	105,679
Selling and marketing expenses	**17,479**	20,832	**50,540**	61,042	78,953
General and administrative expenses	**5,769**	6,492	**15,963**	19,758	26,703
Other income (expenses), net	**(32)**	(130)	**234**	728	805
Operating income (loss) before re-structuring expenses and impairment of goodwill	**8,925**	**8**	**8,225**	**4,952**	**828**
Restructuring expenses	**474**	-	**474**	-	9,162
Impairment of goodwill	**-**	-	**-**	-	7,392
Operating income (loss)	**8,451**	**8**	**7,751**	**4,952**	**(15,726)**
Finance expenses, net	**1,419**	2,717	**5,043**	7,000	7,479
Company share of loss of associate	**(42)**	-	**(41)**	55	(55)
Income (loss) before taxes on income	**7,074**	(2,764)	**2,749**	(2,103)	(23,260)
Taxes on income	**602**	1,612	**890**	1,954	2,522
Net income (loss) for period	**6,472**	**(4,376)**	**1,859**	**(4,057)**	**(25,782)**
Attribution of net income (loss) for the period:					
To Company shareholders	**6,378**	(4,509)	**1,705**	(4,417)	(26,400)
To minority interest	**94**	133	**154**	360	618
	6,472	**(4,376)**	**1,859**	**(4,057)**	**(25,782)**
Net earnings (loss) per share attributed to Company shareholders:					
Basic and diluted	**0.34**	**(0.24)**	**0.09**	**(0.24)**	**(1.41)**

2.2.2 The following table lists major data, $ in millions:

	Third Quarter		First nine months		Year
	2009	**2008**	**2009**	**2008**	**2008**
Sales	162.5	167.7	421.8	479.3	622.8
Operating income (loss) before restructuring expenses and impairment of goodwill	8.9	-	8.3	5.0	0.8
Restructuring expenses	0.5	-	0.5	-	9.2
Impairment of goodwill	-	-	-	-	7.4
Operating income (loss)	8.4	-	7.8	5.0	(15.7)
Adjusted EBITDA (*)	**12.5**	**3.0**	**18.0**	**14.1**	**13.3**
Net income (loss) attributed to company shareholders, before restructuring expenses and impairment of goodwill	6.7	(4.5)	2.0	(4.4)	(9.8)
Net income (loss) attributed to company shareholders	**6.4**	**(4.5)**	**1.7**	**(4.4)**	**(26.4)**
Operating cash flow	**16.5**	**(6.1)**	**24.4**	**2.8**	**15.8**

	Third Quarter		First nine months		Year
	2009	**2008**	**2009**	**2008**	**2008**
Net profit (loss) per period	6.5	(4.4)	1.9	(4.1)	(25.8)
Taxes on income	0.6	1.6	0.9	2.0	2.6
Finance expenses, net	1.4	2.7	5.0	7.0	7.5
Restructuring expenses	0.5	-	0.5	-	9.2
Depreciation & amortization (including impairment of goodwill)	3.5	3.1	9.7	9.2	19.8
Adjusted EBITDA (*)	**12.5**	**3.0**	**18.0**	**14.1**	**13.3**

(*) Adjusted EBITDA is a benchmark which is not in accordance with GAAP, which the Company uses to measure its results from continued operations; to the best of the Company's knowledge this is a benchmark commonly used by other companies in the Company's operating sectors.

The adjusted EBITDA is calculated as follows: net income (loss) plus taxes on income, finance expenses net, depreciation and amortization, impairment of goodwill and restructuring expenses.

2.3 Analysis of operating results

2.3.1 General

Group sales in Q3 of 2009 amounted to $162.5 million, compared to $167.7 million in Q3 of 2008, a decrease of 3%. The sales in original currency didn’t change.

In the first nine months of 2009, sales amounted to $421.8 million compared to $479.3 million in the first nine months of 2008, a decrease of 12%. The sales in original currency decreased by 6%.

The following table presents the group sales by geographic area, in million dollars:

	Third Quarter						First nine months						Year 2008	
	% change in original currency	% change	2009	% from total	2008	% from total	% change in original currency	% change	2009	% from total	2008	% from total		% from total
US	(4)	(4)	100.6	62	104.9	63	(8)	(8)	265.3	63	287.5	60	375.9	61
UK	11	(1)	23.3	14	23.5	14	(5)	(27)	55.4	13	74.6	16	94.6	15
Israel	1	(8)	19.4	12	21.0	12	-	(13)	52.2	12	59.7	12	81.1	13
Europe	6	2	18.6	12	18.2	11	(7)	(15)	47.8	11	56.8	12	70.5	11
Other			0.6		0.1				1.1	1	0.7		0.7	
Total	**0**	**(3)**	**162.5**	**100%**	**167.7**	**100%**	**(6)**	**(12)**	**421.8**	**100%**	**479.3**	**100%**	**622.8**	**100%**

The decrease in sales in Q3 and in the first nine months of 2009 compared to the same periods last year was in line with the Company's expectations and was due to the continuing recession in all markets, realized as part of the financial and economic crisis started in 2008. The continuance of the recession as mentioned, also led to a conservative inventory policy taken by most of the Company's customers, which resulted in a decrease in Company's sales.

Sales in the US decreased by 4% and 8% compared to Q3 and the first nine months last year, respectively. The decrease in sales in the US was due to the decrease in a main customer's inventory as a result of the change in its inventory management.

Sales in the UK in Q3 2009 decreased by 1% compared to the same period last year due to the exit from non-profitable categories to a major customer and in accordance with the Company's restructuring plan. This decrease was offset by the increase in sales to other customers in the UK. The sales in original currency increased by 11% compared to Q3 last year. Total sales to the said customer in Q3 and the first nine months of 2009 amounted to $16.8 and $42.1 million compared to $19.3 and $62.0 million in the same periods last year.

We estimate that the decrease in sales to this customer is expected to continue also in Q4 of 2009[4].

Sales in Europe increased by 2% in Q3 of 2009 compared to the same quarter last year. The sales in Europe increase in Q3 due to the including of the sales of the purchased activity from Gibor. The sales in original currency increased by 6%. Excluding the sales from the purchased activity, the sales in Europe decreased due to the financial crisis and the weakening of the Euro exchange rate compared to the USD.

In Q3 2009 the sales in Israel decreased by 8% in USD terms compared to the same quarter last year. But, in NIS terms the sales increased by 1% compared to the same quarter last year. This increase reflects certain stabilization in the market.

In the first nine months of the year the sales in Israel decreased by 13% in USD terms compared to the same period last year. But, in NIS terms sales remained unchanged compared to the same period last year.

For more details regarding the influence of the decrease in sales in USD terms over profitability, see paragraph 2.3.3 below.

[4] Please note that the informative above is an estimation and future observation only, which may or may not accrue, in a different way from the company's estimations, resulting reasons not depended on the company only and due to its being based on current information known to the company on the report date, including the company estimations on the report date.

Gross profit in Q3 of 2009 amounted to $32.2 million, or 19.8% of sales, compared to $27.5 million in Q3 of 2008, or 16.4% of sales, an increase of 17.3%.

The increase in gross profit in Q3 2009 compared to the same quarter last year was due to the efficiency measures taken by the Company as detailed in paragraph 2.2 above and was achieved despite the decrease in sales.

In the first nine months of 2009 the gross profit amounted to $74.5 million, compared to $85.0 million in the first nine months of 2008, or 17.7% of total sales on both years, a decrease of 12.4%.

The decrease in gross profit in the first nine months of 2009 compared to the same period last year was due to the decrease in sales and mainly from the weakness in the European currencies exchange rates compared to the USD. For additional details see section 2.3.3 below.

Selling and marketing expenses decreased by 16.1%, amounting to $17.5 million in Q3 of 2009, compared to $20.8 million in Q3 of 2008.

Selling and marketing expenses decreased by 17.2%, amounting to $50.5 million in the first nine months of 2009, compared to $61.0 million in the first nine months of 2008.

The table below shows the breakdown of selling and marketing expenses between Delta Marketing Israel operating segment, and all other Group's operating segments, in million $:

	Third quarter 2009	**Third quarter 2008**	**First nine months 2009**	**First nine months 2008**
Delta Marketing Israel	6.9	7.8	19.7	22.9
Other operating segment	10.6	13.0	30.8	38.1
Total selling and marketing expenses	17.5	20.8	50.5	61.0
% selling and marketing expenses from total sales	10.8	12.4	12.0	12.7

The decrease in selling and marketing expenses in Q3 and in the first nine months of 2009 versus the same periods last year in Delta marketing Israel segment, was due to a 10% and 13% devaluation in the exchange rate of the NIS vs. the USD compared to the average rate in the same periods last year, devaluation which led to decreased expenses in USD terms.

The decrease in selling and marketing expenses in other segments in

Q3 and in the first nine months of 2009 compared to the same periods last year was due to efficiency measures due to the reduction in the activity in the UK and from the weakness of the average exchange rate of the Pound vs. the USD. In addition, selling and marketing expenses decreased due to overhead reduction, and due to the decrease of storage and distribution expenses due to the decrease in sales compared to the same periods last year.

General and Administrative expenses decreased in Q3 2009 by 11.1% and amounted to $ 5.8 million, compared to $ 6.5 million in Q3 2008.

In the first nine months of 2009 general and administrative expenses decreased by 19.2% and amounted to $16.0 million compared to $19.8 million in the first nine months last year.

The decrease in general and administrative expenses in Q3 of 2009 was due to the decrease in consulting expenses and due to the devaluation of the NIS versus the USD.

The decrease in general and administrative expenses in the first nine months of 2009 in comparison to the same period last year is partly due to a bad debt of $1.1 million in 2008, and also due to overhead reduction and the weakness of the average exchange rate of the NIS versus the USD compared to the exchange rate in comparable period last year, weakness which led to decreased expenses in USD terms.

Operating profit before restructuring expenses in Q3 of 2009 amounted to $8.9 million, compared to an operating breakeven in Q3 of 2008.

The improvement in operating profit in Q3 2009 compared to Q3 2008, was due to the improvement in gross profit and due to the decrease in selling, marketing, general and administrative expenses.

In the first nine months of 2009 the operating profit before restructuring expenses amounted to $8.2 million compared to $5.0 million in the first nine months of 2008.

The improvement in operating profit in the first nine months of 2009 compared to the same period last year was due to the decrease in selling, marketing, general and administrative expenses, as mentioned above.

Restructuring expenses

In Q3 2009 the Company has decided to merge its distribution center and back office activities of its socks activity in Auburn Hosiery Mills Inc. in the US with its back office in Delta Galil USA Inc. This merge was possible after the completion of the transfer to a new ERP system in both subsidiaries. The cost of the above merger is estimated at $0.5, million is included in Q3 2009 results under restructuring expenses and includes compensation payments to 40 employees that will be dismissed.

Finance expenses have decreased in Q3 of 2009, and amounted to $1.4 million compared to $2.7 million in Q3 2008, a decrease of 47.8%.

In the first nine months of 2009 finance expenses decreased by 28.0% and amounted to $5.0 million compared to $7.0 million in the same period last year.

The table below presents the composition of finance expenses in million USD:

	Third quarter 2009	**Third quarter 2008**	**First nine months 2009**	**First nine months 2008**
Interest expenses and commissions	1.4	1.8	4.1	5.9
Exchange rate	(0.2)	1.0	0.5	0.8
IFRS adjustments	0.2	(0.1)	0.4	0.3
Total finance expenses	1.4	2.7	5.0	7.0

From the above data, we can see that the decrease in finance expenses in Q3 2009 compared to the same quarter last year was due to a decrease of $0.4 million in interest expenses, as mentioned above, and due to an income of $0.2 million in exchange rate difference compared to a $1.0 million of expenses in the same quarter last year.

The decrease in finance expenses in the first nine months of 2009 compared to the same period last year is mainly due to a $1.8 million decrease in interest expenses, due to the decrease in the Libor interest rate and in the level of bank debt.

Tax expenses in Q3 2009 amounted to $0.6 million compared to $1.6 million in Q3 2009.

Tax expenses in the first nine months of 2009 amounted to $0.9 million compared to $2.0 million in the same period last year.

The profit attributed to Company's shareholders in Q3 2009 amounted to $6.4 million, compared to a loss of $4.5 million in Q3 2008.

The profit attributed to Company's shareholders in the first nine months of 2009 amounted to $1.7 million compared to a loss of $4.4 million in the first nine months last year.

2.3.2 Below is a summary of the Company's consolidated business results, by the five accounting segments included in its financial statements, for Q3 and first nine months of 2009 and the year 2008, in million $:

	Third quarter ended on September 30 (Un-Audited)						
	Sales			Operating profit (loss)			Restructuring expenses
	2009	2008	% Change	2009	2008	% Change	
Delta USA – mass market	66,582	70,739	*(6)*	1,916	1,705	*12*	
Intimate Apparel – UK, US Upper Market and Europe	44,110	45,349	*(3)*	3,161	(2,227)		
Socks – US and Europe	28,076	25,701	*9*	1,877	(17)		474
Seamless knitwear	8,878	8,727	*2*	(212)	(2,123)	*90*	
Delta Marketing Israel	18,451	20,069	*(8)*	2,796	3,107	*(10)*	
Adjustments	(3,591)	(2,911)		(613)	(437)		
Total sales & operating income before restructuring expenses	162,506	167,674	*(3)*	8,925	8		474
Restructuring expenses				474	-		
Total operating income				8,451	8		

	First nine months ended on September 30 (Un-audited)						Year 2008 (Audited)	
	Sales			Operating income (loss)			Sales	Operating income (loss)
	2009	2008	% Change	2009	2008	% Change		
Delta USA – mass market	175,639	193,736	*(9)*	3,444	4,871	*(29)*	253,577	5,974
Intimate Apparel – UK, US Upper Market and Europe	100,653	135,045	*(25)*	(1,045)	(5,657)	*81*	168,779	(10,778)
Socks – US and Europe	76,293	81,067	*(6)*	2,566	1,028	*103*	106,438	(689)
Seamless knitwear	23,850	23,162	*3*	(1,373)	(3,067)	*55*	29,403	(3,623)
Delta Marketing Israel	50,224	56,757	*(11)*	4,990	9,389	*(47)*	77,545	12,724
Adjustments	(4,816)	(10,435)		(357)	(1,612)		(12,908)	(2,780)
Total sales & operating income before restructuring expenses and impairment of goodwill	421,843	479,332	*(12)*	8,225	4,952	*66*	622,834	828
Restructuring expenses				474	-			9,162
Impairment off goodwill				-	-			7,392
Total sales and operating profit (loss)				7,751	4,952			(15,726)

2.3.3 Analysis of business results by operating segment

Operating segment: Delta USA mass market

Sales in Q3 of 2009 amounted to $66.6 million, compared to $70.7 million in Q3 of 2008, a decrease of 6%.

Sales in the first nine months of 2009 amounted to $175.6 million, compared to $193.7 million in the first nine months of 2008, a decrease of 9%.

The decrease in sales in Q3 and first nine months of 2009 compared to the same periods last year was due to the decrease in customer's inventory, following the change in its policy in inventory management.

Operating income in Q3 of 2009 amounted to $1.9 million, compared to $1.7 million in Q3 of 2008, an increase of 12%.

Operating income in the first nine months of 2009 amounted to $3.4 million, compared to $4.9 million in the first nine months of 2008, a decrease of 29%.

The operating income in the first nine months of 2008 included a bad debt write down of Mervyn's LLC, due to the customer's filing for protection from its creditors (under Chapter 11) in the amount of $1.1 million. Excluding this write down; the operating income amounted to $6.0 million.

The decrease in the operating income in the first nine months of 2009 compared to the operating income excluding the bad debt mentioned in the same period last year was due to the decrease in sales, as indicated above.

Operating segment: Intimate Apparel UK, US Upper Market and Europe

Sales in Q3 of 2009 amounted to $44.1 million, compared to $45.4 million in Q3 of 2008, a decrease of 3%.

Sales in the first nine months of 2009 amounted to $100.7 million, compared to $135.0 million in the first nine months of 2008, a decrease of 25%.

The decrease in sales in Q3 and the first nine months of 2009 over the same periods of 2008 was due to the decrease in sales in the UK and mainly to a main customer, due to exit from non-profitable categories and also due to weakness in the customer sales and to 13% & 21% devaluation in the exchange rate of the Pound vs. the USD compared to the average rates last year.

Operating income in Q3 of 2009 amounted to $3.2 million, compared to a loss of $2.2 in the same period last year.

The transfer to operating income in Q3 2009 from operating loss in the same quarter last year was due to the decrease in the loss in the UK activity due to efficiency measures and the implementation of the restructuring plan the Company announced at the end of 2008 which included, amongst others, decrease in overhead in the UK, transfer to FOB method and other steps. In addition, the operating income in Q3 was due to the increase in sales of bra to US customers.

The operating loss in the first nine months of 2009 amounted to $1.0 million compared to $5.7 million in the first nine months last year, a decrease of 81%.

The decrease in the operating loss in the first nine months of 2009 compared to the same period last year was due to the decrease in losses in the UK as mentioned above, and due to increase in sales to customers in the US.

Operating segment: Socks – US and Europe

Sales in Q3 2009 amounted to $28.1 million, compared to $25.7 million in Q3 2008, an increase of 9%.

Sales of the purchased activity from Gibor in Q3 2009 amounted to $6.9 million, see section 1.2.2 above.

The segment sales excluding the sales of the purchased activity decreased by 18% compared to the same quarter last year due to a decrease of sales to a main customer in the UK, and the weakness of the average exchange rates of the Pound versus the USD.

Sales in the first nine months of 2009 amounted to $76.3 million, compared to $81.1 million in the first nine months of 2008, a decrease of 6%.

The sales of the purchased activity in Q2 and Q3 of 2009 amounted to $12.2 million.

Sales in the first nine months of 2009 excluding the purchased activity, decreased by 21% due to the above mentioned reasons.

Operating income in Q3 2009 amounted to $1.9 million, compared to an operating breakeven in the same quarter last year.

Operating income in the first nine months of 2009, amounted to $2.6 million compared to $1.0 million in the same period last year.

The improvement in operating income in Q3 and the first nine months of 2009 compared to the same periods last year was due to efficiency gained from reduced overhead in Israel, improvement in the production activity in the factories in Bulgaria and India, devaluation in the exchange rate of the NIS versus the USD, and due to the purchased activity results which contributed $0.5 and $0.7 million respectively to the operating income. For more details see section 1.2.2 above.

Operating segment: Seamless knitwear

Sales in Q3 2009 amounted to $8.9 million, compared to $8.7 million in Q3 2008, an increase of 2%.

Sales in the first nine months of 2009 amounted to $23.8 million, compared to $23.2 million in the first nine months of 2008, an increase of 3%.

Operating loss in Q3 2009 amounted to $0.2 million, compared to $2.1 million in Q3 2008.

Operating loss in the first nine months of 2009 amounted to $1.4 million, compared to $3.1 million in the same period last year 2008.

The decrease in operating loss in Q3 and the first nine months of 2009, was due to increased sales and increased production level compared to the same periods last year, and also from the devaluation in the NIS rate versus the USD, which attributed to a cost reduction in USD terms.

Operating segment: Delta Marketing Israel

Sales in Q3 2009 amounted to $18.5 million, compared to $20.1 million in Q3 2008, a decrease of 8%.

Sales in NIS terms in Q3 2009 amounted to NIS 70.6 million, compared to NIS 69.9 million in Q3 of 2008, an increase of 1%.

Sales in the first nine months of 2009 amounted to $50.2 million, compared to $56.8 million in Q3 2008, a decrease of 12%.

Sales in NIS in the first nine months of 2009 amounted to NIS 199.6 million, compared to

NIS 198.3 million in the first nine months of 2008, an increase of 1%.

Operating income in Q3 2009 amounted to $2.8 million, compared to $3.1 million in Q3 2008, a decrease of 10%.

Operating income in NIS in Q3 2009 amounted to NIS 9.8 million, compared to NIS 8.9 million in Q3 2008, an increase of 10%.

Operating income in the first nine months of 2009 amounted to $5.0 million, compared to $9.4 million in Q3 2008, a decrease of 47%.

Operating income in NIS in the first nine months of 2009 didn’t change and amounted to NIS 24.5 million, compared to NIS 24.4 million.

The decrease in operating income in USD in Q3 and in the first nine months of 2009 compared to the same periods last year was due to the decrease in sales and in gross profit in USD terms. The decrease in gross profit was mainly due to an inventory adjustment due to the weakness of the NIS vs. the USD compared to an income from the same adjustment in the corresponding periods of last year.

3. Liquidity and financing sources

Summary of cash flow statement, in $ millions:

	Third quarter		First nine months		Year ended on December 31
	2009	2008	2009	2008	2008
Net cash provided (used) by operating activities	16.5	(6.1)	24.4	2.8	15.8
Net cash used to activity investment excluding the purchase of Gibor	(0.7)	(1.6)	(2.9)	(6.7)	(7.8)
Net cash used for the purchase of Gibor activity	(0.8)	-	(7.9)	-	-
Net cash provided by (used in) financing activities	(14.0)	4.6	(12.3)	(8.7)	(20.2)
Increase (decrease) in cash and cash equivalents	1.0	(3.0)	1.3	(12.6)	(12.2)

The Company finances its operations by its operating cash flow and by bank credit facilities.

In the first nine months of 2009 the Company had a positive operating cash flow of $24.4 million compared to $2.8 million in the same period last year.

During the report period the Company completed the purchase of Gibor's activity. Total investment in cash included in the financial reports amounted to $7.9 million and included amounts paid for fixed assets, customers relations and inventory.

The decrease in cash flow from investments activity (excluding the activity purchased from Gibor) in the first nine months of 2009 compared to the same period last year was due to conservative investments policy.

Following are some financial indicators for the third quarter of 2009 and 2008:

	Q3 2009	**Q3 2008**
Current ratio	1.02	1.05
Quick ratio	0.58	0.55
Equity/ Total balance sheet	40.4%	40.8%
Days of credit to customers	58	59
Days of credit from suppliers	48	47
Inventory days	64	76
Positive (negative) operating Cash flow (M$) – Q3	16.5	(6.1)
Positive operating Cash flow (M$) – first nine months	24.4	2.8
Adjusted EBITDA (M$) – Q3	12.5	3.0
Adjusted EBITDA (M$) – first nine months	18.0	14.1
Net Bank debt (M$)	121.1	144.6
Equity (M$)	151.8	171.8

Total net bank debt as of September 30, 2009 amounted to $121.1 million compared to $144.6 million as of September 30, 2008, despite the investment of $7.9 million in the Gibor deal.

The decrease in the net bank debt as of September 30, 2009 compared to September 30, 2008 was due to positive operating cash flow.

4. Exposure to market risks, risk factors and management thereof

4.1 The person responsible for management of market risks in the Company

The Company manage the market risks based on a policy set by its Board of Directors.

Mr. Isaac Dabah, the Company's CEO, is responsible for managing the market risks.

Mr. Yossi Hajaj, Company's CFO, is responsible for managing the market risk associated with exchange rates and interest.

4.2 Description of market risks to which the Group is exposed

The Group, in its operations, is exposed to several market risk components, including: Exchange rate fluctuations, changes in raw material prices and in cost of transportation (mostly due to the impact of higher fuel prices on transportation costs) and changes in the LIBOR USD interest rate.

4.3 Group policy with respect to market risks management

4.3.1 Changes in the economic environment and the crisis implications in the capital markets on operational results and on the business situation.

The financial and economic crisis in the global markets which started on 2008 and into the first nine months of 2009, influence the Company in three major fields:

1. **Decrease in sales due to recession and slowdown in all markets**

   The Company's sales in Q3 and first nine months of 2009 decreased by 3% and 12% compared to the same periods last year. This decrease was reflected in all markets in which the Company operates and was due to the continuance in the recession started in the second half of 2008 and due to a conservative policy in inventory management by most customers.

   The continuance of the recession in the markets may badly influence the Company's sales in Q4 of 2009 and 2010.

2. **Volatility in foreign exchange rates vs. the US dollar**

   In Q3 and first nine months of 2009, the average exchange rates of the Euro and the Pound Sterling devaluation by 5% and 10% and Pound by 13% and 21% respectively, compared to the average exchange rates in the same periods last year, a devaluation which contributed to a decrease in sales in USD terms. More of, the USD average rate has strength vs. the NIS rate in the third quarter and in the first nine months of the year by 10% and 13% compared to the average exchange rate on the same periods last year, this strengthening resulted in a decrease in sales in Israel in USD terms.

   To be noted that, during the last few months and until the date of this report there has been a strengthening in the Europeans currency rates and the NIS in comparison to USD, this tendency if continue will cause a decrease in the above mentioned influences, later during this year.

The Company works in several ways in order to reduce its exposure to the exchange rate volatility:

a) Changing the selling currency to UK customers (form Pound Sterling to USD).

   Starting 2010, most of the sales to the main customer in the UK will be in USD; hence the exposure to the Pound Sterling will be significantly reduced.

b) Carry out forward contracts for up to one year period, in order to hedge itself from the risk in which net cash flow derived from surplus expenses or income in NIS, GBP or in Euro will be affected from the change in these exchange rates. See section 4.4 below.

3. **Decrease in interest rates in the US and in Europe and increase in the mark up on bank credit**

   The Company borrows bank loans in an average level of $139 million on a LIBOR interest basis.

   The LIBOR interest for 3 months declined from 2.9% at the end of 2008 to 0.4% and 0.9% on average in the Q3 and first nine months of this year respectively. On the other hand, the bank credit price became more expensive. The net influence of those two factors was positive.

   Interest expenses in Q3 and first nine months of 2009 decreased by $0.4 and $1.8 million compared to the same periods last year, due to the decrease in the LIBOR rate which was partly offset by the increase in credit price, as mentioned above.

Please note that the information above is an estimation and future observation only, which may or may not accrue, in a different way from the company's estimations, resulting reasons not depended on the company only and due to its being based on current information known to the company on the report date, including the company estimations on the report date.

4.3.2 The Company is exposed to a macro financial risks factors, segmental risk factors, and risk factors unique to its operations. Full detail of these risk factors, to which the Group is exposed to, presented in part "A" to the 2008 Annual Report.

4.4 Financial derivatives.

Following are the open transactions as of September 30, 2009 which is not recognized as financial hedge against the Euro, NIS and the Pound:

Payment date	Amount in thousand $	Transaction exchange rate ($ to 1 Euro)
13.10.09	1,125	1.42060
30.10.09	1,125	1.42050
10.11.09	1,125	1.42092
30.11.09	1,125	1.42091
10.12.09	1,125	1.42090
30.12.09	1,125	1.42088
11.01.10	1,500	1.46730
25.01.10	1,500	1.46723
10.02.10	1,500	1.46730
25.02.10	1,500	1.46745
10.03.10	1,500	1.46747
25.03.10	1,500	1.46750
	15,750	

Payment date	Amount in thousand $	Transaction exchange rate (NIS to 1 $)
08.10.09	2,000	4.25370

Payment date	Amount in thousand $	Transaction exchange rate ($ to 1 Pound)
05.10.09	750	1.64870
13.10.09	750	1.64868
19.10.09	750	1.64866
26.10.09	750	1.64865
02.11.09	500	1.64864
09.11.09	500	1.64867
16.11.09	500	1.65200
23.11.09	500	1.65200
15.12.09	500	1.69150
29.12.09	500	1.69150
	6,000	

The Company included in the results of Q3 and first nine months of 2009 the results of the transactions which have been closed during the report period and the estimated results from open transactions as follows:

	Third quarter	First nine months
	2009	
	Thousand $	
Profit (loss)		
Pound/ USD transactions	272	51
Euro/ USD transactions	(344)	(21)
NIS/ USD transactions	160	294
Total influence on operating income and on pre-tax profit	88	324

After the report date the Company entered into transactions to protect itself from the weakening of the Euro exchange rate vs. the USD as follows:

Payment date	Amount in thousand $	Transaction exchange rate ($ to 1 Euro)
12.04.2010	1,500	1.50027
26.04.2010	1,500	1.50008
10.05.2010	1,500	1.50000
25.05.2010	1,500	1.49980
10.06.2010	1,500	1.49950
28.06.2010	1,500	1.49900
	9,000	

4.5 Linkage basis report, $ in thousands

	As of September 30, 2009 Un-audited						
	In USD	**In GBP**	**In Euro**	**In NIS**	**In other currencies**	**Non-monetary balances**	**Total**
Assets:							
Cash and cash equivalents	2,841	296	576	313	1,454	-	5,480
Trade receivables	68,526	7,629	14,246	14,090	490	-	104,981
Other accounts receivable	2,477	525	26	2,021	480	3,314	8,843
Inventory	-	-	-	-	-	92,860	92,860
Assets classified as held for sale	-	-	-	-	-	2,916	2,916
Long-term debit balances	1,023	-	-	45	115	541	1,724
Deferred tax assets	-	-	-	-	-	3,923	3,923
Excess plan assets over liabilities due to employment termination	-	-	-	-	-	212	212
Fixed assets, net of accumulated depreciation	-	-	-	-	-	77,353	77,353
Intangible assets, net of accumulated amortization	-	-	-	-	-	77,504	77,504
Total assets	**74,867**	**8,450**	**14,848**	**16,469**	**2,539**	**258,623**	**375,796**
Liabilities:							
Short term credit from banks	110,161	1,405	8,071	84	204	-	119,925
Trade payables	35,414	2,874	2,312	8,161	2,030	-	50,791
Other accounts payable	17,659	6,453	351	13,832	2,489	195	40,979
Long-term loans from banks	6,625	-	-	-	-	-	6,625
Liabilities for employment termination, net of deposits to severance pay funds	-	-	-	-	-	460	460
Long-term loans and other liabilities	4,916	227	61	-	-	-	5,204
Total liabilities	174,775	10,959	10,795	22,077	4,723	655	223,984
Balance sheet total, net	**(99,908)**	**(2,509)**	**4,053**	**(5,608)**	**(2,184)**	**257,968**	**151,812**

4.6 Tests of sensitivity to exchange rate fluctuations of NIS, GBP and Euro vs. the USD and to interest rate fluctuations, in $ thousands.

Sensitivity to change in NIS/USD exchange rate:

	Gain (Loss) from Changes			Gain (Loss) from Changes	
Expected exchange rate	10% Increase	5% Increase	Fair value	5% Decrease	10% Decrease
	NIS 4.13= $1	NIS 3.95 = $1	NIS 3.76 = $1	NIS 3.57 = $1	NIS 3.38 = $1
Cash and cash equivalents	(31)	(16)	313	16	31
Trade receivables [5]	(1,409)	(705)	14,090	705	1,409
Other accounts receivable	(202)	(101)	2,021	101	202
Long-term debit balances	(5)	(2)	45	2	5
Short-term credit from banks	8	4	(84)	(4)	(8)
Trade payables	816	408	(8,161)	(408)	(816)
Other accounts payable	1,383	692	(13,832)	(692)	(1,383)
Long-term loans and other liabilities	-	-	-	-	-
Off-balance-sheet liabilities in respect of rental agreements	577	288	(5,769)	(288)	(577)
Total	1,137	568	(11,377)	(568)	(1,137)

Sensitivity to changes in discount rate of liabilities in respect of rent and franchise agreements denominated in NIS:

	10% increase [1]	5% increase [2]	Discount rate of 12%	5% Decrease [3]	10% Decrease [4]
Pre-tax change in fair value	55	27	(5,972)	(28)	(56)

Sensitivity to GBP/USD exchange rate fluctuations:

	Gain (Loss) from Changes			Gain (Loss) from Changes	
	10% Increase	5% Increase	Fair value	5% Decrease	10% Decrease
Expected exchange rate	$1.77 = 1£	$1.69 = 1£	$1.61 = 1£	$1.53 = 1£	$1.45 = 1£
Cash and cash equivalents	30	15	296	(15)	(30)
Trade receivables [5]	763	381	7,629	(381)	(763)
Other accounts receivable	53	26	525	(26)	(53)
Short-term credit from banks	(141)	(70)	(1,405)	70	141
Trade payables	(287)	(144)	(2,874)	144	287
Other accounts payable	(645)	(323)	(6,453)	323	645
Long-term loans and other liabilities	(23)	(11)	(227)	11	23
Off-balance-sheet liabilities in respect of rental agreements	(92)	(46)	(917)	46	92
Total	(342)	(172)	(3,426)	172	342

Sensitivity to changes in discount rate of liabilities in respect of rent and licence agreements denominated in GBP:

	10% increase [1]	5% increase [2]	Discount rate of 12%	5% Decrease [3]	10% Decrease [4]
Pre-tax change in fair value [6]	40	20	(1,258)	(21)	(43)

Sensitivity to change in EUR/USD exchange rate:

	Gain (Loss) from Changes			Gain (Loss) from Changes	
	10% Increase	5% Increase	Fair value	5% Decrease	10% Decrease
Expected exchange rate	$1.61 = 1€	$1.54 = 1€	$1.47 = 1€	$1.39 = 1€	$1.32 = 1€
Cash and cash equivalents	58	29	576	(29)	(58)
Trade receivables [5]	1,425	712	14,246	(712)	(1,425)
Other accounts receivable	3	1	26	(1)	(3)
Short-term credit from banks	(807)	(404)	(8,071)	404	807
Trade payables	(231)	(116)	(2,312)	116	231
Other accounts payable	(35)	(18)	(315)	18	35
Long-term loans and other liabilities	(6)	(3)	(61)	3	6
Total	407	201	4,053	(201)	(407)

Sensitivity to the change of expenses capitalization rate from license agreements in Euro:

	10% Increase [1]	5% Increase [2]	Discount rate of 12%	5% Decrease [3]	10% Decrease [4]
Pre-tax change in fair value	2	1	(290)	(1)	(2)

Sensitivity to change in average LIBOR interest rate. The following calculation relates to cash flow exposure and not to change in fair value in the loan portfolio amounting to $127 million (in $ thousands) while average interest rate to 30 September 2009 is 2.9%:

Change in interest rate	10% Increase	5% Increase	5% Decrease	10% Decrease
Expected interest rate after the change	3.2	3.0	2.7	2.6
Pre-tax gain (loss) due to changes	(363)	(182)	182	363

[1] For a 13.2% discount rate.
[2] For a 12.6% discount rate.
[3] For a 11.4% discount rate.
[4] For a 10.8% discount rate.
[5] The trade receivables balance in the above tables is a short-term one, hence the fair value presented for it is in line with the balance reflected in the financial statements.
[6] Most of the liabilities included in the above sensitivity analysis tables refer to rent agreements, and amounts of the liabilities for franchise agreements are not material.

5. **<u>Disclosure with respect to critical accounting estimates</u>**

In creating the financial statements according to acceptable accounting practices, Company's management is required to use estimates and valuations which impact the reported information for assets and liabilities, as well as data for contingent assets and pending liabilities, which are disclosed in the financial statements and for revenue and expense data for the reported period. These estimates sometimes require discretion in an uncertain environment, and materially impact presentation of data on the financial statements.

For complete details of accounting estimates and assumptions, see Note 3 to the 2008 financial statements in Part C to the Annual Report.

6. **<u>Disclosure regarding the process of the financial statements approval</u>**

The Company Board of Directors has decided that the Company’s Audit Committee, is the organ in charge of overall supervision of the Company’s financial statements.

Prior to approval of the Company’s financial statements, the draft financial statements and notes there to are submitted to members of the Audit Committee, typically 3 days prior to the meeting, subject to any statute.

Invitees to meetings of the Audit Committee to discuss approval of the financial statements are: the CEO, CFO and Company comptroller as well as the independent CPAs who present the financial statements to Committee's members and answer any questions.

During the Audit Committee’s meeting to discuss the financial statement, the Committee reviews and discusses the Company's financial statements, reviews major changes there in, refers to comments by Company management and the independent CPA and reviews the match between the financial statements and events which have occurred in the Company and with standards used by the Company to prepare its financial statements.

After the discussion, the Chairman of the Audit Committee brings up for a vote the recommendation by the Committee to the Board of Directors to approve the financial statements; the Chairman finds out if any Committee members still have any unanswered questions or issues.

After recommendation by the Audit Committee to approve the financial statements as set forth above, the financial statements and the relevant notes are brought for approval to the Company Board of Directors.

Note also that if, during compilation of the financial statements, the VP, Finance or the Company CEO have any material or new questions or issues requiring preliminary discussion before submitting the financial statements for approval by the Board of Directors – the VP, Finance or the Company CEO would have the Board of Directors convene for a preliminary meeting to discuss and elaborate these issues.

Names of the Audit Committee members who attended the meeting on November 8, 2009, at which Committee recommended that the Company Board of Directors to approve the financial statements as of September 30, 2009:Amnon Neubach, Shaul Ben Zeev and Noam Lautman.

Also attended the meeting the Company's CEO Mr. Isaac Dabah.

Names of Board members who attended the Board of Directors' meeting on November 9, 2009 at which the financial statements as of September 30, 2009 were approved: Mr. Isaac Dabah, Mr. Israel Baum, Mr. Shaul Ben Zeev, Mrs. Tzipora Carmon, Dr. Gideon Chitayat, Mr. Noam Lautman, Mr. Amnon Neubach, and Mr. Izhak Weinstock.

The Board of Directors and management express their great appreciation to Delta's employees and managers.

Signed on November 9, 2009

Isaac Dabah CEO	Amnon Neubach Director

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Review report of interim financial information

to the shareholders of

Delta Galil Industries Ltd.

Introduction

We have reviewed the accompanying Balance sheet of Delta Galil Industries Ltd and its subsidiaries (together – the Group) as of September 30 ,2009 and the related statements of comprehensive income, changes in equity and cash flows for the nine and three-month period then ended. Board of Directors and Management are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, 'Interim financial reporting' and in accordance with chapter 4 of the Israeli Securities Regulations (Interim and Immediate Statements), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We have not reviewed the interim financial information of consolidated subsidiaries whose assets constitute approximately 8% of the consolidated totals assets as of June 30, 2009. We were furnished with the reports of other certified public accountants on their review of the interim financial statements as of September 30, 2009 of consolidated subsidiaries. Our conclusion, as it relates to the interim financial statements of those consolidated subsidiaries, is based on the reports of other certified public accountants.

Scope of review

We conducted our review in accordance with audit standard 1 of the Israeli Association of Accountants 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Israeli Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review of other certified public accountants, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

In addition to the last paragraph, based on our review and the review of other certified public accountants, nothing came to our attention that indicated that any material modifications should be made in the said interim condensed consolidated financial statements in order for them to be in conformity with the disclosure instructions of chapter 4 of the Israeli Securities Regulations (Interim and Immediate Statements), 1970.

Tel Aviv, Israel
November 9, 2009

Kesselman & Kesselman
Certified Public Accountant (Isr.)
A member of
PricewaterhouseCoopers
International Limited

Delta Galil Industries Ltd.
Consolidated financial report as of September 30, 2009

	September 30		December 31
	2009	**2008**	**2008**
	(Un-audited)		**(Audited)**
	$ in thousands		
Assets			
Current assets:			
Cash and cash equivalents	5,480	4,073	4,224
Other accounts receivable:			
Trade	104,981	110,682	89,594
Tax on income - receivable	1,223	2,044	2,717
Other	7,620	7,749	7,353
Inventory	92,860	118,064	112,158
Assets classified as held for sale	2,916	5,410	2,916
Total current assets	215,080	248,022	218,962
Non-current assets:			
Long-term prepaid expenses	409	170	98
Long-term debt balances	1,315	1,496	1,359
Deferred tax assets	3,923	5,696	4,561
Excess plan assets over liabilities due to employment termination	212	47	212
Fixed assets, net of accumulated depreciation	77,353	80,666	80,113
Intangible assets, net of accumulated amortization	77,504	85,428	74,841
Total non-current assets	160,716	173,503	161,184
Total assets	375,796	421,525	380,146

Isaac Dabah
CEO

Amnon Neubach
Director

Yossi Hajaj
CFO

Date of approval of financial statements by the Company's Board of Directors: November 9, 2009

Delta Galil Industries Ltd.
Consolidated financial report as of September 30, 2009

	September 30		December 31
	2009	2008	2008
	(Un-audited)		(Audited)
	$ in thousands		
Liabilities and Equity			
Current liabilities:			
Short-term loans from banks	117,768	139,643	129,985
Current maturities of long-term loans from banks	2,157	8,200	8,200
Other payables:			
Trade payables	50,791	54,608	45,459
Tax on income - payable	345	256	335
Other	40,634	34,273	39,639
Total current liabilities	211,695	236,980	223,618
Non-current liabilities:			
Liabilities from banks, net of current maturities	6,625	800	-
Liabilities for employment termination, net of plan assets	460	312	473
Liability for adjustment of acquisition cost	-	4,174	-
Other non-current liabilities	5,204	7,485	5,987
Total non-current liabilities	12,289	12,771	6,460
Total liabilities	223,984	249,751	230,078
Equity:			
Equity attributable to Company shareholders:			
Share capital	21,851	21,851	21,851
Share premium	101,114	101,114	101,114
Unassigned income balance	35,806	55,943	33,813
Other accumulated loss, total	-	(166)	-
Treasury shares	(9,700)	(9,700)	(9,700)
	149,071	169,042	147,078
Minority interest	2,741	2,732	2,990
Total equity	151,812	171,774	150,068
Total liabilities and equity	375,796	421,525	380,146

The enclosed notes are an integral part of these summary financial statements.

Delta Galil Industries Ltd.
Summary consolidated comprehensive income for periods
ended on September 30, 2009

	9 months ended on September 30		3 months ended on September 30		Year ended on December 31
	2009	2008	2009	2008	2008
	Non-Audited				Audited
	Thousand $				
	Excluding profit (loss) share data				
Sales	421,843	479,332	162,506	167,674	622,834
Cost of sales	347,349	394,308	130,301	140,212	517,155
Gross profit	74,494	85,024	32,205	27,462	105,679
Selling and marketing expenses	50,540	61,042	17,479	20,832	78,953
General & administrative expenses	15,963	19,758	5,769	6,492	26,703
Other income (loss), net	234	728	(32)	(130)	805
Restructuring expenses	474	-	474	-	9,162
Impairment of goodwill	-	-	-	-	7,392
Operating income (loss)	7,751	4,952	8,451	8	(15,726)
Financial expenses, net	5,043	7,000	1,419	2,717	7,479
Share in losses (profit) of associated company	(41)	55	(42)	55	55
Income (loss) before taxes on income	2,749	(2,103)	7,074	(2,764)	(23,260)
Taxes on income	890	1,954	602	1,612	2,522
Net income (loss) for the period	1,859	(4,057)	6,472	(4,376)	(25,782)
Other comprehensive income (loss):					
Actuary losses – defined benefit plan to employees	-	-	-	-	(233)
Net changes from currency translation adjustments	-	-	-	-	166
Tax on income that & expenses that were directed to capital	-	-	-	-	38
Other loss for the period	-	-	-	-	(29)
Total comprehensive gain (loss) to the period	1,859	(4,057)	6,472	(4,376)	(25,811)
Attribution of net income (loss) for the period:					
To company shareholders	1,705	(4,417)	6,378	(4,509)	(26,400)
To minority interest	154	360	94	133	618
Total	1,859	(4,057)	6,472	(4,376)	(25,782)
Attribution of net income (loss) for the period:					
To company shareholders	1,705	(4,417)	6,378	(4,509)	(26,429)
To minority interest	154	360	94	133	618
Total	1,859	(4,057)	6,472	(4,376)	(25,811)
	In dollars				
Net earning (loss) per share attributed to company shareholders:					
Basic and diluted	0.09	(0.24)	0.34	(0.24)	(1.41)

The enclosed notes are an integral part of these summary financial statements.

Delta Galil Industries Ltd.

Summary consolidated statements of changes in shareholders equity as of September 30, 2009

	Attributed to Company shareholders								
	Ordinary share capital								
	Number of shares	**Amount**	**Share premium**	**Differences from translation of foreign operations**	**Unassigned income balance**	**Treasury shares**	**Total**	**Minority interest**	**Total equity**
	In thousands	**$ in thousands**							
Balance as of January 1, 2009 (audited)	19,948	21,851	101,114	-,-	33,813	(9,700)	147,078	2,990	150,068
Transactions in the period of 9 months ended on September 30, 2009:									
Total comprehensive recognized revenue	-	-	-	-	1,705	-	1,705	154	1,859
Dividend to minority interest	-	-	-	-	-	-	-	(403)	(403)
Benefit component of options granted to employees	-	-	-	-	261	-	261	-	261
Dividend from previous years that was not collected	-	-	-	-	27	-	27	-	27
Balance as of September 30, 2009 (un-audited)	19,948	21,851	101,114	-,-	35,806	(9,700)	149,071	2,741	151,812
Balance as of January 1, 2008 (audited)	19,948	21,851	101,114	(166)	60,596	(9,700)	173,695	2,737	176,432
Transactions in the period of 9 months ended September 30, 2008:									
Total comprehensive recognized revenue (loss)	-	-	-	-	(4,417)	-	(4,417)	360	(4,057)
Dividend to minority	-	-	-	-	-	-	-	(365)	(365)
Benefit component of options granted to employees	-	-	-	-	(236)	-	(236)	-	(236)
Balance as of September 30, 2008 (un-audited)	19,948	21,851	101,114	(166)	55,943	(9,700)	169,042	2,732	171,774
Balance As of January 1, 2008 (audited)	19,948	21,851	101,114	(166)	60,596	(9,700)	173,695	2,737	176,432
Transactions in 2008:									
Total comprehensive recognized revenue (loss)	-	-	-	166	(26,595)	-	(26,429)	618	(25,811)
Dividend to minority interest	-	-	-	-	-	-	-	(365)	(365)
Benefit component of options granted to employees	-	-	-	-	(188)	-	(188)	-	(188)
Balance As of December 31, 2008 (audited)	19,948	21,851	101,114	-,-	33,813	(9,700)	147,078	2,990	150,068

Delta Galil Industries Ltd.

Summary consolidated statements of changes in shareholders equity as of September 30, 2009

	Attributed to Company shareholders								
	Ordinary share capital								
	Number of shares	Amount	Share premium	Differences from translation of foreign operations	Unrealized gain from cash flow hedge	Treasury shares	Total	Minority interest	Total equity
	In thousands	$ in thousands							
Balance as of July 1, 2009 (un-audited)	19,948	21,851	101,114	-,-	29,299	(9,700)	142,564	2,777	145,341
Transactions in the period of 3 months ended on September 30, 2009:									
Total comprehensive recognized revenue	-	-	-	-	6,378	-	6,378	94	6,472
Dividend to minority interest	-	-	-	-	-	-	-	(130)	(130)
Benefit component of options granted to employees	-	-	-	-	129	-	129	-	129
Balance as of September 30, 2009 (un-audited)	19,948	21,851	101,114	-,-	35,806	(9,700)	149,071	2,741	151,812
Balance as of July 1, 2008 (un-audited)	19,948	21,851	101,114	(166)	60,389	(9,700)	173,488	2,721	176,209
Transactions in the period of 3 months ended September 30, 2008:									
Total comprehensive recognized revenue (loss)	-	-	-	-	(4,509)	-	(4,509)	133	(4,376)
Dividend to minority interest	-	-	-	-	-	-	-	(122)	(122)
Benefit component of options granted to employees	-	-	-	-	63	-	63	-	63
Balance as of Septemebr 30, 2008 (un-audited)	19,948	21,851	101,114	(166)	55,943	(9,700)	169,042	2,732	171,774

Delta Galil Industries Ltd.
Summary consolidated cash flows for
periods ended on September 30, 2009

	9 months ended on September 30		3 months ended on September 30		Year ended on December 31
	2009	**2008**	**2009**	**2008**	**2008**
	Non-Audited				**Audited**
	Thousand $				
Cash flow from operating activities:					
Net income (loss) for period	1,859	(4,057)	6,472	(4,376)	(25,782)
Adjustments required to reflect cash flows from operating activities	23,783	15,982	11,346	1,365	52,691
Interest paid in cash	(2,831)	(4,817)	(1,072)	(1,506)	(6,132)
Tax on income received (paid) in cash	1,638	(4,322)	(218)	(1,560)	(4,987)
Net cash provided by (used in) operating activities	24,449	2,786	16,528	(6,077)	15,790
Cash flow from investing activities:					
Entrance to merger of purchased activity (appendix A)	(7,946)	-	(771)	-	-
Additional payments for adjustment of acquisition cost	-	(2,117)	-	-	(2,117)
Purchase of fixed assets and intangible assets	(3,380)	(6,365)	(886)	(2,193)	(7,781)
Proceeds from sales of fixed assets	521	1,730	197	495	1,887
Proceeds from sales of leased land	-	139	-	139	170
Repayment of long term receivable	216	15	74	15	60
Loans granted to an associated company	-	(81)	-	-	(81)
Loans repayment by associated company	-	-	-	-	16
Loans granted to employees	(6)	(86)	(2)	(44)	(91)
Loan repayment by employees	24	70	9	36	77
Long term repaid expenses	(154)	-	(154)	-	-
Long term deposits	(99)	(20)	(2)	(19)	27
Net cash used in investing activities	(10,824)	(6,715)	(1,535)	(1,571)	(7,833)
Cash flow from financing activities:					
Dividend to minority interest in a consolidated company	(403)	(365)	(130)	(122)	(365)
Repayment of loans & other long term liabilities	(7,796)	(7,400)	(4,046)	(3,800)	(8,289)
Long term loans received	8,300	-	-	-	-
Short term credit from banks, net	(12,192)	(702)	(9,600)	8,603	(11,343)
Amounts charged for deferred expenses	(268)	(214)	(200)	(50)	(214)
Net cash provided by (used in) financing activities	(12,359)	(8,681)	(13,976)	4,631	(20,211)
Net increase (decrease) in cash and cash equivalents	1,266	(12,610)	1,017	(3,017)	(12,254)
Profit (loss) from translation differences of cash and cash equivalent	(10)	7	10	(87)	(198)
Cash and cash equivalent balance at start of period	4,224	16,676	4,453	7,177	16,676
Cash and cash equivalent balance at end of period	5,480	4,073	5,480	4,073	4,224

Delta Galil Industries Ltd.
Summary consolidated cash flows for
periods ended on September 30, 2009

	9 months ended on September 30		3 months ended on September 30		Year ended on December 31
	2009	2008	2009	2008	2008
	Non-Audited				Audited
	Thousand $				
Adjustments required to reflect cash flow from current activities					
Revenues and expenses not involving cash flow:					
Depreciation	8,241	8,138	2,816	2,707	11,073
Amortization	1,464	1,054	664	378	1,472
Impairment of goodwill	-	-	-	-	7,392
Share in losses (profits) of associated company	(41)	55	(42)	55	55
Cash erosion	10	(1,015)	(10)	(921)	106
Interest paid in cash	2,831	4,817	1,072	1,506	6,132
Income taxes paid (received) in cash	(1,638)	4,322	218	1,560	4,987
Interest component of liability for adjustment of acquisition cost	-	(677)	-	(447)	(2,982)
Deferred income taxes, net	638	(146)	567	1,141	1,027
Liabilities due to employment termination, net	(71)	115	(13)	(193)	(116)
Restructuring expenses	474	-	474	-	8,861
Capital loss (gain) from realization of assets	(204)	(728)	(40)	130	(805)
Benefit component of options granted to employees	261	(236)	129	63	(188)
Loss (gain) from changes in fair value of derivatives ,net	(180)	-	73	-	(81)
Long term prepaid expenses	4	(69)	-	5	-
Other	50	(45)	81	(4)	(38)
	11,839	15,585	5,989	5,980	36,895
Changes to operating assets and liabilities:					
Decrease (increase) in trade receivables	(15,387)	(7,630)	(4,121)	(8,888)	13,535
Decrease (increase) in other receivables	1,381	(1,101)	662	993	(1,108)
Increase (decrease) in trade payables	5,335	(5,260)	5,109	981	(14,420)
Increase (decrease) in other payables	(1,251)	(5,054)	1,405	(197)	(7,559)
Decrease in inventories	21,866	19,442	2,302	2,496	25,348
	11,944	397	5,357	(4,615)	15,796
	23,783	15,982	11,346	1,365	52,691

Further information on investments and finance operation not involving cash flow:

Trade payables for non-cash acquisition of fixed, other assets and leased land	(370)	1,018	169	914	(777)
Receivable from sale of fixed assets	(235)	38	(120)	1	60
Liability for guaranteed minimum royalties	4,420	5,214	1,375	-	5,326
Liability payable for acquisition of a consolidated company	-	(2,609)	-	(1,863)	(4,478)
Liabilities for assets clearance	-	(215)	-	(215)	-
Payable due to purchased activity	323	-	(35)	-	-
Payables for long term prepaid expenses	336	-	336	-	-

The enclosed notes are an integral part of these summary financial statements.

Delta Galil Industries Ltd.
Summary consolidated cash flows for
periods ended on September 30, 2009

Appendix A –

Activity acquisition – see note 5 below.

	9 months ended on September 30	3 months ended on September 30
	2009	
	Unaudited	
	$ thousands	
Other accounts receivable	(79)	-
Inventory	(2,568)	(736)
Fixed assets	(3,638)	-
Intangible assets	(1,773)	(35)
Trade payables	31	-
Other payables	81	-
	(7,946)	(771)

Delta Galil Industries Ltd.
Summary consolidated notes as of September 30, 2009 (Un-audited)

Note 1 – Overview

Delta Galil Industries Ltd. (hereinafter “the Company”) is an Israeli corporation which, together with its subsidiaries (hereinafter “the Group”) is primarily engaged in manufacturing and marketing of intimate apparel in 5 major operating segments - USA mass market, intimate apparel – US upper market and Europe, Socks, Delta Marketing Israel and Seamless knitwear. Information on Group's operating segments and principle markets is presented in note 3.

Company shares were traded through March 2008 on the NASDAQ Global Market (hereinafter the “NASDAQ”) and on the Tel Aviv Stock Exchange Ltd. (hereinafter the “the stock exchange”).

In March 2008 the Company applied to de-list its shares from trading and to discontinue its registration in the USA; see Note 2a. On March 27, 2008, Company shares were de-listed from NASDAQ. From this date forward the main exchange market is the Israeli exchange market in Tel-Aviv.

The Company’s official address is 2 Kaufman Street, Tel Aviv.

Note 2 – Significant Accounting Policies:

a. Overview

Following de-listing of Company shares from NASDAQ, the Company started reporting to the stock exchange pursuant to provisions of Chapter F of the Securities Act, and to compile its financial statements, starting with the 2007 annual reports, pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970.

b. Preparation of the financial statements

The Group's summery of the financial statements information as of September 30, 2009 and to the intermediate period of 9 and 3 months ended on the same date (below" the financial information to the intermediate period") was prepared with accordance to the international standard 34 – intermediate financial statement" (hereinafter – "IAS 34")' and with accordance to the securities standards (periodic and intermediate statements), 1970. the financial statements for the intermediate period should be consider the annual statements as of December 31, 2008 and to the same year ended on the same date and the notes summery accompany it, which were prepared with accordance to the international financial statements ("IFRS standards" as follows).
The financial intermediate statement is reviewed and not audited.

Note 2 – Significant Accounting Policies (continuance)

c. Significant accounting policies

The main financial policy and the calculation methods, which were implicated on the financial intermediate statements, are the same as those used to prepare the annual statements as of December 31, 2008 and to the year ended on the same date, with exception of the stated below.

Taxes on income to the intermediate period are recognized on the best evaluation basis of the management to the average tax rate which relates to the expected annual income.

Standard which is valid for the financial period staring on January 1, 2009:
International financial standard 1 (reviewd) "financial statements presentation" ("hereafter –IAS" 1 (R)). 1(R) IAS forbid the presentation of profit and loss items and consist capital changes that are not from transactions with shareholders (hereafter – "comprehensive income"), in statement of change in shareholder equity, with the demand to present the comprehensive income separated from the changes from transactions with shareholders validated as owners. All comprehensive income items must be presented in the comprehensive income statement. Even so, an identity may choose to present all expenses and income items recognized in the period of the only comprehensive income statement in tow statements: statement which presents profit or loss (separated consolidated statements) and a second statement which starts with profit and loss and presents other comprehensive income items (comprehensive income statement).

The group chose to present all expenses and income items recognized in the period in the single report on comprehensive income.

More of, an adjustment to IAS1 (R) became valid, starting from January 1, 2009. The adjustment stated that only part of the assets and financial obligations recognized as "held for trading" with accordance to international financial statement 39 – "financial implements: recognition and measurement" are an example to assets and obligations classified as current. In order to implement the above mentioned adjustment there was no significant influence on the Group's financial statements.

As detailed in the group's annual financial statements as of December 31, 2008 and to the year ended on the same date, standards, adjustments and interpretations to additional existing standards which got validity and are obligated for the financial periods starting from January 1, 2009, but their implementations for the first time there is no significant influence on the Group's financial statements.

Delta Galil Industries Ltd.
Summary consolidated notes as of September 30, 2009 (Un-audited)

Note 3 – Segment reporting:

	Delta USA mass market	Intimate Apparel –UK, US Upper Market and Europe	Socks	Seamless knitwear	Delta Marketing Israel	Adjustments for Consolidated	Total
	$ in thousand (Un – audited)						
A period of 3 months ended on September 30, 2009:							
Sales to external customers	64,781	41,710	28,050	8,871	18,451	643	162,506
Inter segment	1,801	2,400	26	7	-	(4,234)	-
Total sales, net	66,582	44,110	28,076	8,878	18,451	(3,591)	162,506
Segment profit (loss)	1,916	3,161	1,877	(212)	2,796	(613)	8,925
Restructuring expenses	-	-	474	-	-	-	474
Segment profit (loss) after restructuring expenses	1,916	3,161	1,403	(212)	2,796	(613)	8,451
Financial expenses						(1,419)	(1,419)
Share in profit of associated company						42	42
Profit before taxes on income							7,074

	Delta USA mass market	Intimate Apparel – UK, US Upper Market and Europe	Socks	Seamless knitwear	Delta Marketing Israel	Adjustments for Consolidated	Total
	$ in thousand (Un – audited)						
A period of 3 months ended on September 30, 2008:							
Sales to external customers	70,739	42,648	25,701	7,535	20,069	982	167,674
Inter segment	-	2,701	-	1,192	-	(3,893)	-
Total sales, net	70,739	45,349	25,701	8,727	20,069	(2,911)	167,674
Segment profit (loss)	1,705	(2,227)	(17)	(2,123)	3,107	(437)	8
Financial expenses						(2,717)	(2,717)
Share in losses of associated company						(55)	(55)
Loss before taxes on income							(2,764)

Note 3 – Segment reporting (continuance):

	Delta USA mass market	Intimate Apparel –UK, US Upper Market and Europe	Socks	Seamless knitwear	Delta Marketing Israel	Adjustments for Consolidated	Total
	$ in thousand (Un – audited)						
A period of 9 months ended on September 30, 2009:							
Sales to external customers	173,738	96,921	76,194	23,005	50,224	1,761	421,843
Inter segment	1,901	3,732	99	845	-	(6,577)	-
Total sales, net	175,639	100,653	76,293	23,850	50,224	(4,816)	421,843
Segment profit (loss)	3,444	(1,045)	2,566	(1,373)	4,990	(357)	8,225
Restructuring expenses	-	-	474	-	-	-	474
Segment profit (loss) after restructuring expenses	3,444	(1,045)	2,092	(1,373)	4,990	(357)	7,751
Financial expenses						(5,043)	(5,043)
Share in profit of associated company						41	41
Profit before taxes on income							2,749

	Delta USA mass market	Intimate Apparel – UK, US Upper Market and Europe	Socks	Seamless knitwear	Delta Marketing Israel	Adjustments for Consolidated	Total
	$ in thousand (Un – audited)						
A period of 9 months ended on September 30, 2008:							
Sales to external customers	193,736	128,491	81,062	16,629	56,708	2,706	479,332
Inter segment	-	6,554	5	6,533	49	(13,141)	-
Total sales, net	193,736	135,045	81,067	23,162	56,757	(10,435)	479,332
Segment profit (loss)	4,871	(5,657)	1,028	(3,067)	9,389	(1,612)	4,952
Financial expenses						(7,000)	(7,000)
Share in losses of associated company						(55)	(55)
Loss before taxes on income							(2,103)

Delta Galil Industries Ltd.

Summary consolidated notes as of September 30, 2009 (An-audited)

Note 3 – Segment reporting (continuance)**:**

	Delta USA mass market	Intimate Apparel – UK, US Upper Market and Europe	Socks	Seamless knitwear	Delta Marketing Israel	Adjustments for Consolidated	Total
	$ in thousand (Audited)						
Year ended on December 31, 2008:							
Sales to external customers	253,577	159,516	106,412	22,690	77,496	3,143	622,834
Inter segment	-	9,263	26	6,713	49	(16,051)	-
Total sales, net	253,577	168,779	106,438	29,403	77,545	(12,908)	622,834
Segment profit (loss) before restructuring expenses and impairment of goodwill	5,974	(10,778)	(689)	(3,623)	12,724	(2,780)	828
Restructuring expenses	-	7,501	1,370	291	-		9,162
Impairment of goodwill	5,586	1,806	-	-	-	-	7,392
Segment profit (loss) after restructuring expenses and impairment of goodwill	388	(20,085)	(2,059)	(3,914)	12,724	(2,780)	(15,726)
Financing expenses, net						(7,479)	(7,479)
Company's share in associated company loss						(55)	(55)
Loss before taxes on income							(23,260)

Note 4 – Options to employees

On July 13th 2009 the Company's Board of Directors have decided to grant, from the options granted in 2006 plan, 325,500 options to 120 employees, in an exercise price of $3.02 per option (equal to the average share price in the last 30 trading days prior to the decision).

On August 2009 the Company's Board of directors has decided to adopt an option plan to employees, officers, directors' consultants and other service suppliers of the Company and its subsidiaries (hereinafter "offerees"). The options will be granted with no return. In the frame of the plan the Company will be able to grant up to 800,000 option warrant, non tradable, that can be converted to up to 800,000 ordinary shares amounted to 1 NIS per share. The execution price of each option warrant will be determined by the Company's board of directors by its exclusive judgment and according to the law.
On that day the board of directors has decided to adopt the option plan to American employees of the Company and its subsidiaries. In the frame of this plan the Company will be able to grant up to 300,000 option warrants, non tradable, that can be converted to up to 300,000 ordinary shares amounted to 1 NIS per share.

On September 3rd 2009, the board of directors have decided that 30,000 options from 2006 plan, will be granted to the Company's employee, these options can be converted to 30,000 ordinary Company non tradable shares amounted to 1 NIS per share. The executions price of each option will be 3.35 USD. The execution of 10,000 of these options will be 12 months from the granted day and the executions of the rest of the options is obligated to profit operational targets.

On November 9th 2009, the Company's Board of directors approved the grant of 250,000 options to Mr. Shlomo Doron. The options grant is in accordance to the resolutions of the Audit Committee and the Board of Directors as mentioned above and according to the conditions included in his employment agreement. The exercise price for each option is $3.072 and the value per option according to the Black and Scholes model is $2.44.

Note 5 – Subsequent event

On April 2, 2009, the transaction of purchasing assets and part of operations of Gibor sports active wear Ltd. (Gibor) was completed, in the design, development, production, sales and marketing of socks, after the conditioned terms in the agreement (which were detailed in the last immediate report)were met.

Note 5 – Subsequent event – (continuance)

The purchase of Gibor's assets was done in order to extent and leverage the Company's activity in the socks field.

According to the agreement, the Company purchased from Gibor all machinery and equipment which Gibor owned in the socks field (hereinafter the operation field); the list of customers in the operation field and connections with them (as much as possible to transfer), with no obligation from Gibor side as for the continuance of the operations with them, all

knowledge of Gibor in the operation field and 100% of the issued capital of the Company owned by Gibor. The Company will purchase the inventory of Gibor in order to complete the deal, as detailed in the agreement.

Total value for the assets purchased, with the exception of inventory, amount to $5,701 thousands from which $5,343 thousands was paid at the transaction completion date, 35 thousands was paid during Q3 2009, and the rest will be transferred during Q4 2009.
In addition, the Company purchased the inventory Gibor holds at the date of the transaction completion as mentioned above for $2,568 thousands.

Note 6 –Taxes on Income

The Company income in Israel, liable to the Companies tax in a regular rate; according to the income tax amendment (2005) from August 2005, a tax rate gradual reduction was ruled, in result of this amendment the companies' tax rate apply to the year 2008 are: 2008 – 27%, 2009 – 26%, 2010 onwards – 25%.

On July 2009 a economic efficiency law was published (law adjustments implementations to the 2009 and 2010 economic plan), 2009 (hereinafter – 2009 adjustment) that ruled, amongst others, an additional tax rate gradual reduction for 2011 and onwards tax years as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 onwards – 18%.

Note 7 –Event after the report period

1. On October 20^{th} 2009 a general and special shareholders meeting adopted an options grant to Mr Isaac Dabah the CEO, a director and the principal shareholder of the Company.
   Mr Dabah was granted with 720,000 options at the price of $3.27 per option that can be exercised to 720,000 ordinary shares. The vesting of these options is subject to performance conditions regarding the operational profit from ordinary actions not including non recurring items (EBIT) during the years 2010-2013. The average economic value of the

Note 7 –Event after the report period – (continuance)

options according to Black & Scholes option – pricing model amounted to $1.64.
In addition, the general and special shareholders meeting approved a grant of 50,000 non-tradable options to five Company directors in the price of $5 per option that can be exercised to 50,000 ordinary shares. In addition, a grant of 10,000 options that can be exercised to 10,000 ordinary shares was approved to the Chairman of the Board. The vesting of these options will be three years from the grant date, so that at the end of each full year of service as a director a third of total granted options will be vested.

The average economic value of these options according to Black & Scholes option-pricing model amounted to $1.13.
In addition, the shareholders meeting approved an increase of the Company's registered capital by 10,000,000 ordinary shares in the amount of 1 NIS N.V. each. The Company's registered capital will be 36,000,000 NIS divided to 36,000,000 ordinary shares of 1 NIS N.V. per share.

2. On October 27th 2009, the Company published a Shelf Prospectus report of rights offering and of registration at the Tel Aviv stock exchange. The rights offering include between 4,685,200 to 4,800,893 ordinary shares of 1 NIS N.V. each, assuming that all shares will be fully utilized, the offered shares, immediately following the issuing, in accordance to the shelf registration offer, will represent approximately 20% of the Company's registered and paid up share capital and approximately 19% on full dilution basis. The offered shares are issued by rights Offering to the Company's shareholders, that were registered in Company's shareholders register at the end of the trading day, of November 2nd 2009 in a way that every shareholder that holds 4 ordinary shares will be entitled to purchase one share at the price of 17 NIS.

3. On October 28th 2009, the Company published a private offering report with respect to the grant of 10,000 options (not registered) to an external director at the exercise price of $5 for each option that can be exercised to 10,000 ordinary shares. The vesting date of these options will be three years from the grant date, so that at the end of each full year of service a third of total granted options will be vested. The grant is subject to the approval of the general meeting expected to take place on December 7th 2009.