

SUPERIOR UNIFORM GROUP INC  
Form 10-Q  
October 21, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

Commission file number 001-05869

**SUPERIOR UNIFORM GROUP, INC.**

Edgar Filing: SUPERIOR UNIFORM GROUP INC - Form 10-Q

**Florida  
Incorporated**

**11-1385670  
Employer Identification No.**

**10055 Seminole Boulevard**

**Seminole, Florida 33772-2539**

**Telephone No.: 727-397-9611**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 18, 2010, the Registrant had 5,926,301 common shares outstanding, which is the registrant's only class of common stock.

**PART I - FINANCIAL INFORMATION**

## ITEM 1. Financial Statements

**SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
**THREE MONTHS ENDED SEPTEMBER 30,**  
**(Unaudited)**

	2010	2009	
Net sales	<b>\$ 27,301,355</b>	\$ 27,605,397	
Costs and expenses:			
Cost of goods sold	<b>17,357,408</b>	18,638,756	
Selling and administrative expenses	<b>7,953,631</b>	7,241,362	
Interest expense	<b>8,228</b>	28,325	
	<b>25,319,267</b>	25,908,443	
Earnings before taxes on income	<b>1,982,088</b>	1,696,954	
Income tax expense	<b>610,000</b>	440,000	
Net earnings	<b>\$ 1,372,088</b>	\$ 1,256,954	
Weighted average number of shares outstanding during the period			
	(Basic)	<b>5,900,595</b>	6,014,666
	(Diluted)	<b>5,954,578</b>	6,014,867
Per Share Data:			
Basic			
Net earnings	<b>\$ 0.23</b>	\$ 0.21	
Diluted			
Net earnings	<b>\$ 0.23</b>	\$ 0.21	
Cash dividends per common share	<b>\$ 0.135</b>	\$ 0.135	

See accompanying notes to condensed consolidated interim financial statements.

**SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

**NINE MONTHS ENDED SEPTEMBER 30,**

**(Continued)**

**(Unaudited)**

	2010	2009
Net sales	<b>\$ 79,910,378</b>	\$ 76,293,014
Costs and expenses:		
Cost of goods sold	<b>51,650,960</b>	51,637,676
Selling and administrative expenses	<b>23,919,637</b>	22,547,019
Interest expense	<b>16,306</b>	93,038
	<b>75,586,903</b>	74,277,733
Earnings before taxes on income	<b>4,323,475</b>	2,015,281
Income tax expense	<b>1,460,000</b>	560,000
Net earnings	<b>\$ 2,863,475</b>	\$ 1,455,281
Weighted average number of shares outstanding during the period		
	(Basic)	5,903,457
	(Diluted)	5,957,409
Per Share Data:		
Basic		
Net earnings	<b>\$ 0.49</b>	\$ 0.24
Diluted		
Net earnings	<b>\$ 0.48</b>	\$ 0.24
Cash dividends per common share	<b>\$ 0.405</b>	\$ 0.405

See accompanying notes to condensed consolidated interim financial statements.

## SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2010 (Unaudited)	December 31, 2009 (1)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 10,353,829	\$ 6,365,557
Accounts receivable and other current assets	19,366,370	20,708,963
Inventories*	30,929,183	32,053,504
<b>TOTAL CURRENT ASSETS</b>	<b>60,649,382</b>	59,128,024
PROPERTY, PLANT AND EQUIPMENT, NET	9,816,575	10,868,296
OTHER INTANGIBLE ASSETS, NET	1,007,384	1,295,859
DEFERRED INCOME TAXES	1,910,000	2,060,000
OTHER ASSETS	191,805	215,684
	<b>\$ 73,575,146</b>	\$ 73,567,863

LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 5,776,951	\$ 5,426,433
Other current liabilities	3,297,347	2,226,653
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,074,298</b>	7,653,086
LONG-TERM PENSION LIABILITY	2,550,357	5,115,817
OTHER LONG-TERM LIABILITIES	700,000	680,000
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$1 par value - authorized 300,000 shares (none issued)		
Common stock, \$.001 par value - authorized 50,000,000 shares, issued and outstanding - 5,910,927 and 5,915,978 shares, respectively.	5,911	5,915
Additional paid-in capital	16,123,002	15,436,945
Retained earnings	48,704,384	48,483,697
Accumulated other comprehensive loss, net of tax:		
Pensions	(3,582,806)	(3,807,597)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>61,250,491</b>	60,118,960
	<b>\$ 73,575,146</b>	\$ 73,567,863

\* Inventories consist of the following:

September 30, 2010	December 31, 2009
--------------------------	----------------------

Edgar Filing: SUPERIOR UNIFORM GROUP INC - Form 10-Q

	(Unaudited)	
Finished goods	\$ 23,642,172	\$ 24,770,636
Work in process	73,611	169,961
Raw materials	7,213,400	7,112,907
	\$ 30,929,183	\$ 32,053,504

(1) The balance sheet as of December 31, 2009 has been derived from the audited balance sheet as of that date and has been condensed. See accompanying notes to condensed consolidated interim financial statements.

**SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**NINE MONTHS ENDED SEPTEMBER 30,**  
**(Unaudited)**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 2,863,475	\$ 1,455,281
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	1,943,849	2,213,439
Provision for bad debts	181,113	88,198
Share-based compensation expense	532,220	274,793
Deferred income tax provision (benefit)	29,250	(256,250)
Gain on sales of property, plant and equipment	(54,437)	(136,786)
Changes in assets and liabilities:		
Accounts receivable and other current assets	1,175,273	(1,081,543)
Inventories	1,124,321	12,204,225
Other assets	(5,164)	40,801
Accounts payable	350,518	910,581
Accrued expenses	1,070,694	(545,852)
Pension liability	(2,219,919)	450,698
Other long-term liabilities	20,000	(25,000)
<b>Net cash provided from operating activities</b>	<b>7,011,193</b>	<b>15,592,585</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(609,875)	(729,470)
Disposals of property, plant and equipment	60,659	276,039
Other assets		5,000
Proceeds from notes receivable collections	15,250	43,412
<b>Net cash used in investing activities</b>	<b>(533,966)</b>	<b>(405,019)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	3,035,000	11,917,000
Repayment of long-term debt	(3,035,000)	(15,946,604)
Payment of cash dividends	(2,391,831)	(2,442,524)
Proceeds received on exercise of stock options	245,899	
Common stock reacquired and retired	(343,023)	(358,846)
<b>Net cash used in financing activities</b>	<b>(2,488,955)</b>	<b>(6,830,974)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,988,272</b>	<b>8,356,592</b>
Cash and cash equivalents balance, beginning of year	6,365,557	133,152
<b>Cash and cash equivalents balance, end of period</b>	<b>\$ 10,353,829</b>	<b>\$ 8,489,744</b>

See accompanying notes to condensed consolidated interim financial statements.



SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(Unaudited)

**NOTE 1 Summary of Significant Interim Accounting Policies:**

a) Basis of presentation

The condensed consolidated interim financial statements include the accounts of Superior Uniform Group, Inc. and its wholly owned subsidiaries Fashion Seal Corporation and Superior Office Solutions, and their jointly owned subsidiaries, The Office Gurus and The Office Masters. They also include Superior Office Solutions S.A. and Scratt Kit S.R.L., wholly owned subsidiaries of Superior Office Solutions. Intercompany items have been eliminated in consolidation. The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, and filed with the Securities and Exchange Commission. The interim financial information contained herein is not certified or audited; it reflects all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements. The unaudited financial information included in this report as of and for the three and nine months ended September 30, 2010 has been reviewed by Grant Thornton LLP, independent registered public accounting firm, and their review report thereon accompanies this filing. Such review was made in accordance with established professional standards and procedures for such a review. The results of operations for any interim period are not necessarily indicative of results to be expected for the full year.

b) Revenue recognition

The Company records revenue as products are shipped and title passes. A provision for estimated returns and allowances is recorded based on historical experience and current allowance programs.

c) Recognition of costs and expenses

Costs and expenses other than product costs are charged to income in interim periods as incurred, or allocated among interim periods based on an estimate of time expired, benefit received or activity associated with the periods. Procedures adopted for assigning specific cost and expense items to an interim period are consistent with the basis followed by the registrant in reporting results of operations at annual reporting dates. However, when a specific cost or expense item charged to expense for annual reporting purposes benefits more than one interim period, the cost or expense item is allocated to the interim periods.

d) Advertising expenses

The Company expenses advertising costs as incurred. Advertising costs for the three-month periods ended September 30, 2010 and 2009, respectively were \$14,000 and \$10,000. Advertising costs for the nine-month periods ended September 30, 2010 and 2009, respectively were \$46,000 and \$52,000.

e) Shipping and handling fees and costs

## Edgar Filing: SUPERIOR UNIFORM GROUP INC - Form 10-Q

The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with in-bound and out-bound freight are generally recorded in cost of goods sold. Other shipping and handling costs such as labor and overhead are included in selling and administrative expenses and totaled \$1,537,000 and \$1,574,000 for the three months ended September 30, 2010 and 2009, respectively. Other shipping and handling costs included in selling and administrative expenses totaled \$4,652,000 and \$4,805,000 for the nine months ended September 30, 2010 and 2009, respectively.

f) Inventories

Inventories at interim dates are determined by using both perpetual records on a first-in, first-out basis and gross profit calculations.

g) Accounting for income taxes

The provision for income taxes is calculated by using the effective tax rate anticipated for the full year.

h) Employee benefit plan settlements

The Company recognizes settlement gains and losses in its financial statements when the cost of all settlements in a year is greater than the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year.

i) Earnings per share

Historical basic per share data is based on the weighted average number of shares outstanding. Historical diluted per share data is reconciled by adding to weighted average shares outstanding the dilutive impact of the exercise of outstanding stock options and stock appreciation rights.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net earnings used in the computation of basic and diluted earnings per share	\$ 1,372,088	\$ 1,256,954	\$ 2,863,475	\$ 1,455,281
Weighted average shares outstanding - basic	5,900,595	6,014,666	5,903,457	6,031,261
Common stock equivalents	53,983	201	53,952	67
Weighted average shares outstanding - diluted	5,954,578	6,014,867	5,957,409	6,031,328
<b>Per Share Data:</b>				
<b>Basic</b>				
Net earnings	\$ 0.23	\$ 0.21	\$ 0.49	\$ 0.24
<b>Diluted</b>				
Net earnings	\$ 0.23	\$ 0.21	\$ 0.48	\$ 0.24

Awards to purchase 401,125 and 1,037,000 shares of common stock with weighted average exercise prices of \$12.18 and \$11.08 per share were outstanding during the three-month periods ending September 30, 2010 and 2009, respectively, but were not included in the computation of diluted EPS because the awards' exercise prices were greater than the average market price of the common shares.

Awards to purchase an average of 539,175 and 1,057,000 shares of common stock with weighted average exercise prices of \$11.75 and \$11.28 per share were outstanding during the nine-month periods ending September 30, 2010 and 2009, respectively, but were not included in the computation of diluted EPS because the awards' exercise prices were greater than the average market price of the common shares.

j) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Edgar Filing: SUPERIOR UNIFORM GROUP INC - Form 10-Q

### k) Comprehensive income

Total comprehensive income represents the change in equity during a period from sources other than transactions with shareholders and, as such, includes net earnings. For the Company, the only other components of total comprehensive income are the change in the fair value of derivatives accounted for as cash flow hedges and pension costs.

	Three Months		Nine Months	
	Ended September 30, 2010	2009	Ended September 30, 2010	2009
Net earnings	\$ 1,372,088	\$ 1,256,954	\$ 2,863,475	\$ 1,455,281
Other comprehensive income:				
Net unrealized gain during the period related to cash flow hedges				5,000
Pensions - reclassification to net earnings during the period	74,930	109,361	224,791	328,085
	\$ 1,447,018	\$ 1,366,315	\$ 3,088,266	\$ 1,788,366

l) Operating Segments

Accounting standards require disclosures of certain information about operating segments and about products and services, geographic areas in which the Company operates, and their major customers. The Company has evaluated its operations and has determined that currently it operates in one segment, as defined in the standards.

m) Derivative Financial Instruments

The Company has had only limited involvement with derivative financial instruments. The Company had one interest rate swap agreement to hedge against the potential impact on earnings from increases in market interest rates associated with interest payments on a variable rate term loan.

This interest rate swap was accounted for as a cash flow hedge. This swap expired on April 1, 2009. No gains or losses were included in other comprehensive income for the three months ended September 30, 2010 and 2009, respectively. Gains of \$-0- and \$5,000 were included in other comprehensive income for the nine months ended September 30, 2010 and 2009, respectively. The original term of the contract was ten years.

n) Share-Based Compensation

The Company awards share-based compensation as an incentive for employees to contribute to the Company's long-term success. Historically, the Company has issued options and stock settled stock appreciation rights. At September 30, 2010, the Company had 1,557,200 shares of common stock authorized for awards of share-based compensation under its 2003 Incentive Stock and Awards Plan.

For the three months ended September 30, 2010 and 2009, respectively, the Company recognized \$123,000 and \$84,000 of share-based compensation, recorded in selling and administrative expense in the Condensed Consolidated Statements of Earnings. For the nine months ended September 30, 2010 and 2009, respectively, the Company recognized \$532,000 and \$275,000 of share-based compensation, recorded in selling and administrative expense in the Condensed Consolidated Statements of Earnings. This expense was offset by a \$38,000 and a \$13,000 deferred tax benefit for non-qualified share based compensation for the nine-month periods ended September 30, 2010 and 2009, respectively. As of September 30, 2010, the Company had no unrecognized compensation cost expected to be recognized for prior share-based awards.

The Company grants stock options and stock settled stock appreciation rights (SARS) to employees that allow them to purchase shares of the Company's common stock. Options are also granted to outside members of the Board of Directors of the Company. The Company determines the fair value of stock options and SARS at the date of grant using the Black-Scholes valuation model.

All options and SARS vest immediately at the date of grant. Awards generally expire five years after the date of grant with the exception of options granted to outside directors, which expire ten years after the date of grant. The Company issues new shares upon the exercise of stock options and SARS.

During the three-month periods ended September 30, 2010 and 2009, respectively, the Company received \$136,000 and \$-0- in cash from stock option exercises. During the nine-month periods ended September 30, 2010 and 2009, respectively, the Company received \$246,000 and \$-0- in cash from stock option exercises. No tax benefit was recognized for these exercises, as the options exercised were qualified incentive stock options.



A summary of options transactions during the nine months ended September 30, 2010 follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2009	745,650	\$ 10.65
Granted	199,970	9.76
Exercised	(30,174)	8.15
Lapsed	(105,875)	14.41
Cancelled	(10,250)	10.39
Outstanding September 30, 2010	799,321	\$ 10.03

At September 30, 2010, options outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$222,955.

Options exercised during the three and nine-month periods ended September 30, 2010 had intrinsic values of \$22,924 and \$42,031, respectively. There were no options exercised in the three and nine-month periods ended September 30, 2009. The weighted average grant date fair value of the Company's options granted during the three month periods ended September 30, 2010 and 2009 was \$2.23 and \$1.55, respectively. The weighted average grant date fair value of the Company's options granted during the nine month periods ended September 30, 2010 and 2009 was \$2.25 and \$1.18, respectively.

A summary of SARS transactions during the nine months ended September 30, 2010 follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2009	297,030	\$ 12.08
Granted	35,980	9.80
Exercised		
Lapsed	(82,000)	14.95
Cancelled		
Outstanding September 30, 2010	251,010	\$ 10.81

At September 30, 2010, SARS outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$31,311.

There were no SARS exercised during the three and nine-month periods ended September 30, 2010 and 2009. There were no SARS granted during the three-month periods ended September 30, 2010 and 2009. The weighted average grant date fair value of the Company's SARS granted during the nine months ended September 30, 2010 and 2009 was \$2.29 and \$1.05, respectively.

The following table summarizes significant assumptions utilized to determine the fair value of share-based compensation awards.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	SARS	Options	SARS	Options
<b>Exercise price</b>				
2010	N/A	\$ 9.76	\$ 9.80	\$9.41 - \$9.80
2009	N/A	\$ 8.08	\$ 7.89	\$7.63 - \$8.08
<b>Market price</b>				
2010	N/A	\$ 9.76	\$ 9.80	\$9.41 - \$9.80
2009	N/A	\$ 8.08	\$ 7.89	\$7.63 - \$8.08
<b>Risk free interest rate (1)</b>				
2010	N/A	1.5%	2.2%	1.5% - 3.6%
2009	N/A	2.8%	2.0%	2.0% - 3.2%
Expected award life (2)	N/A	5 years	5 years	5-10 years
<b>Expected volatility (3)</b>				
2010	N/A	42.1%	41.7%	35.3% - 42.1%
2009	N/A	38.2%	30.7%	30.7% - 38.2%
<b>Expected dividend yield (4)</b>				
2010	N/A	5.5%	5.5%	5.5% - 5.7%
2009	N/A	6.7%	6.8%	6.7% - 7.1%

- (1) The risk-free interest rate is based on the yield of a U.S. treasury bond with a similar maturity as the expected life of the awards.
- (2) The expected life in years for awards granted was based on the historical exercise patterns experienced by the Company when the award is made.
- (3) The determination of expected stock price volatility for awards granted in each of the three and nine-month periods ending September 30, was based on historical Superior common stock prices over a period commensurate with the expected life.
- (4) The dividend yield assumption is based on the history and expectation of the Company's dividend payouts.

**NOTE 2 Recent Accounting Pronouncements:**

In January 2010, the FASB issued Accounting Standards Update 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU, 2010-06). The ASU amends Subtopic 820-10 with new disclosure requirements and clarification of existing disclosure requirements. New disclosures required include the amount of significant transfers in and out of levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, the reconciliation for level 3 activity will be required on a gross rather than net basis. The ASU provides additional guidance related to the level of disaggregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. The amendments are effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the reconciliation for level 3 activity on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-6 did not have a material impact on our condensed consolidated financial statements.

**NOTE 3 Long-Term Debt:**

	September 30, 2010	December 31, 2009
Note payable to Wachovia, pursuant to revolving credit agreement, matured June 30, 2010	\$	\$
Note payable to Fifth Third Bank, pursuant to revolving credit agreement, maturing June 24, 2013	\$	\$

On June 25, 2010, the Company entered into a 3-year credit agreement with Fifth Third Bank that made available to the Company up to \$15,000,000 on a revolving credit basis. Interest is payable at LIBOR plus 0.90% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.16% at September 30, 2010). The Company pays an annual commitment fee





of 0.15% on the average unused portion of the commitment. The available balance under the credit agreement is reduced by outstanding letters of credit. As of September 30, 2010, there were no balances outstanding under letters of credit. The revolving credit agreement expires on June 24, 2013. At the option of the Company, any outstanding balance on the agreement at that date will convert to a one-year term loan. On June 30, 2010, the Company's previous revolving credit agreement with Wachovia Bank expired.

The credit agreement with Fifth Third Bank contains restrictive provisions concerning liabilities to tangible net worth ratios (.75:1), other borrowings, and fixed charges coverage ratio (2.5:1). The Company is in full compliance with all terms, conditions and covenants of the credit agreement.

**NOTE 4 Periodic Pension Expense:**

The following table presents the net periodic pension expense under our plans for the following periods:

	Three Months		Nine Months	
	Ended September 30, 2010	2009	Ended September 30, 2010	2009
Service cost - benefits earned during the period	\$ 158,000	\$ 181,000	\$ 474,000	\$ 544,000
Interest cost on projected benefit obligation	257,000	263,000	770,000	787,000
Expected return on plan assets	(306,000)	(212,000)	(810,000)	(635,000)
Amortization of prior service cost	8,000	8,000	23,000	23,000
Recognized actuarial loss	107,000	161,000	323,000	482,000
Net periodic pension cost	\$ 224,000	\$ 401,000	\$ 780,000	\$ 1,201,000

Contributions of \$3,000,000 were made to the Company's benefit plans during the nine months ended September 30, 2010. Contributions of \$1,000,000 were made to the Company's benefit plans during the nine months ended September 30, 2009.

**NOTE 5 Supplemental Cash Flow Information:**

Cash paid for income taxes was \$1,327,000 and \$867,000, respectively, for the nine-month periods ended September 30, 2010 and 2009. Cash paid for interest was \$26,000 and \$98,000, respectively, for the nine-month periods ended September 30, 2010 and 2009.

**NOTE 6 Contingencies:**

The Company is involved in various legal actions and claims arising from the normal course of business. In the opinion of management, the ultimate outcome of these matters will not have a material impact on the Company's results of operations, cash flows, or financial position.

**NOTE 7 Related Party Transactions:**

For the nine-month periods ended September 30, 2010 and 2009, the Company expensed approximately \$-0- and \$63,000 respectively, to Alpert Business Consulting, LLC, a private corporation owned by the son-in-law of the Company's Chief Executive Officer, for consulting services.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Superior Uniform Group, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of **Superior Uniform Group, Inc.** (a Florida Corporation) and subsidiaries as of September 30, 2010, the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 30, 2010 and 2009 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2010 and 2009. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2009, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ GRANT THORNTON LLP

Tampa, Florida

October 21, 2010

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

*Certain matters discussed in this Form 10-Q are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as we believe, anticipate, expect or words of similar import. Similarly, statements that describe our future plans, objectives, strategies or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that may materially adversely affect the anticipated results. Such risks and uncertainties include, but are not limited, to the following: general economic conditions in the areas of the United States in which the Company's customers are located; changes in the healthcare, resort and commercial industries where uniforms and service apparel are worn; the impact of competition; the availability of manufacturing materials, and other factors described in the Company's filings with the Securities and Exchange Commission, including those described in the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements made herein and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this Form 10-Q and we disclaim any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.*

**Critical Accounting Policies**

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate the estimates that we have made. These estimates are based upon our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Our actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting estimates are those that we believe require our most significant judgments about the effect of matters that are inherently uncertain. A discussion of our critical accounting estimates, the underlying judgments and uncertainties used to make them and the likelihood that materially different estimates would be reported under different conditions or using different assumptions is as follows:

***Allowance for Losses on Accounts Receivable***

These allowances are based on both recent trends of certain customers estimated to be a greater credit risk as well as general trends of the entire customer pool. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. An additional impairment in value of one percent of net accounts receivable would require an increase in the allowance for doubtful accounts and would result in additional expense of approximately \$171,000.

***Inventories***

Inventories are stated at the lower of cost or market value. Judgments and estimates are used in determining the likelihood that new goods on hand can be sold to customers. Historical inventory usage and current revenue trends are considered in estimating both excess and obsolete inventories. If actual product demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

***Insurance***

The Company self-insures for certain obligations related to health insurance programs. The Company also purchases stop-loss insurance policies to protect it from catastrophic losses. Judgments and estimates are used in determining the potential value associated with reported claims and for losses that have occurred, but have not been reported. The Company's estimates consider historical claim experience and other factors. The Company's liabilities are based on estimates, and, while the Company believes that the accrual for loss is adequate, the ultimate liability may be in excess of or less than the amounts recorded. Changes in claim experience, the Company's ability to settle claims or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

***Pensions***

The Company's pension obligations are determined using estimates including those related to discount rates, asset values and changes in compensation. The discount rates used for the Company's pension plans were determined based on the Citigroup Pension Yield Curve. This rate

## Edgar Filing: SUPERIOR UNIFORM GROUP INC - Form 10-Q

was selected as the best estimate of the rate at which the benefit obligations could be effectively settled on the measurement date taking into account the nature and duration of the benefit obligations of the plan using high-quality fixed-income investments currently available (rated AA or better) and expected to be available during the period to maturity of the benefits. The 8% expected return on plan assets was determined based on historical long-term investment returns as well as future expectations given target investment asset allocations and current economic conditions.

The 4.5% rate of compensation increase represents the long-term assumption for expected increases in salaries among continuing active participants accruing benefits under the plans. Interest rates and pension plan valuations may vary significantly based on worldwide economic conditions and asset investment decisions.

### ***Income Taxes***

The Company is required to estimate and record income taxes payable for federal and state jurisdictions in which the Company operates. This process involves estimating actual current tax expense and assessing temporary differences resulting from differing accounting treatment between tax and book that result in deferred tax assets and liabilities. In addition, accruals are also estimated for federal and state tax matters for which deductibility is subject to interpretation. Taxes payable and the related deferred tax differences may be impacted by changes to tax laws, changes in tax rates and changes in taxable profits and losses. Federal income taxes are not provided on that portion of unremitted earnings of foreign subsidiaries that are expected to be reinvested indefinitely. Reserves are also estimated for uncertain tax positions that are currently unresolved. The Company routinely monitors the potential impact of such situations and believes that it is properly reserved. We accrue interest and penalties related to unrecognized tax benefits in income tax expense, and the related liability is included in the total liability for unrecognized tax benefits.

### ***Share-based Compensation***

The Company recognizes expense for all share-based payments to employees, including grants of employee stock options, in the financial statements based on their fair values. Share-based compensation expense that was recorded in 2010 and 2009 includes the compensation expense for the share-based payments granted in those years. In the Company's share-based compensation strategy we utilize a combination of stock options and stock appreciation rights (SARS) that fully vest on the date of grant. Therefore, the fair value of the options and SARS granted is recognized as expense on the date of grant. The Company used the Black-Scholes-Merton valuation model to value any share-based compensation. Option valuation methods, including Black-Scholes-Merton, require the input of assumptions including the risk free interest rate, dividend rate, expected term and volatility rate. The Company determines the assumptions to be used based upon current economic conditions. The impact of changing any of the individual assumptions by 10% would not have a material impact on the recorded expense.

### **Results of Operations**

The current economic environment in the United States remains very challenging. While we are seeing increased activity, the employment outlook in the United States remains soft. Additionally, voluntary employee turnover at our customers has remained very low. The lack of job growth coupled with less voluntary attrition continues to weigh on the demand for our uniforms and service apparel. As a result of these factors, offset by approximately \$1,678,000 in net sales to customers acquired as a result of our acquisition of Blade Sportswear, Inc. in the fourth quarter of 2009, net sales decreased 1.1% from \$27,605,000 for the three months ended September 30, 2009 to \$27,301,000 for the three months ended September 30, 2010. Net sales increased 4.7% from \$76,293,000 for the nine months ended September 30, 2009 to \$79,910,000 for the nine months ended September 30, 2010. Net sales for the nine months ended September 30, 2010 included approximately \$4,563,000 to customers acquired as a result of our acquisition of Blade in the fourth quarter of 2009.

Cost of goods sold, as a percentage of sales, approximated 63.6% for the three months ended September 30, 2010 compared to 67.5% for the three months ended September 30, 2009. Cost of goods sold, as a percentage of sales, approximated 64.6% for the nine months ended September 30, 2010 compared to 67.7% for the nine months ended September 30, 2009. The decrease as a percentage of sales in the three-month period is attributed to a reduction in direct product costs. The decrease as a percentage of sales in the nine-month period is primarily attributed to a reduction in direct product costs (3.1%) with the balance coming from more efficient operations in our value added services area.

Selling and administrative expenses, as a percentage of sales, approximated 29.1% and 26.2% respectively, for the three-month periods ended September 30, 2010 and 2009. Selling and administrative expenses, as a percentage of net sales, were approximately 29.9% and 29.6%, respectively, for the first nine months of 2010 and 2009. The increase as a percentage of sales in the three-month period is primarily attributed to higher salaries, wages and benefits as a percentage of net sales in the current period (3.0%). The increase as a percentage of sales in the nine-month period is primarily attributed to higher salaries, wages and benefits as a percentage of net sales in the current period (0.6%) which was offset by higher net sales to cover operating expenses.

Interest expense of \$8,000 for the three-month period ended September 30, 2010 decreased from \$28,000 for the three-month period ended September 30, 2009. Interest expense of \$16,000 for the nine-month period ended September 30, 2010 decreased from \$93,000 for the nine-month period ended September 30, 2009. The decreases in the three and nine-month periods ended September 30, 2010 are attributed to lower outstanding borrowings.



The Company's effective tax rate for the three months ended September 30, 2010 was 30.8% versus 25.9% for the three months ended September 30, 2009. The 4.9% increase in such effective tax rate is attributed primarily to the following: an increase in the rate from the impact of permanent differences between book and tax basis earnings related to share-based compensation (1.5%), a reduction in the benefit for untaxed foreign income (3.0%), and the impact of other items (0.4%). The Company's effective tax rate for the nine months ended September 30, 2010 was 33.8% versus 27.8% for the nine months ended September 30, 2009. The 6.0% increase in such effective tax rate is attributed primarily to the following: a reduction in the benefit for untaxed foreign income (3.0%), an increase in the quarterly accrual for uncertain tax positions (1.7%), an increase in the rate from the impact of permanent differences between book and tax basis earnings related to share-based compensation (1.5%), and offset by the impact of other items (0.2%).

### **Liquidity and Capital Resources**

Accounts receivable and other current assets decreased 6.5% from \$20,709,000 on December 31, 2009 to \$19,366,000 as of September 30, 2010. Accounts receivable, net of allowance decreased \$863,000 as a result of an overall improvement in aging of receivables (\$387,000) and a reduction in receivables due from our suppliers (\$476,000). Other current assets decreased by \$480,000 due primarily to timing of prepayments.

Inventories decreased 3.5% from \$32,054,000 on December 31, 2009 to \$30,929,000 as of September 30, 2010. This decrease is due to timing of receipts of inventory and it is anticipated that we will increase inventory levels during the balance of the year.

Accounts payable increased 6.5% from \$5,426,000 on December 31, 2009 to \$5,777,000 on September 30, 2010. This increase is primarily due to the timing of inventory purchases.

Other current liabilities increased 48.0% from \$2,227,000 on December 31, 2009 to \$3,297,000 on September 30, 2010 primarily due to increased accruals for salaries, wages and benefits in the current period (\$1,039,000). This increase is attributed to increased accruals for incentive compensation as a result of improved operating performance in the current period (\$465,000) and increased accruals for salaries, wages and vacations due to timing (\$575,000).

Long term pension liability decreased by 50.2% from \$5,116,000 on December 31, 2009 to \$2,550,000 on September 30, 2010 due primarily to \$3,000,000 in contributions to the plans by the Company in the current year offset by current year accruals of benefits. The Company initially had planned to make \$1,000,000 in contributions to the plans in the current year. However, given the underfunded status of the plans and the Company's cash position, we elected to make an additional \$2,000,000 contribution in the current period.

Cash and cash equivalents increased by \$3,988,000 from \$6,366,000 on December 31, 2009 to \$10,354,000 as of September 30, 2010. The Company generated \$7,011,000 in cash from operating activities, and utilized \$534,000 in investing activities primarily related to fixed asset additions of \$610,000, offset by proceeds from disposals of fixed assets of \$61,000, and used \$2,489,000 in financing activities. Financing activities included the payment of cash dividends as discussed below, in addition to the purchase of \$343,000 of the Company's common stock pursuant to the Company's share repurchase program.

In the foreseeable future, the Company will continue its ongoing capital expenditure program designed to maintain and improve its facilities. The Company at all times evaluates its capital expenditure program in light of prevailing economic conditions.

During the nine months ended September 30, 2010 and 2009, respectively, the Company paid cash dividends of \$2,392,000 and \$2,443,000. The Company purchased 35,125 and 49,355 shares of its outstanding common stock at a total cost of \$343,000 and \$359,000 in the nine-month periods ended September 30, 2010 and 2009, respectively, pursuant to the Company's share repurchase program. The Company anticipates that it will continue to pay dividends and that it will repurchase and retire additional shares of its common stock in the future as financial conditions permit.

On June 25, 2010, the Company entered into a 3-year credit agreement with Fifth Third Bank that made available to the Company up to \$15,000,000 on a revolving credit basis. Interest is payable at LIBOR plus 0.90% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.16% at September 30, 2010). The Company pays an annual commitment fee of 0.15% on the average unused portion of the commitment. The available balance under the credit agreement is reduced by outstanding letters of credit. As of September 30, 2010, there were no balances outstanding under letters of credit. The revolving credit agreement expires on June 24, 2013. At the option of the Company, any outstanding balance on the agreement at that date will convert to a one-year term loan. On June 30, 2010, the Company's previous revolving credit agreement with Wachovia Bank expired.





The credit agreement with Fifth Third Bank contains restrictive provisions concerning liabilities to tangible net worth ratios (.75:1), other borrowings, and fixed charges coverage ratio (2.5:1). The Company is in full compliance with all terms, conditions and covenants of the credit agreement.

The Company believes that its cash flow from operating activities together with other capital resources and funds from credit sources will be adequate to meet all of its funding requirements for the remainder of the year and for the foreseeable future.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**ITEM 4. Controls and Procedures**

The Principal Executive Officer, Michael Benstock, and the Principal Financial Officer, Andrew D. Demott, Jr., evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report (the Evaluation Date), and, based on such evaluation, concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure that information the Company is required to disclose in its filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting identified in connection with this evaluation required by Rule 13a-15(d) under the Exchange Act that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

None.

**ITEM 1A. Risk Factors**

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. There have been no material changes to the Risk Factors described in Part I, Item 1A-Risk Factors in our annual report on Form 10-K for the year ended December 31, 2009.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There were no unregistered sales of equity securities during the quarter ended September 30, 2010.

**ISSUER PURCHASES OF EQUITY SECURITIES**

The table below sets forth information with respect to purchases made by or on behalf of Superior Uniform Group, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common shares during the three months ended September 30, 2010.



Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Month #1 (July 1, 2010 to July 31, 2010)	1,170	\$ 10.03	1,170	
Month #2 (August 1, 2010 to August 31, 2010)	2,423	\$ 9.98	2,423	
Month #3 (September 1, 2010 to September 30, 2010)	3,795	\$ 10.02	3,795	
TOTAL	7,388	\$ 10.01	7,388	406,019

- (1) In July 2002, the Company's Board of Directors authorized the Company to repurchase 750,000 shares of its common stock. Through May 4, 2006, the Company repurchased 728,098 shares of its common stock under such repurchase program. On May 5, 2006, the Company's Board of Directors approved additional repurchases of 750,000 shares of the Company's outstanding shares of common stock. Through July 31, 2008, the Company repurchased 625,881 shares of its common stock under such repurchase program. On August 1, 2008, the Company's Board of Directors approved an increase to the outstanding authorization to allow for the repurchase of 1,000,000 additional shares of the Company's outstanding shares of common stock. There is no expiration date or other restriction governing the period over which the Company can make share repurchases under the program. All such purchases were open market transactions. Under our credit agreement with Fifth Third, if an event of default exists, we may not make distributions to our shareholders. The Company is in full compliance with all terms, conditions and covenants of its credit agreement.

**ITEM 3. Defaults Upon Senior Securities**

Inapplicable.

**ITEM 4. Removed and Reserved**

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

See Exhibit Index.

**SIGNATURES**

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

Date: October 21, 2010

SUPERIOR UNIFORM GROUP, INC.

By /s/ Michael Benstock  
Michael Benstock  
Chief Executive Officer (Principal Executive Officer)

By /s/ Andrew D. Demott, Jr.  
Andrew D. Demott, Jr.  
Exec. Vice President, Chief Financial Officer and  
Treasurer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
15	Grant Thornton LLP Awareness Letter.
31.1	Certification by the Chief Executive Officer (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer (Principal Financial and Accounting Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.