SUPERIOR UNIFORM GROUP INC
Form 10-Q
April 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM lO-Q

(Mark One)

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

For the quarter ended March 31, 2013

OR

o 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.

Incorporated - Florida	Employer Identification No. 11-1385670

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 [X] 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 [X] 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 [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of April 16, 2013 the registrant had 6,122,790 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
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended March 31,
(Unaudited)

		2013	2012
Net sales		$30,985,000	$28,508,000
Costs and expenses:			
Cost of goods sold		19,672,000	19,046,000
Selling and administrative expenses		9,557,000	8,914,000
Interest expense		7,000	11,000
		29,236,000	27,971,000
Income before taxes on income		1,749,000	537,000
Income tax expense		520,000	210,000
Net income		$1,229,000	$327,000
Weighted average number of shares outstanding during the period			
	(Basic)	6,121,180	6,025,874
	(Diluted)	6,169,475	6,142,616
Per Share Data:			
Basic			
Net income		$0.20	$0.05
Diluted			
Net income		$0.20	$0.05
Other comprehensive income, net of tax:			
Defined benefit pension plans:			
Amortization of prior service costs included in net periodic pension costs		2,000	3,000
Recognition of net losses included in net periodic pension costs		190,000	158,000
Other comprehensive income		192,000	161,000
Comprehensive income		$1,421,000	488,000
Cash dividends per common share		$-	$0.135

See accompanying notes to consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2013 (Unaudited)	December 31, 2012
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,493,000	3,554,000
Accounts receivable - trade	17,318,000	16,655,000
Accounts receivable - other	3,312,000	2,995,000
Prepaid expenses and other current assets	2,665,000	2,794,000
Inventories*	39,340,000	39,246,000
TOTAL CURRENT ASSETS	66,128,000	65,244,000
PROPERTY, PLANT AND EQUIPMENT, NET	8,962,000	8,723,000
OTHER INTANGIBLE ASSETS, NET	523,000	559,000
DEFERRED INCOME TAXES	4,630,000	4,205,000
OTHER ASSETS	163,000	182,000
	$ 80,406,000	$ 78,913,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,246,000	6,629,000
Other current liabilities	2,843,000	3,222,000
TOTAL CURRENT LIABILITIES	9,089,000	9,851,000
LONG TERM DEBT	120,000	-
LONG-TERM PENSION LIABILITY	10,545,000	10,468,000
OTHER LONG-TERM LIABILITIES	700,000	736,000
DEFERRED INCOME TAXES	90,000	70,000
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value - authorized 300,000 shares (none issued)	-	-
Common stock, $.001 par value - authorized 50,000,000 shares, issued and outstanding - 6,122,790 and 6,115,907, respectively.	6,000	6,000
Additional paid-in capital	21,941,000	21,288,000
Retained earnings	45,680,000	44,451,000
Accumulated other comprehensive loss, net of tax:		
Pensions	(7,765,000)	(7,957,000)
TOTAL SHAREHOLDERS' EQUITY	59,862,000	57,788,000
	$ 80,406,000	$ 78,913,000

* Inventories consist of the following:

	March 31,	December 31,

	2013 (Unaudited)	2012
Finished goods	$27,846,000	27,382,000
Work in process	58,000	71,000
Raw materials	11,436,000	11,793,000
	$39,340,000	$39,246,000

See accompanying notes to consolidated interim financial statements.

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SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31,
(Unaudited)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,229,000	$ 327,000
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	349,000	614,000
Provision for bad debts - accounts receivable	27,000	19,000
Share-based compensation expense	590,000	675,000
Deferred income tax benefit	(503,000)	(303,000)
Gain on sales of property, plant and equipment	-	(1,000)
Changes in assets and liabilities:		
Accounts receivable - trade	(690,000)	(113,000)
Accounts receivable - other	(317,000)	8,000
Inventories	(94,000)	810,000
Prepaid expenses and other current assets	129,000	373,000
Other assets	19,000	(35,000)
Accounts payable	(383,000)	(426,000)
Other current liabilities	(379,000)	(1,729,000)
Pension liability	367,000	331,000
Other long-term liabilities	(36,000)	15,000
Net cash flows provided from operating activities	308,000	565,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(554,000)	(423,000)
Disposals of property, plant and equipment	2,000	1,000
Net cash used in investing activities	(552,000)	(422,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	8,720,000	14,120,000
Repayment of long-term debt	(8,600,000)	(13,600,000)
Payment of cash dividends	-	(812,000)
Proceeds received on exercise of stock options	63,000	315,000
Common stock reacquired and retired	-	(41,000)
Net cash provided from (used in) financing activities	183,000	(18,000)
Net (decrease) increase in cash and cash equivalents	(61,000)	125,000
Cash and cash equivalents balance, beginning of year	3,554,000	2,804,000
Cash and cash equivalents balance, end of period	$ 3,493,000	$ 2,929,000

See accompanying notes to consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(Unaudited)

NOTE 1 – Summary of Significant Interim Accounting Policies:

a) Basis of presentation

The consolidated interim financial statements include the accounts of Superior Uniform Group, Inc. and its wholly-owned subsidiaries, The Office Gurus, LLC, SUG Holding, Fashion Seal Corporation, and Superior Office Solutions, Inc.; The Office Gurus, LTDA, De C.V. and The Office Masters, LTDA, De C.V., each a subsidiary of Fashion Seal Corporation and Superior Office Solutions, Inc.; The Office Gurus, Ltda. and The Office Gurus, Ltd., each a wholly-owned subsidiary of SUG Holding; Superior Sourcing, a wholly-owned subsidiary of SUG Holding; and Scratt Kit S.R.L., a wholly-owned subsidiary of Superior Office Solutions, Inc. All of these entities are referred to collectively as "the Company". 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 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, 2012, 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 months ended March 31, 2013 has been reviewed by Grant Thornton LLP, an 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 and as services are provided. 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) Amortization of other intangible assets

The Company amortizes identifiable intangible assets on a straight line basis over their expected useful lives. Amortization expense for other intangible assets was $36,000 and $240,000 for the three-month periods ended March 31, 2013 and 2012, respectively.

e) Advertising expenses

The Company expenses advertising costs as incurred. Advertising costs for the three-month periods ended March 31, 2013 and 2012, respectively, were $19,000 and $11,000.

f) Shipping and handling fees and costs

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 $1,389,000 and $1,443,000 for the three months ended March 31, 2013 and 2012, respectively.

g) Inventories

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

h) Accounting for income taxes

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

i) 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.

j) 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 March 31,	
	2013	2012
Net income used in the computation of basic and diluted earnings per share	$ 1,229,000	$ 327,000
Weighted average shares outstanding - basic	6,121,180	6,025,874
Common stock equivalents	48,295	116,742
Weighted average shares outstanding - diluted	6,169,475	6,142,616
Per Share Data:		
Basic		
Net income	$ 0.20	$ 0.05
Diluted		
Net income	$ 0.20	$ 0.05

Awards to purchase 325,150 and 210,000 shares of common stock with weighted average exercise prices of $12.68 and $13.30 per share were outstanding during the three-month periods ending March 31, 2013 and 2012, 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.

k) 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.

l) 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 income. For the Company, the only other component of total comprehensive income is the change in pension costs.

m) 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 it has two reportable segments - uniforms and related products and remote staffing solutions. (See Note 7.)

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 March 31, 2013, the Company had 1,097,425 shares of common stock authorized for awards of share-based compensation under its 2003 Incentive Stock and Awards Plan.

For the three months ended March 31, 2013 and 2012, respectively, the Company recognized $590,000 and $675,000 of share-based compensation recorded in selling and administrative expense in the Consolidated Statements of Comprehensive Income. These expenses were offset by deferred tax benefits for non-qualified share-based compensation of $62,000 and $83,000 for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, 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 March 31, 2013 and 2012, respectively, the Company received $63,000 and $315,000 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 three months ended March 31, 2013 follows:

	No. of Shares		Weighted Average Exercise Price
Outstanding December 31, 2012	614,917	$	11.24
Granted	139,034		11.29
Exercised	(6,883)		9.14
Lapsed	-		-
Cancelled	(11,500)		12.01
Outstanding March 31, 2013	735,568	$	11.26

At March 31, 2013, options outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of $726,000.

Options exercised during the three-month period ended March 31, 2013 had an intrinsic value of $15,000. Options exercised during the three-month period ended March 31, 2012 had an intrinsic value of $103,000. The weighted average grant date fair value of the Company's options granted during the three-month periods ended March 31, 2013 and 2012 was $2.97 and $3.59, respectively.

A summary of SARS transactions during the three months ended March 31, 2013 follows:

	No. of Shares		Weighted Average Exercise Price
Outstanding December 31, 2012	176,476	$	11.60
Granted	59,716		11.29
Exercised	-		-
Lapsed	-		-
Cancelled	-		-
Outstanding March 31, 2013	236,192	$	11.52

At March 31, 2013, SARS outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of $172,000.

There were no SARS exercised during the three-month period ended March 31, 2013. SARS exercised during the three-month period ended March 31, 2012 had an intrinsic value of $37,000. There were 59,716 and 65,752 SARS granted during the three-month periods ended March 31, 2013 and 2012, respectively. The weighted average grant date fair value of the Company's SARS granted during the three months ended March 31, 2013 and 2012 was $2.97 and $3.59, respectively.

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

Three months ended March 31,	SARS	Options
Exercise price		
2013	$11.29	$11.29
2012	$13.15	$13.15
Market price		
2013	$11.29	$11.29
2012	$13.15	$13.15
Risk free interest rate (1)		
2013	0.9%	0.9%
2012	0.8%	0.8%
Expected award life (years) (2)	5	5
Expected volatility (3)		
2013	46.0%	46.0%
2012	45.1%	45.1%
Expected dividend yield (4)		
2013	4.8%	4.8%
2012	4.1%	4.1%

(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-month periods ending March 31, was based on historical prices of the Company's common stock 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 – Acquisition of Intangible Assets

On January 4, 2011, the Company entered into a License and Distribution Agreement (the "License Agreement") with EyeLevel Interactive, LLC ("Licensor"), a leading technology company, pursuant to which the Company was granted a license to market, promote, sell and distribute garments utilizing certain intellectual property of Licensor (the

"Products") to the Company's current and potential clients. The License Agreement expires three years and 180 days following the Effective Date (the "Term"). The Company may renew the License Agreement for additional three year terms by giving written notice to Licensor at least 90 days prior to the expiration of the then current term, provided the Company has met certain sales requirements relating to the Products and is not otherwise in default under the License Agreement or any manufacturing agreement with Licensor. Any renewal of the License Agreement will be on Licensor's then current form, provided that the license fee, the restrictive covenants and certain other provisions of the License Agreement will be incorporated into the new form of agreement. The License Fee shall be payable on the first day of the renewal term.

In conjunction with the execution of the License Agreement, the Company paid Licensor a license fee (the "License Fee") equal to (1) $2.0 million cash, plus (2) a warrant to acquire 360,000 shares of the Company's common stock (the "Warrant") at the greater of the Company's closing price as quoted on the Nasdaq Stock Market or the book value per share of the Company's common stock as of the Effective Date. This Warrant was exercisable until January 4, 2016, and had an exercise price of $10.63 per share. On March 6, 2012, Licensor exercised their warrant and acquired 44,912 shares of the Company's stock in exchange for the surrender of the remainder of the warrant. The Company determined the fair value of the Warrant at $800,000 utilizing the Black-Scholes valuation model. Additionally, the Company incurred $61,000 in expenses associated with the acquisition of the License Agreement. The total capitalized cost of the License Agreement was $2,861,000 at inception.

If the Company does not attain a certain level of Gross Sales during the initial Term, the Company may terminate the License Agreement. In addition to the License Fee, the Company shall pay Licensor a monthly royalty fee based upon Gross Sales from the sale of Products for the immediately preceding month of operation, subject to a minimum required annual payment if the License Agreement is not terminated prior to the end of the then current term.

During 2012, we concluded that we did not have adequate, verifiable cash flows to support recovery of the intangible asset, related to the License Agreement, on our statement of financial position at December 31, 2012. Therefore, we recorded a pre-tax, non-cash impairment charge of $1,226,000 in the fourth quarter of 2012 to write off the remaining balance of the License Agreement.

NOTE 3 - Long-Term Debt:

	March 31, 2013	December 31, 2012
Note payable to Fifth Third Bank, pursuant to revolving credit agreement, maturing June 24, 2013	$ 120,000	$ -

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 (rounded up to the next 1/8th of 1%) plus 0.90% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.15% at March 31, 2013). 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 March 31, 2013, 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.

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 three month periods ended March 31:

	2013	2012
Service cost - benefits earned during the period	$ 149,000	$ 149,000
Interest cost on projected benefit obligation	260,000	256,000
Expected return on plan assets	(333,000)	(318,000)
Amortization of prior service cost	3,000	