

SUPERIOR UNIFORM GROUP INC
Form 10-Q
April 25, 2014

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 March 31, 2014

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.

Incorporated - Florida
Employer Identification No.
11-1385670

10055 Seminole Boulevard

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

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 April 21, 2014, the Registrant had 6,592,917 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)

	2014	2013
Net sales	\$ 41,027,000	\$ 30,985,000
Costs and expenses:		
Cost of goods sold	26,971,000	19,672,000
Selling and administrative expenses	12,083,000	9,557,000
Interest expense	95,000	7,000
	39,149,000	29,236,000
Income before taxes on income	1,878,000	1,749,000
Income tax expense	660,000	520,000
Net income	\$ 1,218,000	\$ 1,229,000
Weighted average number of shares outstanding during the period		
(Basic)	6,564,473	6,121,180
(Diluted)	6,776,870	6,169,475
Per Share Data:		
Basic		
Net income	\$ 0.19	\$ 0.20
Diluted		
Net income	\$ 0.18	\$ 0.20
Other comprehensive income, net of tax:		
Defined benefit pension plans:	-	2,000

Amortization of prior service costs included in net periodic pension costs

Recognition of net losses included in net periodic pension costs	52,000		190,000
Loss on cash flow hedging activities	(14,000)	-
Other comprehensive income	38,000		192,000
Comprehensive income	\$ 1,256,000		\$ 1,421,000
Cash dividends per common share	\$ 0.135		-

See accompanying notes to consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2014 (Unaudited)	December 31, 2013
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$4,414,000	\$ 5,316,000
Accounts receivable - trade, net	23,467,000	22,735,000
Accounts receivable - other	4,811,000	4,133,000
Prepaid expenses and other current assets	7,472,000	6,012,000
Inventories*	54,692,000	49,486,000
TOTAL CURRENT ASSETS	94,856,000	87,682,000
PROPERTY, PLANT AND EQUIPMENT, NET	13,521,000	13,160,000
OTHER INTANGIBLE ASSETS, NET	17,837,000	18,353,000
GOODWILL	4,135,000	4,135,000
DEFERRED INCOME TAXES	1,740,000	2,009,000
OTHER ASSETS	148,000	155,000
	\$ 132,237,000	\$ 125,494,000
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$9,839,000	\$ 8,363,000
Other current liabilities	3,868,000	7,768,000
Current portion of long-term debt	2,063,000	1,750,000
TOTAL CURRENT LIABILITIES	15,770,000	17,881,000
LONG TERM DEBT	31,867,000	24,500,000
LONG-TERM PENSION LIABILITY	3,539,000	3,617,000
ACQUISITION-RELATED CONTINGENT LIABILITY	6,838,000	6,806,000
OTHER LONG-TERM LIABILITIES	645,000	625,000
DEFERRED INCOME TAXES	150,000	130,000
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 - 6,592,917 and 6,520,408, respectively.	7,000	6,000
Additional paid-in capital	26,897,000	25,828,000

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

Retained earnings	49,700,000	49,315,000
Accumulated other comprehensive loss, net of tax:		
Pensions	(3,077,000)	(3,129,000)
Cash flow hedges	(99,000)	(85,000)
TOTAL SHAREHOLDERS' EQUITY	73,428,000	71,935,000
	\$132,237,000	\$ 125,494,000

* Inventories consist of the following:

	March 31, 2014 (Unaudited)	December 31, 2013
Finished goods	\$42,105,000	\$ 37,259,000
Work in process	51,000	111,000
Raw materials	12,536,000	12,116,000
	\$54,692,000	\$ 49,486,000

See accompanying notes to consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,

(Unaudited)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$1,218,000	\$1,229,000
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	938,000	349,000
Provision for bad debts - accounts receivable	53,000	27,000
Share-based compensation expense	827,000	590,000
Deferred income tax provision (benefit)	276,000	(503,000)
Gain on sales of property, plant and equipment	(49,000)	-
Accretion of acquisition-related contingent liability	32,000	-
Changes in assets and liabilities:		
Accounts receivable - trade	(785,000)	(690,000)
Accounts receivable - other	(678,000)	(317,000)
Inventories	(5,206,000)	(94,000)
Prepaid expenses and other current assets	(1,460,000)	129,000
Other assets	7,000	19,000
Accounts payable	1,476,000	(383,000)
Other current liabilities	(3,929,000)	(379,000)
Pension liability	3,000	367,000
Other long-term liabilities	20,000	(36,000)
Net cash flows (used in) provided from operating activities	(7,257,000)	308,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(809,000)	(554,000)
Disposals of property, plant and equipment	75,000	2,000
Net cash used in investing activities	(734,000)	(552,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	18,450,000	8,720,000
Repayment of long-term debt	(10,770,000)	(8,600,000)
Payment of cash dividends	(833,000)	-
Proceeds received on exercise of stock options	236,000	63,000
Excess tax benefit from exercise of stock options	6,000	-
Net cash provided from financing activities	7,089,000	183,000

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

Net decrease in cash and cash equivalents	(902,000)	(61,000)
Cash and cash equivalents balance, beginning of year	5,316,000	3,554,000
Cash and cash equivalents balance, end of period	\$4,414,000	\$3,493,000

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, 2014 AND 2013

(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 and Fashion Seal Corporation; The Office Gurus, LTDA, De C.V., The Office Masters, LTDA, De C.V. and The Office Gurus, Ltd., each a subsidiary of Fashion Seal Corporation and SUG Holding; and Power Three Web Ltda. and Superior Sourcing, each a wholly-owned subsidiary of SUG Holding. 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, 2013, 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 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 \$516,000 and \$36,000 for the three-month periods ended March 31, 2014 and 2013, respectively.

e) Advertising expenses

The Company expenses advertising costs as incurred. Advertising costs for the three-month periods ended March 31, 2014 and 2013, respectively, were \$33,000 and \$19,000.

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 \$2,137,000 and \$1,389,000 for the three months ended March 31, 2014 and 2013, 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,	
	2014	2013
Net earnings used in the computation of basic and diluted earnings per share	\$1,218,000	\$1,229,000
Weighted average shares outstanding - basic	6,564,473	6,121,180
Common stock equivalents	212,397	48,295
Weighted average shares outstanding - diluted	6,776,870	6,169,475
Per Share Data:		
Basic		
Net earnings	\$0.19	\$0.20
Diluted		
Net earnings	\$0.18	\$0.20

Awards to purchase 10,000 and 325,150 shares of common stock with weighted average exercise prices of \$16.00 and \$12.68 per share were outstanding during the three-month periods ending March 31, 2014 and 2013, 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) Derivative financial instruments

The Company uses certain financial derivatives to mitigate its exposure to volatility in interest rates. The Company records derivatives on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. On the date a derivative contract is entered into, the Company may elect to designate the derivative as a fair value hedge, a cash flow hedge, or the hedge of a net investment in a foreign operation. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative that is used in the hedging transaction is highly effective. For those instruments that are designated as a cash flow hedge and meet certain documentary and analytical requirements to qualify for hedge accounting treatment, changes in the fair value for the effective portion are reported in other comprehensive income ("OCI"), net of related income tax effects, and are reclassified to the income statement when the effects of the item being hedged are recognized in the income statement. The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. In situations in which the Company does not elect hedge accounting or hedge accounting is discontinued and the derivative is retained, the Company carries or continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value through earnings.

The nature of the Company's business activities involves the management of various financial and market risks, including those related to changes in interest rates. The Company does not enter into derivative instruments for speculative purposes. The Company manages market and credit risks associated with its derivative instruments by establishing and monitoring limits as to the types and degree of risk that may be undertaken, and by entering into transactions with high-quality counterparties. As of March 31, 2014, the Company's derivative counterparty had investment grade credit ratings.

In July 2013, the Company entered into an interest rate swap agreement whereby the interest rate payable by the Company on a portion of the outstanding balance of the term loan was effectively converted to a fixed rate of 2.53% beginning July 1, 2014. The Company entered into this interest rate swap arrangement to mitigate future interest rate risk associated with its borrowings and has designated it as a cash flow hedge. (See Note 3.)

l) 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.

m) 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 pension costs and change in fair value of qualifying hedges.

n) 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.)

o) 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. In February 2014, the Company also issued restricted stock.

In 2003, the stockholders of the Company approved the 2003 Incentive Stock and Awards Plan (the "2003 Plan"), authorizing the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance stock and other stock based compensation. This plan expired in May of 2013, at which time, the stockholders of the Company approved the 2013 Incentive Stock and Awards Plan (the "2013 Plan"), authorizing the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance stock and other stock based compensation. A total of 2,500,000 shares of common stock (subject to

adjustment for expirations and cancellations of options outstanding from the 2003 Plan subsequent to its termination) have been reserved for issuance under the 2013 Plan. All options under both plans have been or will be granted with exercise prices at least equal to the fair market value of the shares on the date of grant. At March 31, 2014, the Company had 2,239,781 shares of common stock authorized for awards of share-based compensation under the 2013 Plan.

The Company granted restricted stock awards, for a total of 50,000 shares, to certain executives during the three-month period ended March 31, 2014. These restricted stock awards vest three years from the date of grant, provided the grantee remains employed by the Company at the vesting date. The fair value of these awards is equal to the market price of our common stock on the date of grant. Compensation expense is being recognized on a straight-line basis over the requisite three year service period.

For the three months ended March 31, 2014 and 2013, respectively, the Company recognized \$827,000 and \$590,000 of share-based compensation recorded in selling and administrative expense in the Consolidated Statements of Comprehensive Income. These expenses were offset by tax benefits of \$111,000 and \$62,000 for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, the Company had \$696,000 of unrecognized compensation cost expected to be recognized in the future 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, 2014 and 2013, respectively, the Company received \$236,000 and \$63,000 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, 2014 follows:

	No. of	Weighted
	Shares	Average
		Exercise
		Price
Outstanding December 31, 2013	557,029	\$ 11.51
Granted	125,809	14.72
Exercised	(21,550)	10.96
Lapsed	-	-
Cancelled	-	-
Outstanding March 31, 2014	661,288	\$ 12.14

At March 31, 2014, options outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$1,691,000.

Options exercised during the three-month period ended March 31, 2014 had an intrinsic value of \$113,000. Options exercised during the three-month period ended March 31, 2013 had an intrinsic value of \$15,000. The weighted average grant date fair value of the Company's options granted during the three month periods ended March 31, 2014 and 2013 was \$4.04 and \$2.97, respectively.

A summary of SARS transactions during the three months ended March 31, 2014 follows:

	No. of	Weighted
	Shares	Average
		Exercise
		Price
Outstanding December 31, 2013	226,406	\$ 11.52
Granted	68,691	14.72
Exercised	(3,104)	11.24
Lapsed	-	-
Cancelled	-	-
Outstanding March 31, 2014	291,993	\$ 12.27

At March 31, 2014, SARS outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$704,000.

SARS exercised during the three-month period ended March 31, 2014 had an intrinsic value of \$16,000. There were no SARS exercised during the three-month period ended March 31, 2013. There were 68,691 and 59,716 SARS granted during the three-month periods ended March 31, 2014 and 2013, respectively. The weighted average grant date fair value of the Company's SARS granted during the three months ended March 31, 2014 and 2013 was \$4.04 and \$2.97, respectively.

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

Three months ended	SARS	Options
March 31,		
Exercise price		
2014	\$14.72	\$14.72
2013	\$11.29	\$11.29
Market price		
2014	\$14.72	\$14.72
2013	\$11.29	\$11.29
Risk free interest rate (1)		
2014	1.5%	1.5%
2013	0.9%	0.9%
Expected award life (years) (2)	5	5
Expected volatility (3)		
2014	42.5%	42.5%
2013	46.0%	46.0%
Expected dividend yield (4)		
2014	3.7%	3.7%
2013	4.8%	4.8%

(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 Superior'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 Business:

On July 1, 2013, the Company acquired substantially all of the assets of HPI Direct, Inc. (“HPI”). Since 1993, HPI has built a stellar reputation for quality and responsiveness as a privately owned company specializing in the design, manufacture and distribution of uniforms to major domestic retailers, foodservice chains, transportation and other service industries throughout the United States. HPI’s award-winning image apparel is worn by some of the most prestigious brands in the markets that they serve. The purchase price for the asset acquisition consisted of approximately \$32.5 million in cash, and inclusive of the real estate purchase described below, the issuance of approximately 209,000 restricted shares of Superior Uniform Group’s common stock, the potential future payment of up to \$7.2 million in additional contingent consideration through 2017, and the assumption of certain liabilities of HPI. The transaction also included the acquisition of the corporate offices and warehouse distribution facility from an entity related to HPI.

The foregoing description of the asset purchase agreement and real estate purchase agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of those agreements, which were filed as exhibits to the Quarterly Report on Form 10-Q for the period ended June 30, 2013 and are incorporated herein by reference. These agreements have been attached to such Form 10-Q to provide investors with information regarding their terms. It is not intended to modify or supplement any factual disclosures about the Company in its public reports filed with the Securities and Exchange Commission and it is not intended to be, and should not be relied upon as, disclosures regarding any facts and circumstances relating to the Company or HPI. In particular, the representations, warranties and covenants set forth in each agreement (a) were made solely for purposes of the agreement and solely for the benefit of the contracting parties, (b) may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures made to a contracting party in connection with the agreement, (c) in certain cases, will survive for only a limited period of time, (d) are qualified in certain circumstances by a materiality standard which may differ from what may be viewed as material by investors, (e) were made only as of the date of the agreement or such other date as is specified in the agreement, and (f) may have been included in the agreement for the purpose of allocating risk between the parties rather than establishing matters as facts. Investors are not third-party beneficiaries under the agreements, and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or conditions of the parties. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the agreement, which subsequent information may or may not be fully reflected in subsequent public disclosures. Accordingly, the representations and warranties in the agreements should not be viewed or relied upon as statements of actual facts or the actual state of affairs of the Company or any of their its subsidiaries or affiliates.

Fair Value of Consideration Transferred

A summary of the purchase price is as follows:

Cash consideration at closing	\$32,483,000
Restricted shares of Superior common stock issued	1,555,000
Total Considerations	\$34,038,000

Assets Acquired and Liabilities Assumed

The total purchase price was allocated to the acquired tangible and intangible assets and assumed liabilities of HPI based on their estimated fair values as of July 1, 2013. The excess of the purchase price over the estimated fair values of the assets acquired (net of liabilities assumed) was allocated to goodwill.

The following table presents the allocation of the total fair value of consideration transferred, as shown above, to the acquired tangible and intangible assets and assumed liabilities of HPI based on their estimated fair values as of the closing date of the transaction.

The assets and liabilities of HPI shown below are based on our estimates of their acquisition date fair values.

The following is our assignment of the aggregate consideration:

Accounts receivable	\$4,672,000
Prepaid expenses and other current assets	1,096,000
Inventories	10,374,000
Property, plant and equipment	4,284,000
Identifiable intangible assets	18,900,000

Goodwill	4,135,000
Total assets	\$43,461,000
Other current liabilities	\$2,680,000
Future contingent liabilities	6,743,000
Total liabilities	\$9,423,000

The Company recorded \$18,900,000 in identifiable intangibles at fair value, consisting of \$9,200,000 in acquired customer relationships, \$5,000,000 in non-compete agreements from the former owners of HPI, and \$4,700,000 for the acquired trade name.

At the closing of the acquisition, the estimated value for acquisition-related contingent consideration payable was \$6,743,000. The Company will continue to evaluate this liability for remeasurement at the end of each reporting period and any change will be recorded in the Company's consolidated statement of comprehensive income. The carrying amount of the liability may fluctuate significantly and actual amounts paid may be materially different from the estimated value of the liability. The change in the acquisition-related contingent liability was an increase of \$32,000 during the three months ended March 31, 2014. This increase is recorded in selling and administrative expenses in the consolidated statement of comprehensive income.

Goodwill was calculated as the difference between the fair value of the consideration and the preliminary values assigned to the assets acquired and liabilities assumed.

The intangible assets associated with the customer relationships will be amortized for ten years beginning on July 1, 2013 and the non-compete agreement will be amortized for five years. The trade name is considered an indefinite-life asset and as such will not be amortized.

The Company recognized amortization expense on these acquired intangible assets of \$480,000 for the three month period ended March 31, 2014.

Revenues and expenses of HPI Direct have been included in the Company's consolidated financial statements beginning July 1, 2013.

NOTE 3 - Long-Term Debt:

	March 31, 2014	December 31, 2013
Term loan payable to Fifth Third Bank, maturing July 1, 2018	\$26,000,000	\$26,250,000
Note payable to Fifth Third Bank, pursuant to revolving credit agreement, maturing July 1, 2018	7,930,000	-
	\$33,930,000	\$26,250,000
Less payments due within one year included in current liabilities	2,063,000	1,750,000
Long-term debt less current maturities	\$31,867,000	\$24,500,000

Effective July 1, 2013, the Company entered into an amended and restated 5-year credit agreement with Fifth Third Bank that made available to the Company up to \$15,000,000 on a revolving credit basis in addition to a \$30,000,000 term loan utilized to finance the acquisition of substantially all of the assets of HPI Direct, Inc. as discussed in Note 2. Interest is payable on both the revolving credit agreement and the term loan at LIBOR (rounded up to the next 1/8th of 1%) plus 0.95% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.2% at March 31, 2014). The Company pays an annual commitment fee of 0.10% 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, 2014, there were no balances outstanding under letters of credit.

On October 22, 2013, the credit agreement was amended to, among other things, increase the amount of permitted investments in subsidiaries that are not parties to the credit and related agreements, from \$1 million to \$5 million.

In order to reduce interest rate risk on the term loan, the Company entered into an interest rate swap agreement with Fifth Third Bank, N.A. in July 2013 that was designed to effectively convert or hedge the variable interest rate on a portion of this borrowing to achieve a net fixed rate of 2.53% per annum, beginning July 1, 2014 with a notional amount of \$14,250,000 that is adjusted to match the outstanding principal on the related debt. The notional amount of the interest rate swap is reduced by the scheduled amortization of the principal balance of the term loan of \$187,500 per month through July 1, 2015 and \$250,000 per month through June 1, 2018. The remaining notional balance of \$3,250,000 will be eliminated at the maturity of the term loan on July 1, 2018.

Under the terms of the interest rate swap, the Company will receive variable interest rate payments and make fixed interest rate payments on an amount equal to the notional amount at that time. Changes in the fair value of the interest rate swap designated as the hedging instrument that effectively offset the variability of cash flows associated with the variable-rate, long-term debt obligation are reported in OCI, net of related income tax effects. At March 31, 2014, the interest rate swap had a negative fair value of \$154,000, which is presented within other current liabilities within the Consolidated Balance Sheet. The aggregate change of \$154,000, net of tax benefit of \$55,000, since the inception of the hedge in July 2013 has been recorded within OCI through March 31, 2014. The Company does not currently expect any of those losses to be reclassified into earnings over the subsequent twelve-month period.

The remaining scheduled amortization for the term loan is as follows: 2014 \$1,500,000; 2015 \$2,625,000; 2016 \$3,000,000; 2017 \$3,000,000; 2018 \$15,875,000. The term loan does not include a prepayment penalty. In connection with the credit agreement, the Company incurred approximately \$68,000 of debt financing costs, which primarily consisted of legal fees. These costs are being amortized over the life of the credit agreement and are recorded as additional interest expense.

The amended and restated credit agreement with Fifth Third Bank is secured by substantially all of the operating assets of Superior Uniform Group, Inc. and is guaranteed by all domestic subsidiaries of Superior Uniform Group, Inc. The agreement contains restrictive provisions concerning a maximum funded senior indebtedness to EBITDA ratio as defined in the agreement (3.5:1), a maximum funded indebtedness to EBITDA ratio as defined in the agreement (4.0:1) and fixed charge coverage ratio (1.25:1). 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:

	2014	2013
Service cost - benefits earned during the period	\$20,000	\$149,000
Interest cost on projected benefit obligation	250,000	261,000
Expected return on plan assets	(348,000)	(333,000)
Amortization of prior service cost	-	3,000
Recognized actuarial loss	81,000	287,000
Net periodic pension cost	\$3,000	\$367,000

Effective June 30, 2013, the Company no longer accrues additional benefits for future service or for future increases in compensation levels for the Company's primary defined benefit pension plan.

NOTE 5 - Supplemental Cash Flow Information:

Cash paid for income taxes was \$3,000 and \$655,000, respectively, for the three-month periods ended March 31, 2014 and 2013. Cash paid for interest was \$63,000 and \$7,000, respectively for the three-month periods ended March 31, 2014 and 2013.

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 – Operating Segment Information:

The Company classifies its businesses into two operating segments based on the types of products and services provided. The Uniforms and Related Products segment consists of the sale of uniforms and related items. The Remote Staffing Solutions segment consists of sales of staffing solutions.

The Company evaluates the performance of each operating segment based on several factors of which the primary financial measures are operating segment net sales and income before income taxes. The accounting policies of the operating segments are the same as those described in Note 1 entitled Summary of Significant Interim Accounting Policies. Amounts for corporate expenses are included in the Uniforms and Related Products segment totals. Information related to the operations of the Company's operating segments is set forth below.

	Uniforms and Related Products	Remote Staffing Solutions	Intersegment Eliminations	Total
Three Months Ended				
<u>March 31, 2014</u>				
Net sales	\$39,147,000	\$2,737,000	\$ (857,000)	\$41,027,000
Gross margin	\$13,029,000	\$1,572,000	\$ (545,000)	\$14,056,000
Selling and administrative expenses	11,656,000	972,000	(545,000)	12,083,000
Interest expense	95,000	-	-	95,000
Income before income taxes	\$1,278,000	\$600,000	\$ -	\$1,878,000
Depreciation and amortization	\$878,000	\$60,000	\$ -	\$938,000
Capital expenditures	\$638,000	\$171,000	\$ -	\$809,000
Total assets	\$125,373,000	\$7,896,000	\$ (1,032,000)	\$132,237,000

	Uniforms and Related Products	Remote Staffing Solutions	Intersegment Eliminations	Total
Three Months Ended				
<u>March 31, 2013</u>				
Net sales	\$29,717,000	\$2,174,000	\$ (906,000)	\$30,985,000
Gross margin	\$10,553,000	\$1,365,000	\$ (605,000)	\$11,313,000
Selling and administrative expenses	9,340,000	822,000	(605,000)	9,557,000
Interest expense	7,000	-	-	7,000

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

Income before income taxes	\$ 1,206,000	\$ 543,000	\$ -	\$ 1,749,000
Depreciation and amortization	\$ 300,000	\$ 49,000	\$ -	\$ 349,000
Capital expenditures	\$ 480,000	\$ 74,000	\$ -	\$ 554,000
Total assets	\$ 74,010,000	\$ 7,944,000	\$ (1,548,000)	\$ 80,406,000

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. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation: (1) projections of revenue, income, and other financial items, (2) statements of our plans, objectives, and intentions, (3) statements regarding the capabilities, capacities, and expected development of our business operations, and (4) statements of expected future economic performance. 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, including employment levels, 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 price and availability of cotton and other 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, 2013. 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, 2013. 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 \$235,000.

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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The Company tests goodwill for impairment annually as of December 31st and/or when an event occurs or circumstances change such that it is more likely than not that impairment may exist. Examples of such events and circumstances that the Company would consider include the following:

- macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets;
- industry and market considerations such as a deterioration in the environment in which the Company operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for the Company's products or services, or a regulatory or political development;

- cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;
- overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;
- other relevant entity-specific events such as changes in management, key personnel, strategy, or customers;

Goodwill is tested at a level of reporting referred to as "the reporting unit." The Company's reporting units are defined as each of its two reporting segments with all of its goodwill included in the Uniforms and Related Products segment.

An entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company completed its assessment of the qualitative factors as of December 31, 2013 and determined that it was not more likely than not that the fair value of the reporting unit was less than its carrying value.

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 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 plans 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.

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 treatments 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 income 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 2014 and 2013 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 and restricted stock awards that vest three years from the date of grant, provided the grantee remains employed at the vesting date. The fair value of these restricted stock awards is equal to the market price of our common stock on the date of grant. Compensation expense is being recognized on a straight-line basis over the requisite three year service period. 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.

Business Outlook

The current economic environment in the United States remains very challenging. Our primary products are provided to workers employed by our customers and, as a result, our business prospects are dependent upon levels of employment among other factors. Our revenues are impacted by our customers' opening and closing of locations and reductions and increases in headcount. Additionally, since 2009 voluntary employee turnover has been reduced significantly as a result of fewer alternative jobs available to employees of our customers. Fewer available jobs coupled with less attrition results in decreased demand for our uniforms and service apparel.

Our focus is geared towards mitigating these factors in the current economic environment and has included the following strategies. First, we have been actively pursuing acquisitions to increase our market share in the Uniforms and Related Products segment. As discussed in Note 2 to the consolidated interim financial statements, the Company completed the acquisition of substantially all of the assets of HPI Direct, Inc. on July 1, 2013. Second, we diversified our business model to include the Remote Staffing Solutions segment. This business segment was initially started to provide these services for the Company at a lower cost structure in order to improve the Company's operating results.

Uniforms and Related Products

Historically, we have manufactured and sold a wide range of uniforms, career apparel and accessories, which comprises our Uniforms and Related Products segment. As noted above, we are actively pursuing acquisitions to increase our market share in the Uniforms and Related Products business and it is our intention to continue to seek additional acquisitions that fit into this business in the future.

We are continuing to increase our market penetration in our HPI division and our current backlog of business at HPI and the remainder of our Uniforms and Related products segment are at historically high levels. We expect to report significant increases in net sales and earnings beginning in the second quarter of 2014.

Remote Staffing Solutions

Our Remote Staffing Solutions segment, located in El Salvador, Belize, and the United States, has enabled us to reduce our operating expenses in our Uniforms and Related Products segment and to more effectively service our customers' needs in that segment. We added our Belize location at the end of 2012 and eliminated our Costa Rica location at the same time. The Belize operation offers a more competitive cost structure for the Company as compared to Costa Rica. We began selling these services to other companies at the end of 2009. We have grown this

business from approximately \$1 million in net sales to outside customers in 2010 to approximately \$5.7 million in net sales to outside customers in 2013. We spent significant effort in 2012 and 2013 improving our management infrastructure in this segment to support significant growth in this segment in 2013 and beyond. Net sales to outside customers in this segment increased by approximately 63% in 2013 as compared to 2012 and have continued to grow at an accelerated rate in first quarter 2014. We are aggressively marketing this service and we believe this sector will continue to grow significantly in the balance of 2014 and beyond. We expect to make a significant investment in a new building to service our El Salvador location in 2014. This project is expected to be completed late in 2014 or early in 2015 and is expected to have a total cost of approximately \$7 million.

Results of Operations

Net sales increased 32.4% from \$30,985,000 for the three months ended March 31, 2013 to \$41,027,000 for the three months ended March 31, 2014. The increase in net sales for the quarter is split between growth in our Uniforms and Related Products segment (30.4%) and increases in net sales after intersegment eliminations from our Remote Staffing Solutions Segment (2.0%). Intersegment eliminations reduce total net sales for sales of remote staffing solutions to the Uniforms and Related Products segment by the Remote Staffing Solutions segment. See Note 7 to Interim Consolidated Financial Statements for more information and a reconciliation of segment net sales to total net sales.

Uniforms and Related Products net sales increased 31.7% for the three months ended March 31, 2014. The primary reason for the increase in net sales was the inclusion of HPI's financial results in the Company's results of operations for the quarter ended March 31, 2014. Because HPI was acquired at the beginning of the third quarter 2013, its results of operations are not included in the Company's financial statements for the quarter ended March 31, 2013. Partially offsetting the effect of HPI's financial results was a \$1,282,000 decrease in our sales of existing uniforms and related products in the first quarter 2014. This decrease was partially attributed to difficult weather conditions experienced in the first quarter 2014 that hampered our customers' business activities as well as our own operations at the end of the quarter.

We ended the quarter with a very strong backlog of orders and expect to see significant improvements in our net sales beginning in the second quarter.

Remote Staffing Solutions net sales increased 25.9% before intersegment eliminations and 48.3% after intersegment eliminations for the three months ended March 31, 2014, compared to the prior year quarter. This increase is attributed primarily to continued market penetration in 2014, both with respect to new and existing customers.

As a percentage of net sales, cost of goods sold for our Uniforms and Related Products segment was 66.7% for the three months ended March 31, 2014 and 64.5% for the comparable period in 2013. The increase as a percentage of net sales is attributed to an increase in direct product costs as a percentage of net non-HPI sales for the quarter ended March 31, 2014 (0.8%), due primarily to competitive pricing factors in the market, an increase in overhead costs as a percentage of net sales as a result of lower volume in the current period (0.2%), and an increase in actual overhead costs in the current period (0.4%). Additionally the overall percentage was impacted by the fact that HPI cost of sales as a percentage of net sales are higher than non-HPI cost of sales (0.8%).

As a percentage of net sales, cost of goods sold for our Remote Staffing Solutions Segment was 42.6% for the three months ended March 31, 2014, and 37.2% in the comparable period for 2013. The percentage increase in 2014 as compared to 2013 is primarily attributed to taking on new startup accounts in the 2014 period.

As a percentage of net sales, selling and administrative expenses for our Uniforms and Related Products segment was 29.8% for the three months ended March 31, 2014 and 31.4% in the comparable period for 2013. Exclusive of HPI net sales and selling and administrative expenses, selling and administrative expenses as a percentage of net sales would have been 30.5% for the quarter ended March 31, 2014. The decrease as a percentage of sales, exclusive of HPI, is attributed primarily to lower incentive compensation expense as a result of higher earnings targets in the current year (1.0%), lower pension and retirement plan expense as a result of the freeze of our main defined benefit pension plan effective June 30, 2013 (0.5%) and other minor net decreases (1.5%), partially offset by higher share-based compensation expense (0.8) and the impact of lower net sales to cover operating expenses (1.3%). HPI selling and administrative expenses as a percentage of HPI net sales was 27.9% for 2014 including amortization of intangible assets associated with the acquisition (4.5%).

As a percentage of net sales, selling and administrative expenses for our Remote Staffing Solutions segment was 35.5% for the three months ended March 31, 2014 and 37.8% for the comparable period for 2013. The decrease as a percentage of sales is attributed primarily to a decrease in salaries, wages and benefits as a percentage of net sales (0.4%) as the growth in net sales outpaced the increase in staffing expense required to support significant growth of this segment, and other miscellaneous decreases including higher net sales to cover fixed operating expenses (2.2%), partially offset by increased outside broker fees as the Company supplemented its internal sales efforts with independent brokers in 2014 (0.3%).

Interest expense increased from \$7,000 for the three months ended March 31, 2013 to \$95,000 for the three months ended March 31, 2014. This increase is attributed to the increased borrowings to fund the acquisition of HPI as well as increased borrowings on our revolver to fund increased inventory levels in preparation for several significant new accounts being rolled out in the second and third quarters of 2014.

The Company's effective tax rate for the three months ended March 31, 2014 was 35.1% versus 29.7% for the three months ended March 31, 2013. The 5.4% increase in the effective tax rate is attributed primarily to a decrease in the benefit for untaxed foreign income (3.2%), increased provisions for uncertain tax positions (1.6%), and other items (0.6%).

Liquidity and Capital Resources

Accounts receivable - trade increased 3.2% from \$22,735,000 on December 31, 2013 to \$23,467,000 on March 31, 2014 primarily due to an increase in net sales in the month of March 2014 in comparison to the month of December 2013.

Prepaid expenses and other current assets increased 24.3% from \$6,012,000 on December 31, 2013 to \$7,472,000 as of March 31, 2014. This increase is primarily attributed to an increase in deposits paid to vendors of \$1,001,000 for upcoming inventory purchases in preparation for several large rollouts of customer programs that are expected to begin shipping in the second quarter of 2014 and a \$487,000 increase in prepaid insurance due to timing of payments of annual premiums.

Inventories increased 10.5% from \$49,486,000 on December 31, 2013 to \$54,692,000 as of March 31, 2014 in preparation for the rollouts disclosed above.

Other intangible assets decreased 2.8% from \$18,353,000 on December 31, 2013 to \$17,837,000 on March 31, 2014. This decrease is attributed to scheduled amortization of existing intangible assets.

Accounts payable increased 17.6% from \$8,363,000 on December 31, 2013 to \$9,839,000 on March 31, 2014. This increase is primarily attributed to the increase in inventory levels as discussed above.

Other current liabilities decreased 50.2% from \$7,768,000 on December 31, 2013 to \$3,868,000 on March 31, 2014. This decrease is primarily due to the payment of year-end annual incentive compensation during the first quarter of the year.

Cash and cash equivalents decreased by \$902,000 from \$5,316,000 on December 31, 2013 to \$4,414,000 as of March 31, 2014. During the first quarter of 2014, the Company used cash of \$7,257,000 in operating activities, used cash of \$734,000 in investing activities primarily related to fixed asset additions, and generated \$7,089,000 from financing activities. The financing activities consisted of normal amortization payments on the existing term loan offset by net borrowings under the revolving credit agreement of \$7,930,000. These borrowings were required in order to support the increased working capital requirements associated with the large customer programs that are expected to begin shipping in the second quarter of 2014.

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 three months ended March 31, 2014 and 2013, respectively, the Company paid cash dividends of \$833,000 and \$-0-.

Effective July 1, 2013, the Company entered into an amended and restated 5-year credit agreement with Fifth Third Bank that made available to the Company up to \$15,000,000 on a revolving credit basis in addition to a \$30,000,000 term loan utilized to finance the acquisition of substantially all of the assets of HPI as discussed in Note 2 to the consolidated interim financial statements. Interest is payable on both the revolving credit agreement and the term loan at LIBOR (rounded up to the next 1/8th of 1%) plus 0.95% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.2% at March 31, 2014). The Company pays an annual commitment fee of 0.10% 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, 2014, there were no balances outstanding under letters of credit.

On October 22, 2013, the credit agreement was amended to, among other things, increase the amount of permitted investments in subsidiaries that are not parties to the credit and related agreements, from \$1 million to \$5 million.

In order to reduce interest rate risk on the term loan, the Company entered into an interest rate swap agreement with Fifth Third Bank, N.A. in July 2013 that was designed to effectively convert or hedge the variable interest rate on a portion of this borrowing to achieve a net fixed rate of 2.53% per annum, beginning July 1, 2014 with a notional amount of \$14,250,000 that is adjusted to match the outstanding principal on the related debt. The notional amount of the interest rate swap is reduced by the scheduled amortization of the principal balance of the term loan of \$187,500 per month through July 1, 2015 and \$250,000 per month through June 1, 2018. The remaining notional balance of \$3,250,000 will be eliminated at the maturity of the term loan on July 1, 2018.

Under the terms of the interest rate swap, the Company will receive variable interest rate payments and make fixed interest rate payments on an amount equal to the notional amount at that time. Changes in the fair value of the interest rate swap designated as the hedging instrument that effectively offset the variability of cash flows associated with the variable-rate, long-term debt obligation are reported in OCI, net of related income tax effects. At March 31, 2014, the interest rate swap had a negative fair value of \$154,000, which is presented within other current liabilities within the Consolidated Balance Sheet. The aggregate change of \$154,000, net of tax benefit of \$55,000, since the inception of the hedge in July 2013 has been recorded within OCI through March 31, 2014. The Company does not currently expect any of those losses to be reclassified into earnings over the subsequent twelve-month period.

The remaining scheduled amortization for the term loan is as follows: 2014 \$1,500,000; 2015 \$2,625,000; 2016 \$3,000,000; 2017 \$3,000,000; and 2018 \$15,875,000. The term loan does not include a prepayment penalty. In connection with the credit agreement, the Company incurred approximately \$68,000 of debt financing costs, which primarily consisted of legal fees. These costs are being amortized over the life of the credit agreement and are recorded as additional interest expense.

The amended and restated credit agreement with Fifth Third Bank is secured by substantially all of the operating assets of Superior Uniform Group, Inc. and is guaranteed by all domestic subsidiaries of Superior Uniform Group, Inc. The agreement contains restrictive provisions concerning a maximum funded senior indebtedness to EBITDA ratio as defined in the agreement (3.5:1), a maximum funded indebtedness to EBITDA ratio as defined in the agreement (4.0:1) and fixed charge coverage ratio (1.25:1). The Company is in full compliance with all terms, conditions and covenants of the credit agreement.

The Company believes that its cash flows 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

Disclosure Controls and Procedures

The Company conducted an evaluation, under supervision and with the participation of the Company's principal executive officer, Michael Benstock, and the Company's principal financial officer, Andrew D. Demott, Jr., of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, the Company's principal executive officer and principal financial officer 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 SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC'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.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2014, 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, 2013.

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

There were no unregistered sales of equity securities during the quarter ended March 31, 2014, that were not previously reported in a current report on Form 8-K.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

See Exhibit Index.

19

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: April 25, 2014 SUPERIOR UNIFORM GROUP, INC.

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

Date: April 25, 2014 By: /s/ Andrew D. Demott, Jr.
Andrew D. Demott, Jr.
Executive Vice President, Chief Financial Officer and
Treasurer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Superior Uniform Group, Inc.
3.2	Bylaws of Superior Uniform Group, Inc.
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.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.