

SUPERIOR UNIFORM GROUP INC  
Form 10-Q  
October 24, 2011

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

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2011**

**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.**

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**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  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller Reporting Company

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

As of October 20, 2011, the Registrant had 5,983,542 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 EARNINGS****THREE MONTHS ENDED SEPTEMBER 30,****(Unaudited)**

	2011	2010
Net sales	<b>\$ 30,730,613</b>	\$ 27,301,355
Costs and expenses:		
Cost of goods sold	<b>19,534,980</b>	17,357,408
Selling and administrative expenses	<b>8,587,487</b>	7,953,631
Interest expense	<b>8,935</b>	8,228
	<b>28,131,402</b>	25,319,267
Earnings before taxes on income	<b>2,599,211</b>	1,982,088
Income tax expense	<b>720,000</b>	610,000
Net earnings	<b>\$ 1,879,211</b>	\$ 1,372,088
Weighted average number of shares outstanding during the period		
(Basic)	<b>5,986,676</b>	5,900,595
(Diluted)	<b>6,079,430</b>	5,954,578
Per Share Data:		
Basic		
Net earnings	<b>\$ 0.31</b>	\$ 0.23
Diluted		
Net earnings	<b>\$ 0.31</b>	\$ 0.23
Cash dividends per common share	<b>\$ 0.135</b>	\$ 0.135

See accompanying notes to consolidated interim financial statements.

## SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

NINE MONTHS ENDED SEPTEMBER 30,

(Unaudited)

	2011	2010
Net sales	<b>\$ 85,134,869</b>	\$ 79,910,378
Costs and expenses:		
Cost of goods sold	<b>54,160,450</b>	51,650,960
Selling and administrative expenses	<b>25,983,070</b>	23,919,637
Interest expense	<b>20,817</b>	16,306
	<b>80,164,337</b>	75,586,903
Earnings before taxes on income	<b>4,970,532</b>	4,323,475
Income tax expense	<b>1,560,000</b>	1,460,000
Net earnings	<b>\$ 3,410,532</b>	\$ 2,863,475
Weighted average number of shares outstanding during the period		
	(Basic)	5,986,884
	(Diluted)	5,903,457
	<b>6,080,840</b>	5,957,409
Per Share Data:		
Basic		
Net earnings	<b>\$ 0.57</b>	\$ 0.49
Diluted		
Net earnings	<b>\$ 0.56</b>	\$ 0.48
Cash dividends per common share	<b>\$ 0.405</b>	\$ 0.405

See accompanying notes to consolidated interim financial statements.

## SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,305,485	\$ 9,107,461
Accounts receivable - trade	19,301,113	16,523,061
Accounts receivable - other	3,136,132	1,274,209
Prepaid expenses and other current assets	2,909,699	4,030,708
Inventories*	39,107,821	31,029,947
<b>TOTAL CURRENT ASSETS</b>	<b>66,760,250</b>	<b>61,965,386</b>
PROPERTY, PLANT AND EQUIPMENT, NET	8,787,652	9,463,884
OTHER INTANGIBLE ASSETS, NET	2,990,292	911,225
DEFERRED INCOME TAXES	2,070,000	1,680,000
OTHER ASSETS	122,305	173,403
	<b>\$ 80,730,499</b>	<b>\$ 74,193,898</b>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 7,171,020	\$ 5,103,768
Other current liabilities	4,361,180	3,713,038
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,532,200</b>	<b>8,816,806</b>
LONG-TERM DEBT	800,000	0
LONG-TERM PENSION LIABILITY	3,623,275	3,535,470
OTHER LONG-TERM LIABILITIES	700,000	742,000
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1 par value - authorized 300,000 shares (none issued)	0	0
Common stock, \$.001 par value - authorized 50,000,000 shares, issued and outstanding - 5,974,517 and 5,959,975 shares, respectively.	5,974	5,960
Additional paid-in capital	19,130,917	16,753,094
Retained earnings	48,750,870	48,402,710
Accumulated other comprehensive loss, net of tax:		
Pensions	(3,812,737)	(4,062,142)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>64,075,024</b>	<b>61,099,622</b>
	<b>\$ 80,730,499</b>	<b>\$ 74,193,898</b>

\* Inventories consist of the following:

September 30, 2011	December 31, 2010
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	(Unaudited)	
Finished goods	<b>\$ 23,783,935</b>	\$ 23,828,283
Work in process	<b>71,314</b>	66,853
Raw materials	<b>15,252,572</b>	7,134,811
	<b>\$ 39,107,821</b>	\$ 31,029,947

See accompanying notes to consolidated interim financial statements.

## SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30,

(Unaudited)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 3,410,532	\$ 2,863,475
Adjustments to reconcile net earnings to net cash (used in) provided from operating activities:		
Depreciation and amortization	2,271,647	1,943,849
Provision for bad debts	82,374	181,113
Share-based compensation expense	1,005,198	532,220
Deferred income tax (benefit) provision	(519,000)	29,250
Gain on sales of property, plant and equipment	(23,500)	(54,437)
Changes in assets and liabilities:		
Accounts receivable - trade	(2,860,426)	736,756
Accounts receivable - other	(1,861,923)	(42,290)
Inventories	(8,077,874)	1,124,321
Prepaid expenses and other current assets	1,121,009	480,807
Other assets	51,098	(5,164)
Accounts payable	2,067,252	350,518
Other current liabilities	648,142	1,070,694
Pension liability	466,210	(2,219,919)
Other long-term liabilities	(42,000)	20,000
Net cash (used in) provided from operating activities	(2,261,261)	7,011,193
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(822,488)	(609,875)
Disposals of property, plant and equipment	32,937	60,659
Proceeds from notes receivable collections	0	15,250
Acquisition of intangible assets	(2,061,431)	0
Net cash used in investing activities	(2,850,982)	(533,966)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	13,400,000	3,035,000
Repayment of long-term debt	(12,600,000)	(3,035,000)
Payment of cash dividends	(2,426,672)	(2,391,831)
Proceeds received on exercise of stock options	712,659	245,899
Common stock reacquired and retired	(775,720)	(343,023)
Net cash used in financing activities	(1,689,733)	(2,488,955)
Net (decrease) increase in cash and cash equivalents	(6,801,976)	3,988,272
Cash and cash equivalents balance, beginning of year	9,107,461	6,365,557
Cash and cash equivalents balance, end of period	\$ 2,305,485	\$ 10,353,829

See accompanying notes to consolidated interim financial statements.



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SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(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, Fashion Seal Corporation, Superior Office Solutions, The Office Gurus, LLC, and their jointly owned subsidiaries, The Office Gurus, Ltda, De C.V. and The Office Masters. They also include The Office Gurus, Ltda and Scratt Kit S.R.L., wholly owned subsidiaries of Superior Office Solutions collectively 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, 2010, and filed with the Securities and Exchange Commission. The interim financial information contained herein is not certified or audited; it reflects all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements. The unaudited financial information included in this report as of and for the three and nine months ended September 30, 2011 has been reviewed by Grant Thornton LLP, independent registered public accounting firm, and their review report thereon accompanies this filing. Such review was made in accordance with established professional standards and procedures for such a review. The results of operations for any interim period are not necessarily indicative of results to be expected for the full year.

b) Revenue recognition

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

c) Recognition of costs and expenses

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

d) 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 \$241,000 and \$96,000 for the three-month periods ended September 30, 2011 and 2010, respectively, and \$782,000 and \$288,000 for the nine-month periods ended September 30, 2011 and 2010, respectively.

e) Advertising expenses

The Company expenses advertising costs as incurred. Advertising costs for the three-month periods ended September 30, 2011 and 2010, respectively were \$12,000 and \$14,000. Advertising costs for the nine-month periods ended September 30, 2011 and 2010, respectively were

\$71,000 and \$46,000.

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 \$1,586,000 and \$1,537,000 for the three months ended September 30, 2011 and 2010, respectively. Other shipping and handling costs included in selling and administrative expenses totaled \$4,425,000 and \$4,652,000 for the nine months ended September 30, 2011 and 2010, 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net earnings used in the computation of basic and diluted earnings per share	\$ 1,879,211	\$ 1,372,088	\$ 3,410,532	\$ 2,863,475
Weighted average shares outstanding - basic	5,986,676	5,900,595	5,986,884	5,903,457
Common stock equivalents	92,754	53,983	93,956	53,952
Weighted average shares outstanding - diluted	6,079,430	5,954,578	6,080,840	5,957,409
<b>Per Share Data :</b>				
<b>Basic</b>				
Net earnings	\$ 0.31	\$ 0.23	\$ 0.57	\$ 0.49
<b>Diluted</b>				
Net earnings	\$ 0.31	\$ 0.23	\$ 0.56	\$ 0.48

Awards to purchase 279,125 and 401,125 shares of common stock with weighted average exercise prices of \$12.57 and \$12.18 per share were outstanding during the three-month periods ending September 30, 2011 and 2010, respectively, but were not included in the computation of diluted EPS because the awards' exercise prices were greater than the average market price of the common shares.

Awards to purchase 445,625 and 539,175 shares of common stock with weighted average exercise prices of \$12.09 and \$11.75 per share were outstanding during the nine-month periods ending September 30, 2011 and 2010, 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 earnings. For the Company, the only other component of total comprehensive income is the change in pension costs.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net earnings	\$ 1,879,211	\$ 1,372,088	\$ 3,410,532	\$ 2,863,475
Other comprehensive income:				
Pensions - reclassification to net earnings during the period	83,135	74,930	249,405	224,791
	\$ 1,962,346	\$ 1,447,018	\$ 3,659,937	\$ 3,088,266

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 determined that currently it operates in one segment, as defined in the standards.

n) Share-Based Compensation

The Company awards share-based compensation as an incentive for employees to contribute to the Company's long-term success. Historically, the Company has issued options and stock settled stock appreciation rights. At September 30, 2011, the Company had 1,417,250 shares of common stock authorized for awards of share-based compensation under its 2003 Incentive Stock and Awards Plan.

For the three months ended September 30, 2011 and 2010, respectively, the Company recognized \$181,000 and \$123,000 of share-based compensation, recorded in selling and administrative expense in the Consolidated Statements of Earnings. For the nine months ended September 30, 2011 and 2010, respectively, the Company recognized \$1,005,000 and \$532,000 of share-based compensation, recorded in selling and administrative expense in the Consolidated Statements of Earnings. This expense was offset by a \$145,000 and a \$38,000 deferred tax benefit for non-qualified share-based compensation for the nine-month periods ended September 30, 2011 and 2010, respectively. As of September 30, 2011, the Company had no unrecognized compensation cost expected to be recognized for prior share-based awards.

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

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

During the three-month periods ended September 30, 2011 and 2010, respectively, the Company received \$209,000 and \$136,000 in cash from stock option exercises. During the nine-month periods ended September 30, 2011 and 2010, respectively, the Company received \$713,000 and \$246,000 in cash from stock option exercises. No tax benefit was recognized for these exercises, as the options exercised were qualified incentive stock options. Additionally, during the nine months ended September 30, 2011, the Company received 8,491 shares of its common stock as payment for the issuance of 10,900 shares of its common stock related to the exercise of stock option agreements.

A summary of options transactions during the nine months ended September 30, 2011 follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2010	699,790	\$ 10.29
Granted	211,631	11.43
Exercised	(90,256)	9.00
Lapsed	(93,025)	11.65
Cancelled	(26,600)	10.81
Outstanding September 30, 2011	701,540	\$ 10.59

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At September 30, 2011, options outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$662,386.

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Options exercised during the three and nine-month periods ended September 30, 2011 had intrinsic values of \$62,972 and \$175,567, respectively. Options exercised during the three and nine-month periods ended September 30, 2010 had intrinsic values of \$22,924 and \$42,031, respectively. The weighted average grant date fair value of the Company's options granted during the three-month periods ended September 30, 2011 and 2010 was \$3.11 and \$2.23, respectively. The weighted average grant date fair value of the Company's options granted during the nine-month periods ended September 30, 2011 and 2010 was \$2.74 and \$2.25, respectively.

A summary of SARS transactions during the nine months ended September 30, 2011 follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2010	207,380	\$ 11.30
Granted	127,144	11.24
Exercised	(2,100)	9.16
Lapsed	(75,000)	11.20
Cancelled	0	0
 Outstanding September 30, 2011	 257,424	 \$ 11.32

At September 30, 2011, SARS outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$84,260.

SARS exercised during the nine-month period ended September 30, 2011 had an intrinsic value of \$4,893. There were no SARS exercised during the nine-month period ended September 30, 2010. There were 127,144 and 35,980 SARS granted during the nine-month periods ended September 30, 2011 and 2010, respectively. The weighted average grant date fair value of the Company's SARS granted during the nine-month periods ended September 30, 2011 and 2010 was \$2.96 and \$2.29, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	SARS	Options	SARS	Options
<b>Exercise price</b>				
2011	N/A	\$11.95	\$11.24	\$11.10 - \$11.95
2010	N/A	\$9.76	\$9.80	\$9.41 - \$9.80
<b>Market price</b>				
2011	N/A	\$11.95	\$11.24	\$11.10 - \$11.95
2010	N/A	\$9.76	\$9.80	\$9.41 - \$9.80
<b>Risk free interest rate (1)</b>				
2011	N/A	1.2%	2.3%	1.2% - 3.2%
2010	N/A	1.5%	2.2%	1.5% - 3.6%
Expected award life (2)	N/A	5 years	5 years	5-10 years
<b>Expected volatility (3)</b>				
2011	N/A	43.9%	43.5%	35.5% - 43.9%
2010	N/A	42.1%	41.7%	35.3% - 42.1%
<b>Expected dividend yield (4)</b>				
2011	N/A	4.5%	4.8%	4.5% - 4.9%
2010	N/A	5.5%	5.5%	5.5% - 5.7%

- (1) The risk-free interest rate is based on the yield of a U.S. treasury bond with a similar maturity as the expected life of the awards.
- (2) The expected life in years for awards granted was based on the historical exercise patterns experienced by the Company when the award is made.





- (3) The determination of expected stock price volatility for awards granted in each of the three and nine-month periods ending September 30, was based on historical Superior common stock prices over a period commensurate with the expected life.
- (4) The dividend yield assumption is based on the history and expectation of the Company's dividend payouts.

**NOTE 2 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 will be exercisable until January 4, 2016, and has an exercise price of \$10.63 per share. The Company determined the fair value of the Warrant to be \$800,000 utilizing the Black-Scholes valuation model. Additionally, the Company incurred \$61,432 in expenses associated with the acquisition of the License Agreement. The total capitalized cost of the License Agreement is \$2,861,432. This amount is being amortized over the initial term of the agreement of 42 months.

In the event the Company achieves a specified level of Gross Sales (as calculated pursuant to the License Agreement), during the initial Term, from the sale of Products, the Company will be required to pay Licensor an additional cash license fee. If the Company does not attain such 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.

**NOTE 3 Long-Term Debt:**

	September 30, 2011	December 31, 2010
Note payable to Fifth Third Bank, pursuant to revolving credit agreement, maturing June 24, 2013	\$ 800,000	\$ 0

On June 25, 2010, the Company entered into a 3-year credit agreement with Fifth Third Bank that made available to the Company up to \$15,000,000 on a revolving credit basis. Interest is payable at LIBOR plus 0.90% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.14% at September 30, 2011). The Company pays an annual commitment fee of 0.15% on the average unused portion of the commitment. The available balance under the credit agreement is reduced by outstanding letters of credit. As of September 30, 2011, there were no balances outstanding under letters of credit. The revolving credit agreement expires on June 24, 2013. At the option of the Company, any outstanding balance on the agreement at that date will convert to a one-year term loan. On June 30, 2010, the Company's previous revolving credit agreement with Wachovia Bank expired.

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

**NOTE 4 Periodic Pension Expense:**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service cost - benefits earned during the period	\$ 139,000	\$ 158,000	\$ 419,000	\$ 474,000
Interest cost on projected benefit obligation	273,000	257,000	819,000	770,000
Expected return on plan assets	(336,000)	(306,000)	(1,010,000)	(810,000)
Amortization of prior service cost	6,000	8,000	19,000	23,000
Recognized actuarial loss	120,000	107,000	359,000	323,000
Net periodic pension cost	\$ 202,000	\$ 224,000	\$ 606,000	\$ 780,000

Contributions of \$140,000 were made to the Company's benefit plans during the nine months ended September 30, 2011. Contributions of \$3,000,000 were made to the Company's benefit plans during the nine months ended September 30, 2010.

**NOTE 5 Supplemental Cash Flow Information:**

Cash paid for income taxes was \$870,000 and \$1,327,000, respectively, for the nine-month periods ended September 30, 2011 and 2010. Cash paid for interest was \$25,000 and \$26,000, respectively, for the nine-month periods ended September 30, 2011 and 2010.

Additionally, the Company issued a warrant valued at \$800,000 to acquire 360,000 shares of the Company's common stock as partial payment for the License Agreement.

**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.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Superior Uniform Group, Inc.

We have reviewed the accompanying consolidated balance sheet of **Superior Uniform Group, Inc.** (a Florida Corporation) and subsidiaries as of September 30, 2011, the related consolidated statements of earnings for the three-month and nine-month periods ended September 30, 2011 and 2010 and the consolidated statements of cash flows for the nine-month periods ended September 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

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

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

/s/ GRANT THORNTON LLP

Tampa, Florida

October 24, 2011

**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, earnings, 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, 2010. 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, 2010. 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 \$193,000.

***Inventories***

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

***Insurance***

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

***Pensions***

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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 plan using high-quality fixed-income investments currently available (rated AA or better) and expected to be available during the period to maturity of the benefits. The 8% expected return on plan assets was determined based on historical long-term investment returns as well as future expectations given target investment asset allocations and current economic conditions.

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

### ***Income Taxes***

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

### ***Share-Based Compensation***

The Company recognizes expense for all share-based payments to employees, including grants of employee stock options, in the financial statements based on their fair values. Share-based compensation expense that was recorded in 2011 and 2010 includes the compensation expense for the share-based payments granted in those years. In the Company's share-based compensation strategy we utilize a combination of stock options and stock appreciation rights (SARS) that fully vest on the date of grant. Therefore, the fair value of the options and SARS granted is recognized as expense on the date of grant. The Company used the Black-Scholes-Merton valuation model to value any share-based compensation. Option valuation methods, including Black-Scholes-Merton, require the input of assumptions including the risk free interest rate, dividend rate, expected term and volatility rate. The Company determines the assumptions to be used based upon current economic conditions. The impact of changing any of the individual assumptions by 10% would not have a material impact on the recorded expense.

### ***Business Outlook***

The current economic environment in the United States remains 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 the opening and closing of locations by our customers and reductions and increases in headcount by our customers. Additionally, 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. In an effort to mitigate these factors in the current economic environment, we have implemented the following strategies. First, we are actively pursuing acquisitions to increase our market share in our image apparel business which consists of uniforms and service apparel. Second, we diversified our business model by providing remote staffing solutions to other businesses. We entered this business sector to provide remote staffing solutions to the Company at a lower cost in order to improve our own operating results. Our remote staffing operations, located in El Salvador, Costa Rica and Seminole, FL, have enabled us to reduce our operating expenses and to more effectively service our customers' needs. We began selling remote staffing services to third parties at the end of 2009. We have grown our remote staffing business to third party customers from approximately \$120,000 in annual net sales in 2009 to approximately \$1 million in net sales in 2010. We generated net sales of approximately \$2,162,000 from our remote staffing business in the first nine months of 2011 as compared to \$503,000 in the first nine months of 2010. We are aggressively marketing our remote staffing services to third parties and believe that this area will be a strong growth sector for the Company in 2011 and beyond. Finally, we are pursuing new product lines to enhance our market position in the image apparel business. Toward this end, we entered into a licensing agreement in January of 2011 that provides us with access to patented technology which will allow us to market a new line of image apparel to our customers. Our new line of image apparel is designed to provide our customers with the ability to turn their employee uniforms into point of sale advertisements that will, in turn, give them the ability to generate advertising revenues for their businesses. We believe that this new product line will provide us with the opportunity for significant growth in our image apparel business in the future. We expect to begin generating revenues from this new product line in the fourth quarter of 2011.

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## Results of Operations

Net sales increased 12.6% from \$27,301,000 for the three months ended September 30, 2010 to \$30,731,000 for the three months ended September 30, 2011. The increase in net sales for the quarter is split between growth in our image apparel business (10.2%) and increases in net sales from our remote staffing business (2.4%). Net sales increased 6.5% from \$79,910,000 for the nine months ended September 30, 2010 to \$85,135,000 for the nine months ended September 30, 2011. The increase in net sales for the nine-month period is split between growth in our image apparel business (4.5%) and increases in net sales from our remote staffing business (2.0%).

Cost of goods sold, as a percentage of net sales, approximated 63.6% for the three months ended September 30, 2011 compared to 63.6% for the three months ended September 30, 2010. We experienced an increase in cost of sales as a percentage of net sales related to our image apparel business (0.1%), which was offset by the impact of lower cost of sales as a percentage of net sales in our remote staffing business. The increase as a percentage of net sales for our image apparel business is attributed primarily to an increase in direct product costs as a percentage of net sales during the current quarter (0.8%) due to higher raw material costs primarily related to shortages of cotton offset by lower indirect costs as a percentage of net sales due to the increased volume to cover such costs (0.7%). These increases in product costs began to affect our current inventory prices during the first quarter of 2011 and could adversely impact our margins going forward. Our remote staffing net sales increased approximately \$651,000 in the current quarter. The direct costs of sales associated with this operation are significantly lower than those in our image apparel business. The impact of this item on our direct product costs as a percentage of net sales was a 0.1% reduction in the current quarter. Cost of goods sold, as a percentage of net sales, approximated 63.6% for the nine months ended September 30, 2011 compared to 64.6% for the nine months ended September 30, 2010. The decrease as a percentage of net sales is attributed primarily to a decrease in direct product costs as a percentage of net sales during the current nine-month period (0.6%). This decrease is due to a combination of the factors discussed above. First, we increased prices during the last year in order to cover higher product and operating costs. Second, our remote staffing net sales increased approximately \$1,659,000 in the current nine-month period. The direct costs of sales associated with this operation are significantly lower than those in our image apparel business. The impact of this item on our direct product costs as a percentage of net sales was a 0.2% reduction in the current nine-month period. As disclosed in Note 1 to the Consolidated Financial Statements, the Company includes a portion of the costs associated with its distribution network in selling and administrative expenses. The amounts included in selling and administrative expenses for the three-month periods ended September 30, 2011 and 2010, respectively, were \$1,586,000 and \$1,537,000. The amounts included in selling and administrative expenses for the nine-month periods ending September 30, 2011 and 2010, respectively, were \$4,425,000 and \$4,652,000.

Selling and administrative expenses, as a percentage of net sales approximated 27.9% and 29.1% respectively, for the three-month periods ended September 30, 2011 and 2010. The decrease as a percentage of sales is attributed primarily to the impact of higher net sales to cover operating expenses (3.5%) which was partially offset by higher salaries and benefits (1.0%) and higher amortization of intangible assets associated with the licensing rights we acquired in January of 2011 as discussed above (0.7%) and various other minor increases (0.6%). Selling and administrative expenses, as a percentage of net sales, were approximately 30.5% and 29.9%, respectively, for the first nine months of 2011 and 2010. The increase as a percentage of sales is attributed primarily to higher salaries and benefits (1.1%), higher amortization of intangible assets associated with the licensing rights we acquired in January of 2011 as discussed above (0.7%) and expense incurred for a major consulting project completed in the current period to study customer markets and to refine our strategic plan to capitalize on the opportunities identified (0.7%) and various other minor increases (0.1%) which was partially offset by the impact of higher net sales to cover operating expenses (2.0%).

The Company's effective tax rate for the three months ended September 30, 2011 was 27.7% versus 30.8% for the three months ended September 30, 2010. The 3.1% decrease in such effective tax rate is attributed primarily to a reduction in the accrual for uncertain tax positions in the current period primarily for expiration of the statute of limitations on various positions (2.0%) and other miscellaneous changes (1.1%). The Company's effective tax rate for the nine months ended September 30, 2011 was 31.4% versus 33.8% for the nine months ended September 30, 2010. The 2.4% decrease in such effective tax rate is attributed primarily to a reduction in the accrual for uncertain tax positions in the current period primarily for expiration of the statute of limitations on various positions (1.3%) and other miscellaneous changes (1.1%).

## Liquidity and Capital Resources

Accounts receivable-trade increased \$2,778,000 from \$16,523,000 on December 31, 2010 to \$19,301,000 as of September 30, 2011 primarily due to the significant increase in net sales in the current quarter in comparison to the fourth quarter of the prior year.

Accounts receivable-other increased by \$1,861,000 from \$1,274,000 on December 31, 2010 to \$3,136,000 as of September 30, 2011 as a result of increased advances to our suppliers to fund higher raw material levels maintained at their facilities.

Other current assets decreased by \$1,121,000, due primarily to decreases in deposits paid to our suppliers against certain purchase orders, in order to secure adequate supplies of raw materials in the amount of \$616,000. As raw material supplies and pricing began to stabilize, we began experiencing reductions in the amount of deposit requirements. Additionally, there was a reduction in refundable income taxes of \$584,000 as the 2010 overpayment was applied to the 2011 estimated tax payments.

Inventories increased 26.0% from \$31,030,000 on December 31, 2010 to \$39,108,000 as of September 30, 2011. This increase is due to a decision by management to increase certain inventory levels in order to better capitalize on potential opportunities for sales growth.

Other intangible assets increased 228.2% from \$911,000 on December 31, 2010 to \$2,990,000 on September 30, 2011. This increase is primarily attributed to the consummation of our license agreement with EyeLevel Interactive, LLC during the first quarter, which was offset by current amortization of other intangible assets.

Accounts payable increased 40.5% from \$5,104,000 on December 31, 2010 to \$7,171,000 on September 30, 2011. This increase is primarily due to increased levels of inventory purchases in the current period.

Other current liabilities increased 17.5% from \$3,713,000 on December 31, 2010 to \$4,361,000 on September 30, 2011 primarily due to an increase in the accrual for current income taxes payable of \$584,000.

Cash and cash equivalents decreased by \$6,802,000 from \$9,107,000 on December 31, 2010 to \$2,305,000 as of September 30, 2011. The Company used \$2,261,000 in cash from operating activities, \$2,851,000 in investing activities consisting of the acquisition of intangible assets of \$2,061,000 and \$790,000 in net capital expenditures, and used \$1,690,000 in financing activities. Financing activities included the payment of cash dividends, as discussed below and \$776,000 paid for common stock reacquired and retired, offset by proceeds received from the exercise of stock options of \$713,000.

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

During the nine months ended September 30, 2011 and 2010, respectively, the Company paid cash dividends of \$2,427,000 and \$2,392,000. The Company purchased 67,648 and 35,125 shares of its outstanding common stock at a total cost of \$776,000 and \$343,000 in the nine-month periods ended September 30, 2011 and 2010, respectively, pursuant to its stock repurchase program. The Company anticipates that it will continue to pay dividends and that it will repurchase and retire additional shares of its common stock in the future as financial conditions permit.

On June 25, 2010, the Company entered into a 3-year credit agreement with Fifth Third Bank that made available to the Company up to \$15,000,000 on a revolving credit basis. Interest is payable at LIBOR plus 0.90% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.14% at September 30, 2011). The Company pays an annual commitment fee of 0.15% on the average unused portion of the commitment. The available balance under the credit agreement is reduced by outstanding letters of credit. As of September 30, 2011, there were no balances outstanding under letters of credit. The revolving credit agreement expires on June 24, 2013. At the option of the Company, any outstanding balance on the agreement at that date will convert to a one-year term loan. On June 30, 2010, the Company's previous revolving credit agreement with Wachovia Bank expired.

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

The Company believes that its cash 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**

The Principal Executive Officer, Michael Benstock, and the Principal Financial Officer, Andrew D. Demott, Jr., evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report (the Evaluation Date), and, based on such



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evaluation, concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure that information the Company is required to disclose in its filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

## **PART II - OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

None.

### **ITEM 1A. Risk Factors**

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. There have been no material changes to the Risk Factors described in Part I, Item 1A-Risk Factors in our annual report on Form 10-K for the year ended December 31, 2010.

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

There were no unregistered sales of equity securities during the quarter ended September 30, 2011 that were not previously reported in a current report on Form 8-K.

## **ISSUER PURCHASES OF EQUITY SECURITIES**

The table below sets forth the information with respect to purchases made by or on behalf of Superior Uniform Group, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common shares during the three months ended September 30, 2011.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
Month #1 (July 1, 2011 to July 31, 2011)	6,509	\$ 11.29	6,509	
Month #2 (August 1, 2011 to August 31, 2011)	33,842	\$ 11.52	33,842	
Month #3 (September 1, 2011 to September 30, 2011)	2,823	\$ 11.27	2,823	
<b>TOTAL</b>	<b>43,174</b>	<b>\$ 11.47</b>	<b>43,174</b>	<b>320,501</b>

- (1) On August 1, 2008, the Company's Board of Directors approved an increase to the outstanding authorization to allow for the repurchase of 1,000,000 additional shares of the Company's outstanding shares of common stock. There is no expiration date or other restriction governing the period over which the Company can make share repurchases under the program. All such purchases were open market transactions.

Under our credit agreement with Fifth Third, if an event of default exists, we may not make distributions to our shareholders. The Company is in full compliance with all terms, conditions and covenants of its credit agreement.

**ITEM 3. Defaults Upon Senior Securities**

Inapplicable.

**ITEM 4. Removed and Reserved**

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

See Exhibit Index.

**SIGNATURES**

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

Date: October 24, 2011

SUPERIOR UNIFORM GROUP, INC.

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

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

EXHIBIT INDEX

Exhibit No.	Description
10.1	Amended and Restated Revolving Loan Agreement between Superior Uniform Group, Inc. and Fifth Third Bank
15	Grant Thornton LLP Awareness Letter.
31.1	Certification by the Chief Executive Officer (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer (Principal Financial and Accounting Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.