

SUPERIOR UNIFORM GROUP INC
Form 10-Q
October 31, 2006

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 quarter ended September 30, 2006

OR

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

Commission file number 1-5869-1

SUPERIOR UNIFORM GROUP, INC.

Incorporated - Florida

11-1385670

Employer Identification No.

10055 Seminole Boulevard

Seminole, Florida 33772-2539

Telephone No.: 727-397-9611

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

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to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 26, 2006, the registrant had 6,597,994 common shares outstanding, which is registrant's only class of common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED SUMMARY OF OPERATIONS

Three Months Ended September 30,

(Unaudited)

	2006	2005
Net sales	\$ 33,440,168	\$ 34,194,000
Costs and expenses:		
Cost of goods sold	22,917,781	24,336,581
Selling and administrative expenses	8,939,397	9,465,415
Interest expense	110,775	163,454
	31,967,953	33,965,450
Earnings before taxes on income	1,472,215	228,550
Taxes on income	560,000	70,000
Net earnings	\$ 912,215	\$ 158,550
Weighted average number of shares outstanding during the period (Basic)	6,619,404	7,447,700
(Diluted)	6,661,217	7,511,157
Basic net earnings per common share	\$ 0.14	\$ 0.02
Diluted net earnings per common share	\$ 0.14	\$ 0.02
Dividends per common share	\$ 0.135	\$ 0.135

See accompanying notes to condensed consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED SUMMARY OF OPERATIONS

Nine Months Ended September 30,

(Continued)

(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
Net sales	\$ 96,081,293	\$ 100,910,004
Costs and expenses:		
Cost of goods sold	65,499,895	69,909,426
Selling and administrative expenses	26,830,867	29,109,101
Interest expense	346,422	466,953
	92,677,184	99,485,480
Earnings before taxes on income	3,404,109	1,424,524
Taxes on income	1,310,000	480,000
Net earnings	\$ 2,094,109	\$ 944,524
Weighted average number of shares outstanding during the period (Basic)	6,933,373	7,446,681
(Diluted)	6,966,694	7,527,380
Basic net earnings per common share	\$ 0.30	\$ 0.13
Diluted net earnings per common share	\$ 0.30	\$ 0.13
Dividends per common share	\$ 0.405	\$ 0.405

See accompanying notes to condensed consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2006 (Unaudited)	December 31, 2005 (1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,602,985	\$ 3,220,174
Accounts receivable and other current assets	29,956,508	28,472,949
Inventories*	32,759,012	37,186,779
TOTAL CURRENT ASSETS	67,318,505	68,879,902
PROPERTY, PLANT AND EQUIPMENT, NET	16,034,839	18,079,292
GOODWILL	1,617,411	1,617,411
OTHER INTANGIBLE ASSETS, NET	1,071,714	1,250,333
OTHER ASSETS	2,702,533	7,434,119
	\$ 88,745,002	\$ 97,261,057
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 6,697,411	\$ 6,046,575
Other current liabilities	3,294,872	3,182,159
Current portion of long-term debt	1,752,705	1,683,029
TOTAL CURRENT LIABILITIES	11,744,988	10,911,763
LONG-TERM DEBT	2,573,953	3,979,540
DEFERRED INCOME TAXES	790,000	845,000
SHAREHOLDERS' EQUITY	73,636,061	81,524,754
	\$ 88,745,002	\$ 97,261,057

* Inventories consist of the following:

	September 30, 2006 (Unaudited)	December 31, 2005 (1)
Finished goods	\$ 29,645,626	\$ 33,072,321
Work in process	269,795	277,162
Raw materials	2,843,591	3,837,296
	\$ 32,759,012	\$ 37,186,779

(1) The balance sheet as of December 31, 2005 has been derived from the audited balance sheet as of that date and has been condensed. See accompanying notes to condensed consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30,

(Unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 2,094,109	\$ 944,524
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	2,913,165	2,986,652
Provision for bad debts	79,000	94,000
Share-based compensation expense	502,051	
Deferred income tax benefit	(55,000)	(150,000)
Gain on sale of property, plant and equipment	(71,655)	
Changes in assets and liabilities:		
Accounts receivable and other current assets	(1,562,559)	(4,945,043)
Inventories	4,427,767	5,872,594
Other assets	93,695	8,621
Accounts payable	650,836	461,227
Other current liabilities	166,713	124,682
Net cash provided by operating activities	9,238,122	5,397,257
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(690,093)	(1,903,484)
Disposals of property, plant and equipment	71,655	29,320
Other assets	4,637,891	(344,480)
Net cash provided by (used in) investing activities	4,019,453	(2,218,644)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt		2,479,000
Repayment of long-term debt	(1,335,911)	(1,269,539)
Payment of cash dividends	(2,800,330)	(3,020,117)
Proceeds received on exercise of stock options	966,728	498,447
Common stock reacquired and retired	(8,705,251)	(1,844,734)
Net cash used in financing activities	(11,874,764)	(3,156,943)
Net increase in cash and cash equivalents	1,382,811	21,670
Cash and cash equivalents balance, beginning of year	3,220,174	150,563
Cash and cash equivalents balance, end of period	\$ 4,602,985	\$ 172,233

See accompanying notes to condensed consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(Unaudited)

NOTE 1 Summary of Significant Interim Accounting Policies:

a) Basis of presentation

The condensed consolidated interim financial statements include the accounts of Superior Uniform Group, Inc. and its wholly-owned subsidiary, Fashion Seal Corporation. Intercompany items have been eliminated in consolidation. The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed 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, 2005, 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, 2006 has been reviewed by Grant Thornton LLP, independent registered public accounting firm, and their review report thereon accompanies this filing. Such review was made in accordance with established professional standards and procedures for such a review. The results of operations for any interim period are not necessarily indicative of results to be expected for the full year.

b) Revenue recognition

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

c) Recognition of costs and expenses

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

d) Advertising expenses

The Company expenses advertising costs as incurred. Total advertising costs for the three months ended September 30, 2006 and 2005, respectively were \$48,174 and \$43,854. Advertising costs for the nine months ended September 30, 2006 and 2005, respectively were \$143,105 and \$112,503.

e) Shipping and handling fees and costs

The Company follows EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*, which requires shipping and handling fees billed to customers to be classified as revenue and shipping and handling costs to be either classified as cost of sales or disclosed in the notes to the financial statements. 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 are included in selling and administrative expenses and totaled \$2,083,042 and \$2,165,408 for the three months ended September 30, 2006 and 2005, respectively. The shipping and handling costs included in selling and administrative expenses totaled \$6,283,935 and \$6,641,644, for the nine months ended September 30, 2006 and 2005, respectively.

f) Inventories

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

g) Accounting for income taxes

The provision for income taxes is calculated by using the effective tax rate anticipated for the full year. The Company's effective tax rate for the three months ended September 30, 2006 was 38.0%. The Company's effective tax rate for the nine months ended September 30, 2006 was 38.5%. This rate differs from the federal statutory rate primarily due to non-deductible share-based compensation expense recognized for book purposes.

h) Employee Benefit Plan Settlements

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

i) Earnings per share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Earnings used in the computation of basic and diluted net earnings per common share:				
Net earnings	\$ 912,215	\$ 158,550	\$ 2,094,109	\$ 944,524
Weighted average shares outstanding - basic	6,619,404	7,447,700	6,933,373	7,446,681
Common stock equivalents	41,813	63,457	33,321	80,699
Weighted average shares outstanding - diluted	6,661,217	7,511,157	6,966,694	7,527,380
Basic net earnings per share	\$ 0.14	\$ 0.02	\$ 0.30	\$ 0.13
Diluted net earnings per share	\$ 0.14	\$ 0.02	\$ 0.30	\$ 0.13

j) Use of Estimates

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

k) Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net earnings	\$ 912,215	\$ 158,550	\$ 2,094,109	\$ 944,524
Other comprehensive (loss) income :				
Net unrealized (loss) gain during the period related to cash flow hedges	(19,000)	78,000	54,000	189,000
Comprehensive income:	\$ 893,215	\$ 236,550	\$ 2,148,109	\$ 1,133,524

l) Operating Segments

Statement of Financial Accounting Standards (FAS) No. 131 Disclosures about Segments of an Enterprise and Related Information requires 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 the effect of this standard and has determined that currently it operates in one segment, as defined in this statement.

m) Derivative Financial Instruments

The Company has only limited involvement with derivative financial instruments. The Company has one interest rate swap agreement to hedge against the potential impact on earnings from increases in market interest rates of a variable rate term loan. Under the interest rate swap agreement, the Company receives or makes payments on a monthly basis, based on the differential between a specified interest rate and one month LIBOR. A term loan of \$3,996,548 is designated as a hedged item for interest rate swaps at September 30, 2006.

This interest rate swap is accounted for as a cash flow hedge in accordance with FAS No. 133 and FAS No. 138. As of the report date, the swap met the effectiveness tests, and as such no gains or losses were included in net earnings during the quarter related to hedge ineffectiveness and there was no income adjustment related to any portion excluded from the assessment of hedge effectiveness. A loss of \$19,000 and a gain of \$78,000 were included in other comprehensive income for the three months ended September 30, 2006 and 2005, respectively. Gains of \$54,000 and \$189,000 were included in other comprehensive income for the nine months ended September 30, 2006 and 2005, respectively. The original term of the contract is ten years.

n) Share-based Compensation:

The Company awards share-based compensation as an incentive for employees to contribute to the Company's long-term success. Historically, the Company has issued options and stock settled stock appreciation rights. At September 30, 2006, the Company had 1,805,025 shares of common stock authorized for awards of share-based compensation under its 2003 Incentive Stock and Awards Plan.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards 123(R), Share-Based Payment. Accordingly, the Company is now recognizing share-based compensation expense for all awards granted to employees, which is based on the fair value of the award on the date of grant. The Company adopted FAS No. 123(R) under the modified prospective transition method, and consequently prior period results have not been restated. Under this transition method, in 2006 the Company's reported stock compensation expense will include expense related to stock compensation awards granted subsequent to January 1, 2006, which is based on the grant date fair value estimated in accordance with the provisions of FAS No. 123(R). Prior to January 1, 2006, the Company applied APB Opinion No. 25 Accounting for Stock Issued to Employees in accounting for its employee stock compensation and applied FAS No. 123 Accounting for Stock Issued to Employees for disclosure purposes only. Under APB 25, the intrinsic value method was used to account for share-based employee compensation plans and expense was not recorded for awards granted with no intrinsic value. The FAS No. 123 disclosures include pro forma net earnings (loss) and earnings (loss) per share as if the fair value-based method of accounting had been used. Determining the appropriate fair value model and calculating the fair value of stock compensation awards requires the input of certain highly complex and subjective assumptions, including the expected life of the stock compensation awards, the Company's common stock price volatility, and the rate of employee forfeitures. The assumptions used in calculating the fair value of stock compensation awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and the Company deems it necessary to use different assumptions, stock compensation expense could be materially different from what has been recorded in the current period.

For the three months ended September 30, 2006, the Company recognized \$125,205 of pre-tax share-based compensation expense under FAS No. 123(R), recorded in selling and administrative expense in the Condensed Consolidated Summary of Operations. For the nine months ended September 30, 2006, the Company recognized \$502,051 of pre-tax share-based compensation expense under FAS No. 123(R), recorded in selling and administrative expense in the Condensed Consolidated Summary of Operations. This expense was offset by a \$63,000 deferred tax benefit for non-qualified share based compensation. As of September 30, 2006, the Company had no unrecognized compensation cost expected to be recognized for share-based awards made prior to January 1, 2006. All such grants were fully-vested prior to January 1, 2006.

Share-Based Compensation Awards

The following disclosures provide information regarding the Company's share-based compensation awards, all of which are classified as equity awards in accordance with FAS No. 123(R):

Stock options and stock settled stock appreciation rights. The Company grants stock options and stock settled stock appreciation rights 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 stock settled stock appreciation rights at the date of grant using the Black-Scholes valuation model. All options and stock appreciation rights 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 stock settled stock appreciation rights.

During the nine-month period ended September 30, 2006, the Company received \$966,728 in cash from stock option exercises. No tax benefit was recognized for these exercises, as the options exercised were qualified incentive stock options.

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A summary of the changes in total stock options and stock appreciation rights outstanding during the nine months ended September 30, 2006 follows:

	Options and SARS	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding December 31, 2005	849,750	\$ 12.98	
Granted	237,825	11.55	
Exercised	(102,850)	9.40	
Forfeited or expired	(33,550)	12.94	
Outstanding September 30, 2006	951,175	\$ 13.01	3.1 years

At September 30, 2006, options and stock appreciation rights outstanding, all of which were fully vested and exercisable, had aggregate intrinsic values of \$(600,044).

Options exercised during the three and nine-month periods ended September 30, 2006, had intrinsic values of \$23,886 and \$262,251, respectively. The weighted average grant date fair value of the Company's options and SARs granted during the three months ended September 30, 2006 and 2005 was \$2.28 and \$2.57, respectively. The weighted average grant date fair value of the Company's options and SARs granted during the nine months ended September 30, 2006 and 2005 was \$2.11 and \$2.91, respectively. The fair values were estimated on the date of the grant using the Black-Scholes valuation model with the following weighted-average assumptions: