

SUPERIOR UNIFORM GROUP INC

Form 10-Q

July 21, 2016

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 June 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-05869

Exact name of registrant as specified in its charter:

SUPERIOR UNIFORM GROUP, INC.

State or other jurisdiction of incorporation or organization: I.R.S. Employer Identification No.:  
Florida 11-1385670

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

Address of principal executive offices:

10055 Seminole Boulevard

Seminole, Florida 33772-2539

Registrant's telephone number, including area code:

727-397-9611

Former name, former address and former fiscal year, if changed since last report: \_\_\_\_\_

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.

Large accelerated filer  
☐

Accelerated filer ☒

Non-accelerated filer  
☐

(Do not check if a smaller reporting company) Smaller Reporting Company ☐

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

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 July 19, 2016, the registrant had 14,408,470 shares of common stock 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 June 30,

(Unaudited)

	2016	2015
Net sales	\$ <b>64,660,000</b>	\$54,116,000
Costs and expenses:		
Cost of goods sold	<b>42,897,000</b>	35,585,000
Selling and administrative expenses	<b>16,956,000</b>	13,008,000
Interest expense	<b>192,000</b>	129,000
	<b>60,045,000</b>	48,722,000
Income before taxes on income	<b>4,615,000</b>	5,394,000
Income tax expense	<b>1,540,000</b>	1,770,000
Net income	<b>\$3,075,000</b>	\$3,624,000
Weighted average number of shares outstanding during the period		
(Basic)	<b>14,120,617</b>	13,730,646
(Diluted)	<b>14,957,469</b>	14,577,342
Per Share Data:		
Basic		
Net income	<b>\$0.22</b>	\$0.26
Diluted		
Net income	<b>\$0.21</b>	\$0.25
Other comprehensive income, net of tax:		
Defined benefit pension plans:		
Recognition of net losses included in net periodic pension costs	<b>171,000</b>	129,000

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

Recognition of settlement loss included in net periodic pension costs	<b>33,000</b>	201,000
Gain on cash flow hedging activities	<b>21,000</b>	21,000
Foreign currency translation adjustment	<b>173,000</b>	-
Other comprehensive income	<b>398,000</b>	351,000
Comprehensive income	<b>\$3,473,000</b>	\$3,975,000
Cash dividends per common share	<b>\$0.0825</b>	\$0.075

See accompanying notes to consolidated interim financial statements.

**PART I - FINANCIAL INFORMATION**

ITEM 1. Financial Statements

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Six Months Ended June 30,

(Continued)

(Unaudited)

	2016	2015
Net sales	\$ <b>122,628,000</b>	\$ 100,463,000
Costs and expenses:		
Cost of goods sold	<b>80,844,000</b>	66,136,000
Selling and administrative expenses	<b>33,419,000</b>	25,445,000
Interest expense	<b>340,000</b>	265,000
	<b>114,603,000</b>	91,846,000
Income before taxes on income	<b>8,025,000</b>	8,617,000
Income tax expense	<b>2,690,000</b>	2,950,000
Net income	<b>\$5,335,000</b>	\$5,667,000
Weighted average number of shares outstanding during the period		
(Basic)	<b>14,023,840</b>	13,657,784
(Diluted)	<b>14,813,064</b>	14,562,713
Per Share Data:		
Basic		
Net income	<b>\$0.38</b>	\$0.41
Diluted		
Net income	<b>\$0.36</b>	\$0.39

Other comprehensive income, net of tax:

Defined benefit pension plans:

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

Recognition of net losses included in net periodic pension costs	<b>342,000</b>	257,000
Recognition of settlement loss included in net periodic pension costs	<b>198,000</b>	201,000
Gain (loss) on cash flow hedging activities	<b>6,000</b>	(1,000 )
Foreign currency translation adjustment	<b>294,000</b>	-
Other comprehensive income	<b>840,000</b>	457,000
Comprehensive income	<b>\$6,175,000</b>	\$6,124,000
Cash dividends per common share	<b>\$0.165</b>	\$0.15

See accompanying notes to consolidated interim financial statements.

## SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$4,735,000	\$1,036,000
Accounts receivable, less allowance for doubtful accounts of \$1,100,000 and \$848,000, respectively	37,091,000	29,914,000
Accounts receivable - other	2,137,000	3,262,000
Prepaid expenses and other current assets	11,150,000	6,214,000
Inventories*	63,161,000	63,573,000
<b>TOTAL CURRENT ASSETS</b>	<b>118,274,000</b>	<b>103,999,000</b>
 <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	 <b>27,090,000</b>	 <b>22,524,000</b>
<b>OTHER INTANGIBLE ASSETS, NET</b>	<b>24,428,000</b>	<b>14,222,000</b>
<b>GOODWILL</b>	<b>11,481,000</b>	<b>4,135,000</b>
<b>DEFERRED INCOME TAXES</b>	<b>4,760,000</b>	<b>4,980,000</b>
<b>OTHER ASSETS</b>	<b>2,392,000</b>	<b>1,871,000</b>
	<b>\$188,425,000</b>	<b>\$151,731,000</b>
 <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$15,397,000	\$11,775,000
Other current liabilities	7,883,000	8,307,000
Current portion of long-term debt	6,429,000	2,750,000
Current portion of acquisition-related contingent liabilities	1,969,000	1,787,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>31,678,000</b>	<b>24,619,000</b>
 <b>LONG-TERM DEBT, net of issuance costs</b>	 <b>36,898,000</b>	 <b>21,131,000</b>
<b>LONG-TERM PENSION LIABILITY</b>	<b>8,347,000</b>	<b>8,925,000</b>
<b>LONG-TERM ACQUISITION-RELATED CONTINGENT LIABILITIES</b>	<b>7,361,000</b>	<b>3,866,000</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>540,000</b>	<b>500,000</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 5)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$.001 par value - authorized 300,000 shares (none issued)	-	-
Common stock, \$.001 par value - authorized 50,000,000 shares, issued and outstanding - 14,407,920 and 13,917,465, respectively.	14,000	14,000
Additional paid-in capital	40,982,000	33,806,000



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

Retained earnings	<b>68,287,000</b>	65,392,000
Accumulated other comprehensive income (loss), net of tax:		
Pensions	<b>(5,908,000 )</b>	(6,448,000 )
Cash flow hedges	<b>(68,000 )</b>	(74,000 )
Foreign currency translation adjustment	<b>294,000</b>	-
TOTAL SHAREHOLDERS' EQUITY	<b>103,601,000</b>	92,690,000
	<b>\$ 188,425,000</b>	\$ 151,731,000

\* Inventories consist of the following:

	<b>June 30,</b>	December
	<b>2016</b>	31,
	<b>(Unaudited)</b>	2015
Finished goods	<b>\$ 49,649,000</b>	\$ 48,206,000
Work in process	<b>955,000</b>	860,000
Raw materials	<b>12,557,000</b>	14,507,000
	<b>\$ 63,161,000</b>	\$ 63,573,000

See accompanying notes to consolidated interim financial statements.

## SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30,

(Unaudited)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	<b>\$5,335,000</b>	\$5,667,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	<b>2,333,000</b>	1,890,000
Provision for bad debts - accounts receivable	<b>180,000</b>	211,000
Share-based compensation expense	<b>983,000</b>	964,000
Deferred income tax provision (benefit)	<b>(69,000)</b>	(881,000)
Loss on sales of property, plant and equipment	<b>-</b>	12,000
Accretion of acquisition-related contingent liability	<b>81,000</b>	65,000
Changes in assets and liabilities, net of acquisition of business:		
Accounts receivable - trade	<b>(2,181,000)</b>	(2,079,000)
Accounts receivable - other	<b>1,125,000</b>	892,000
Inventories	<b>653,000</b>	(2,493,000)
Prepaid expenses and other current assets	<b>(1,648,000)</b>	(1,419,000)
Other assets	<b>(353,000)</b>	(41,000)
Accounts payable	<b>2,238,000</b>	4,386,000
Other current liabilities	<b>(1,350,000)</b>	(2,233,000)
Long-term pension liability	<b>259,000</b>	567,000
Other long-term liabilities	<b>40,000</b>	40,000
Net cash provided by operating activities	<b>7,626,000</b>	<b>5,548,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	<b>(5,527,000)</b>	(2,099,000)
Acquisition of business, net of acquired cash	<b>(15,252,000)</b>	-
Net cash used in investing activities	<b>(20,779,000)</b>	<b>(2,099,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	<b>90,514,000</b>	25,040,000
Repayment of long-term debt	<b>(71,138,000)</b>	(26,638,000)
Payment of cash dividends	<b>(2,270,000)</b>	(2,006,000)
Payment of contingent liability	<b>(1,800,000)</b>	-
Proceeds received on exercise of stock options	<b>781,000</b>	1,383,000
Excess tax benefit from exercise of stock options and SARs	<b>683,000</b>	588,000
Net cash provided by (used in) financing activities	<b>16,770,000</b>	<b>(1,633,000)</b>

Effect of currency exchange rates on cash	<b>82,000</b>	-
Net increase in cash and cash equivalents	<b>3,699,000</b>	1,816,000
Cash and cash equivalents balance, beginning of year	<b>1,036,000</b>	4,586,000
Cash and cash equivalents balance, end of period	<b>\$4,735,000</b>	<b>\$6,402,000</b>

See accompanying notes to consolidated interim financial statements.

SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(Unaudited)

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

a)Basis of presentation

The consolidated interim financial statements include the accounts of Superior Uniform Group, Inc. and its wholly-owned subsidiaries, The Office Gurus, LLC, SUG Holding, Fashion Seal Corporation, and BAMKO, LLC; 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; Power Three Web, Ltda. and Superior Sourcing, each a wholly-owned subsidiary of SUG Holding; BAMKO Importação, Exportação e Comércio de Brindes Ltda., a subsidiary of BAMKO, LLC and SUG Holding; Guangzhou Ben Gao Trading Limited, Worldwide Sourcing Solutions Limited, and BAMKO UK, Limited, each a direct or indirect subsidiary of BAMKO, LLC, and BAMKO India Private Limited, a 99%-owned subsidiary of BAMKO, LLC. 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, 2015, 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 \$607,000 for the three-month period ended June 30, 2016, and \$516,000 for the three-month period ended June 30, 2015. Amortization expense for the six-month periods ended June 30, 2016 and 2015, respectively, was \$1,154,000 and \$1,033,000.

e) Advertising expenses

The Company expenses advertising costs as incurred. Advertising costs for the three-month periods ended June 30, 2016 and 2015, respectively, were \$22,000 and \$64,000. Advertising costs for the six-month periods ended June 30, 2016 and 2015, respectively, were \$32,000 and \$90,000.

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 \$2,497,000 and \$2,229,000 for the three months ended June 30, 2016 and 2015, respectively. Other shipping and handling costs included in the selling and administrative expenses totaled \$5,152,000 and \$4,626,000, for the six months ended June 30, 2016 and 2015, 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, stock appreciation rights, unvested shares, and performance shares.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net earnings used in the computation of basic and diluted earnings per share	\$3,075,042	\$3,624,000	\$5,335,443	\$5,667,000
Weighted average shares outstanding - basic	14,120,617	13,730,646	14,023,840	13,657,784
Common stock equivalents	836,852	846,696	789,224	904,929
Weighted average shares outstanding - diluted	14,957,469	14,577,342	14,813,064	14,562,713
Per Share Data:				
Basic				
Net earnings	\$0.22	\$0.26	\$0.38	\$0.41
Diluted				
Net earnings	\$0.21	\$0.25	\$0.36	\$0.39

Awards to purchase 153,000 shares of common stock with a weighted average exercise price of \$18.65 per share were outstanding during the three-month period ending June 30, 2016, 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. There were no such awards outstanding during the three-month period ending June 30, 2015.

Awards to purchase 173,075 shares of common stock with a weighted average exercise price of \$18.50 per share were outstanding during the six-month period ending June 30, 2016, 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. There were no such awards outstanding during the six-month period ending June 30, 2015.

#### 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 June 30, 2016, 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 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 2.)

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, change in fair value of qualifying hedges, and foreign currency translation adjustments.

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 6.)

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 granted options, stock settled stock appreciation rights, and restricted stock. In 2016, the Company began granting performance shares as well.

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 shares 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 shares and other stock based compensation. A total of 5,000,000 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 June 30, 2016, the Company had 3,986,372 shares of common stock available for grant of share-based compensation under the 2013 Plan.

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.

For the three months ended June 30, 2016 and 2015, respectively, the Company recognized \$81,000 and \$71,000 of pre-tax share-based compensation expense related to stock options and SARS, recorded in selling and administrative expense in the Consolidated Statements of Comprehensive Income. These expenses were partially offset by deferred tax benefits of \$28,000 and \$25,000 for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, respectively, the Company recognized \$833,000 and \$828,000 of share-based compensation expense related to stock options and SARS recorded in selling and administrative expense in the Consolidated Statements of Comprehensive Income. These expenses were partially offset by deferred tax benefits of \$119,000 and \$122,000 for the six-month periods ended June 30, 2016 and 2015, respectively.

On February 7, 2014, the Compensation Committee of the Board of Directors approved a restricted stock grant under the terms of the 2013 Plan to four members of senior management for a total of 100,000 shares. The fair value of the stock on the date of grant was \$7.36 per share for a total value of \$736,000. These shares were unvested at the time of grant and will vest if the executives are still employed by the Company on February 7, 2017. The shares are subject to accelerated vesting under certain circumstances as outlined in the 2013 Plan. On November 6, 2015, the Board of Directors approved a restricted stock grant under the terms of the 2013 Plan to the four independent members of the Board of Directors for a total of 7,276 shares. The fair value of the stock on the date of grant was \$17.59 per share for a total value of \$127,985. These shares were unvested at the time of grant and will vest if the directors are still serving on the Company's Board of Directors on November 6, 2018. The shares are subject to accelerated vesting under certain circumstances as outlined in the 2013 Plan.

Expense for each of these grants is being recognized on a straight-line basis over the respective service period. The Company recognized approximately \$71,000 and \$69,000 in expense associated with the grants for the three month periods ended June 30, 2016 and 2015, respectively, and approximately \$151,000 and \$136,000 for the six-month periods ended June 30, 2016 and 2015, respectively. These expenses were partially offset by deferred tax benefits of \$25,000 and \$24,000 for the three month periods ended June 30, 2016 and 2015, respectively, and \$53,000 and \$48,000 for the six-month periods ended June 30, 2016 and 2015, respectively. As of June 30, 2016, the Company had \$275,000 of unrecognized compensation cost expected to be recognized in the future for such prior share-based awards.

During the three-month periods ended June 30, 2016 and 2015, respectively, the Company received \$459,000 and \$1,027,000 in cash from stock option exercises. Additionally, during the three-month periods ended June 30, 2016 and 2015, respectively, the Company received 10,434 and 4,333 shares of its common stock as payment for the issuance of 30,416 and 17,792 shares of its common stock related to the exercise of stock options. No tax benefit was recognized for these exercises, as the options exercised were qualified incentive stock options.

During the six-month periods ended June 30, 2016 and 2015, respectively, the Company received \$781,000 and \$1,383,000 in cash from stock option exercises. Additionally, during the six-month periods ended June 30, 2016 and 2015, respectively, the Company received 10,434 and 7,765 shares of its common stock as payment for the issuance of 30,416 and 27,432 shares of its common stock related to the exercise of stock options.

On February 5, 2016, the Compensation Committee of the Board of Directors approved a grant of performance shares under the terms of the 2013 Stock and Awards Plan of the Company to three members of management. Under the terms of the agreement, a total of 50,000 of these shares are unvested at the date of grant and will vest if the respective executives are still employed by the Company on February 5, 2021. The fair value of these shares on the date of grant was \$16.35 for a total value of \$818,000. Expenses for these grants are being recognized on a straight line basis over the respective service period. Under the terms of the agreement, an additional total of 50,000 of these shares are unvested at the date of grant and will vest if the respective executives meet certain performance targets over the five year period from January 1, 2016 through December 31, 2020 and are still employed by the Company on February 5, 2021. The fair value of these shares on the date of grant was \$16.35 for a total value of \$818,000. The Company

evaluates the performance conditions associated with these grants each reporting period to determine the expected number of shares to be granted. Based upon this evaluation, expected expenses for these grants are being recognized on a straight line basis over the respective service period. The company recognized expense of \$68,000 associated with these grants for the three-month period ended June 30, 2016. These expenses were offset by deferred tax benefits of \$24,000 for the three-month period ended June 30, 2016. The company recognized expense of \$114,000 associated with these grants for the six-month period ended June 30, 2016. These expenses were offset by deferred tax benefits of \$40,000 for the six-month period ended June 30, 2016. The shares are subject to accelerated vesting under certain circumstances as outlined in the 2013 Stock and Awards Plan. As of June 30, 2016, the Company had \$1,249,000 of unrecognized compensation cost expected to be recognized in the future for these awards.

A summary of options transactions during the six months ended June 30, 2016 follows:

	No. of	Weighted Average
	Shares	Exercise Price
Outstanding December 31,	946,546	\$ 8.39
Granted	120,332	\$ 16.55
Exercised	(141,022)	\$ 6.97
Lapsed	(1,592 )	\$ 5.62
Cancelled	(660 )	\$ 14.21
Outstanding June 30, 2016	923,604	\$ 9.67

At June 30, 2016, options outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$8,884,000.

Options exercised during the three-month periods ended June 30, 2016 and 2015 had intrinsic values of \$595,000 and \$1,792,000, respectively. Options exercised during the six-month periods ended June 30, 2016 and 2015 had intrinsic values of \$1,196,000 and \$2,377,000, respectively. The weighted average grant date fair value of the Company's 11,000 options granted during each of the three month periods ended June 30, 2016 and 2015 was \$7.38 and \$6.61, respectively. The weighted average grant date fair values of the Company's 120,332 and 103,308 options granted during the six-month periods ended June 30, 2016 and 2015 were \$4.75 and \$5.35, respectively.

	No. of	Weighted Average
	Shares	Exercise Price
Outstanding December 31,	381,566	\$ 8.14
Granted	58,108	16.35
Exercised	(75,792 )	6.12
Lapsed	-	-
Cancelled	-	-
Outstanding June 30, 2016	363,882	\$ 9.87

At June 30, 2016, SARS outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of \$3,174,000.

There were 39,584 and 42,208 SARS exercised during the three-month periods ended June 30, 2016 and 2015, respectively. SARS exercised during the three-month periods ended June 30, 2016 and 2015, respectively, had intrinsic value of \$485,000 and \$700,000, respectively. There were 75,792 and 139,542 SARS exercised during the six-month periods ended June 30, 2016 and 2015, respectively. SARS exercised during the six-month periods ended June 30, 2016 and 2015, had intrinsic values of \$928,000 and \$1,931,000, respectively. There were 58,108 and 53,292 SARS granted during the six-month periods ended June 30, 2016 and 2015, respectively. The weighted average grant date fair values of the Company's SARS granted during the six-month periods ended June 30, 2016 and 2015 were \$4.49 and \$5.20, respectively.

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

Three months ended June 30,	SARS	Options
Exercise price 2016	N/A	\$ 18.55

2015	N/A	\$ 16.78	
Market price			
2016	N/A	18.55	
2015	N/A	\$ 16.78	
Risk free interest rate <sup>1</sup>			
2016	N/A	1.8	%
2015	N/A	2.1	%
Expected award life (years) <sup>2</sup>	N/A	10	
Expected volatility <sup>3</sup>			
2016	N/A	40.3	%
2015	N/A	39.0	%
Expected dividend yield <sup>4</sup>			
2016	N/A	1.8	%
2015	N/A	1.8	%

Six months ended June 30,	SARS	Options		
Exercise price				
2016	\$ 16.35	\$16.35	-	\$18.55
2015	\$ 18.66	\$16.78	-	\$18.66
Market price				
2016	\$ 16.35	\$16.35	-	\$18.55
2015	\$ 18.66	\$16.78	-	\$18.66
Risk free interest rate <sup>1</sup>				
2016	1.3	% 1.3%	-	1.8%
2015	1.5	% 1.5%	-	2.1%
Expected award life (years) <sup>2</sup>	5	5	-	10
Expected volatility <sup>3</sup>				
2016	36.5	% 36.5%	-	40.3%
2015	34.9	% 34.9%	-	39.0%
Expected dividend yield <sup>4</sup>				
2016	2.0	% 1.8%	-	2.0%
2015	1.6	% 1.6%	-	1.8%

<sup>1</sup> 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.

<sup>2</sup> The expected life in years for awards granted was based on the historical exercise patterns experienced by the Company when the award is made.

<sup>3</sup> The determination of expected stock price volatility for awards granted in each of the three and six-month periods ended June 30, 2016 and 2015, was based on historical prices of Superior's common stock over a period commensurate with the expected life.

<sup>4</sup> The dividend yield assumption is based on the history and expectation of the Company's dividend payouts.

#### p) Stock Split

On December 29, 2014, the Board of Directors declared a 2-for-1 stock split of the Company's common stock. The record date of the split was January 12, 2015, and the stock split became effective February 4, 2015. All share and per share information in these consolidated interim financial statements have been restated for all periods presented, giving retroactive effect to the stock split. The Company revised certain historical amounts when it recorded the 2-for-1 stock split. The amounts were immaterial and reclassified within shareholders' equity between par value and additional paid in capital.

q) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disaggregated disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. The amendments are required to be adopted by the Company on January 1, 2018. Transition to the new guidance may be done using either a full or modified retrospective method. The Company is currently evaluating the full effect that the adoption of this standard will have on the Company’s consolidated financial statements.

In April 2015, the FASB issued an accounting standard update to simplify the presentation of debt issuance costs. The amendments in this accounting standard update require debt issuance costs to be presented on the balance sheet as a reduction from the carrying amount of the related debt liability. The amendment in this accounting standard update is to be applied retrospectively and is effective for interim and annual reporting periods beginning after December 15, 2015. We adopted this accounting standard update retrospectively effective January 1, 2016, and have reclassified all debt issuance costs as a reduction from the carrying amount of the related debt liability for both the current and prior period. See Note 2 of the Notes to Unaudited Consolidated Financial Statements for additional information.

In February 2016, the FASB issued an accounting standard update that amends the accounting guidance on leases. The primary change in this accounting standard update requires lessees to recognize, in the balance sheet, a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset over the lease term. The amendments in this accounting standard update are to be applied using a modified retrospective approach and are effective for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of the provisions of this accounting standard update.

In March 2016, the FASB issued an accounting standard update that amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification within the statement of cash flows. Certain of the amendments in this accounting standard update are to be applied using a modified retrospective approach by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted, while other amendments can be applied prospectively or retrospectively. The amendments in this accounting standard update are effective for periods beginning after December 15, 2016. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments will be reflected as of the beginning of the fiscal year that includes that interim period. We are currently evaluating the impact of the provisions of this accounting standard update.

## NOTE 2 - Long-Term Debt:

	June 30, 2016	December 31, 2015
Term loan payable to Fifth Third Bank, maturing March 8, 2021	\$43,393,000	\$-
Note payable to Fifth Third Bank, pursuant to revolving credit agreement, maturing March 8, 2021	-	2,200,000
Term loan payable to Fifth Third Bank, paid March 8, 2016	-	21,750,000



	\$43,393,000	\$23,950,000
Less:		
Payments due within one year included in current liabilities	\$6,429,000	\$2,750,000
Deferred borrowing costs	66,000	69,000
Long-term debt less current maturities	\$36,898,000	\$21,131,000

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 (the "Initial Credit Facility") in addition to a \$30,000,000 term loan utilized to finance the acquisition of substantially all of the assets of HPI Direct, Inc.

Effective March 8, 2016, the Company entered into an amended and restated 5-year credit agreement with Fifth Third Bank (the "Amended Credit Agreement") that increased its revolving credit facility from \$15,000,000 to \$20,000,000 (the "Amended Credit Facility") and refinanced its then-existing term loan with a new \$45,000,000 term loan to help finance the acquisition of substantially all of the assets of BAMKO, Inc. Interest is payable on the new term loan at LIBOR plus 0.85% (1.32% at June 30, 2016) and on the revolving credit facility at LIBOR (rounded up to the next 1/8<sup>th</sup> of 1%) plus 0.85% (1.35% at June 30, 2016). Both loans are based upon the one-month LIBOR rate for U.S. dollar based borrowings. The Company pays a commitment fee of 0.10% per annum on the average unused portion of the commitment under the Amended Credit Facility. The available balance under the Amended Credit Facility is reduced by outstanding letters of credit. As of June 30, 2016, there was \$-0- outstanding under letters of credit.

In order to reduce interest rate risk on its debt, 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 its borrowings to achieve a net fixed rate of 2.53% per annum, beginning July 1, 2014 with a notional amount of \$14,250,000. The notional amount of the interest rate swap is reduced by the scheduled amortization of the principal balance of the original term loan of \$187,500 per month through July 1, 2015 and \$250,000 per month through June 1, 2018 with the remaining notional balance of \$3,250,000 to be eliminated on July 1, 2018. Effective at the inception of the new term loan, the fixed rate on the notional amount was reduced to 2.43%.

Under the terms of the interest rate swap, the Company receives variable interest rate payments and makes 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. As a result of the acquisition of substantially all of the assets of BAMKO, Inc. on March 8, 2016, the original term loan associated with this hedge was paid in full and replaced with the new \$45,000,000 term loan discussed above. At that time, the Company undesignated the original term loan as the hedged instrument and elected the new term loan as the designated hedged instrument. The negative fair value at that time of the interest rate swap of \$152,000 will be amortized as an expense over the remaining life of the swap agreement. At June 30, 2016, the interest rate swap had a negative fair value of \$138,000, which is presented within other current liabilities within the consolidated balance sheet. Approximately \$22,000 of this cumulative loss has been recognized in earnings in 2016. The balance of \$138,000, net of tax benefit of \$49,000, since the inception of the hedge in July 2013 has been recorded within OCI through June 30, 2016. The Company expects that approximately \$65,000 of these losses will be reclassified into earnings over the subsequent twelve-month period.

The remaining scheduled amortization for the term loan is as follows: 2016 \$3,214,000; 2017 through 2020 \$6,429,000 per year; 2021 \$14,463,000. The term loan does not include a prepayment penalty. In connection with the Amended Credit Agreement, the Company incurred approximately \$70,000 of debt financing costs, which primarily consisted of legal fees. These costs are being amortized over the life of the Amended Credit Agreement and are recorded as additional interest expense.

The Company's obligations under the Amended Credit Agreement are secured by substantially all of the operating assets of Superior Uniform Group, Inc. and are 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 a fixed charge coverage ratio (1.25:1). The Company is in full compliance with all terms, conditions and covenants of the Amended Credit Agreement.

**NOTE 3 – Periodic Pension Expense:**

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Service cost - benefits earned during the period	\$ 14,000	\$ 26,000	\$ 28,000	\$ 52,000
Interest cost on projected benefit obligation	247,000	238,000	494,000	476,000
Expected return on plan assets	(297,000)	(335,000)	(594,000)	(671,000)
Recognized actuarial loss	258,000	200,000	523,000	399,000
Settlement loss	52,000	311,000	307,000	311,000
Net periodic pension cost	\$ 274,000	\$ 440,000	\$ 758,000	\$ 567,000

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.

Effective December 31, 2014, the Company no longer accrues additional benefits for future service for the Company's hourly defined benefit plan.

There were \$500,000 and \$0 in contributions made to the Company's defined benefit plans during the six month period ended June 30, 2016 and 2015, respectively.

**NOTE 4 - Supplemental Cash Flow Information**

Cash paid for income taxes was \$3,173,000 and \$2,928,000, respectively, for the six-month periods ended June 30, 2016 and 2015. Cash paid for interest was \$278,000 and \$228,000, respectively, for the six-month periods ended June 30, 2016 and 2015. During the six month periods ended June 30, 2016 and 2015, respectively, the Company received 10,434 and 7,765 shares of its common stock as payment of the exercise price in the exercise of stock options for 30,416 and 27,432 shares.

**NOTE 5 – 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 6 – 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, including promotional products. 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.

	<b>Uniforms and Related Products</b>	<b>Remote Staffing Solutions</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
<b>As of and For the Three</b>				
<b>Months Ended</b>				
<b>June 30, 2016</b>				
Net sales	\$61,062,000	4,500,000	(902,000 )	\$64,660,000
Gross margin	\$19,881,000	2,466,000	(584,000 )	\$21,763,000
Selling and administrative expenses	16,050,000	1,490,000	(584,000 )	16,956,000
Interest expense	192,000	-	-	192,000
Income before taxes on income	\$3,639,000	976,000	-	\$4,615,000
Depreciation and amortization	\$1,125,000	\$91,000	\$-	\$1,216,000
Capital expenditures	\$1,042,000	\$1,783,000	\$-	\$2,825,000
Total assets	\$176,242,000	\$18,944,000	\$(6,761,000 )	\$188,425,000

	<b>Uniforms and Related Products</b>	<b>Remote Staffing Solutions</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
<b>As of and For the Three</b>				
<b>Months Ended</b>				
<b>June 30, 2015</b>				
Net sales	\$51,256,000	\$3,782,000	\$(922,000 )	\$54,116,000
Gross margin	\$17,026,000	\$2,110,000	\$(605,000 )	\$18,531,000
Selling and administrative expenses	12,317,000	1,296,000	(605,000 )	13,008,000

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

Interest expense	129,000	-	-	129,000
Income before taxes on income	\$4,580,000	\$814,000	\$-	\$5,394,000
Depreciation and amortization	\$864,000	\$73,000	\$-	\$937,000
Capital expenditures	\$569,000	\$624,000	\$-	\$1,193,000
Total assets	\$138,079,000	\$11,225,000	\$(1,956,000)	\$147,348,000

	<b>Uniforms and Related Products</b>	<b>Remote Staffing Solutions</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
<b>As of and For the Six</b>				
<b>Months Ended</b>				
<b><u>June 30, 2016</u></b>				
Net sales	\$ 115,545,000	\$ 8,858,000	\$ (1,775,000 )	\$ 122,628,000
Gross margin	\$ 38,158,000	\$ 4,782,000	\$ (1,156,000 )	\$ 41,784,000
Selling and administrative expenses	31,678,000	2,897,000	(1,156,000 )	33,419,000
Interest expense	340,000	-	-	340,000
Income before taxes on income	\$ 6,140,000	\$ 1,885,000	\$ -	\$ 8,025,000
Depreciation and amortization	\$ 2,135,000	\$ 184,000	\$ -	\$ 2,319,000
Capital expenditures	\$ 1,895,000	\$ 3,637,000	\$ -	\$ 5,532,000
Total assets	\$ 176,242,000	\$ 18,944,000	\$ (6,761,000 )	\$ 188,425,000

	<b>Uniforms and Related Products</b>	<b>Remote Staffing Solutions</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
<b>As of and For the Six</b>				
<b>Months Ended</b>				
<b><u>June 30, 2015</u></b>				
Net sales	\$ 95,044,000	\$ 7,248,000	\$ (1,829,000 )	\$ 100,463,000
Gross margin	\$ 31,441,000	\$ 4,106,000	\$ (1,220,000 )	\$ 34,327,000
Selling and administrative expenses	24,250,000	2,415,000	(1,220,000 )	25,445,000
Interest expense	265,000	-	-	265,000
Income before taxes on income	\$ 6,926,000	\$ 1,691,000	\$ -	\$ 8,617,000
Depreciation and amortization	\$ 1,748,000	\$ 142,000	\$ -	\$ 1,890,000
Capital expenditures	\$ 1,262,000	\$ 837,000	\$ -	\$ 2,099,000
Total assets	\$ 138,079,000	\$ 11,225,000	\$ (1,956,000 )	\$ 147,348,000

**NOTE 7 – Acquisition of Business:**

On March 8, 2016, the Company closed on the acquisition of substantially all of the assets of BAMKO, Inc. (“BAMKO”). The transaction had an effective date of March 1, 2016. BAMKO is a full-service merchandise sourcing and promotional products company based in Los Angeles, CA. With sales offices in the United States, England and Brazil, as well as support offices in China, Hong Kong, and India, BAMKO serves many of the world’s most successful brands. The purchase price for the asset acquisition consists of approximately \$15,800,000 in cash, subject to adjustment, the issuance of approximately 324,000 restricted shares of Superior Uniform Group, Inc.’s common stock that will vest over a five year period, the potential future payment of approximately \$5,500,000 in additional contingent consideration through 2021, and the assumption of certain liabilities of BAMKO. The transaction also includes the acquisition of BAMKO’s subsidiaries in Hong Kong, China, Brazil and England as well as an affiliate in India.

The foregoing description of the asset purchase agreement does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the agreement, which is filed as an exhibit to this Quarterly Report on Form 10-Q. The agreement has been attached to provide investors with information regarding its 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, disclosure regarding any facts and circumstances relating to the Company or BAMKO. In particular, the representations, warranties and covenants set forth in the 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 agreement, 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 agreement should not be viewed or relied upon as statements of actual facts or the actual state of affairs of the Company or any of its subsidiaries or affiliates.

**Fair Value of Consideration Transferred**

A summary of the purchase price is as follows:

Cash consideration at closing, net of cash acquired    \$15,252,000



Restricted shares of Superior common stock issued	4,558,000
Total Consideration	\$ 19,810,000

### **Assets Acquired and Liabilities Assumed**

The total purchase price was allocated to the acquired tangible and intangible assets and assumed liabilities of BAMKO based on their estimated fair values as of March 1, 2016. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed was allocated to goodwill.

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

The assets and liabilities of BAMKO shown below are based on our preliminary estimates of their acquisition effective date fair values. Our final fair value determinations may be significantly different than those shown below.

The following is our preliminary assignment of the aggregate consideration:

Accounts receivable	\$5,000,000
Prepaid expenses and other current assets	3,186,000
Inventories	236,000
Property, plant and equipment	199,000
Other assets	100,000
Identifiable intangible assets	11,360,000
Goodwill	7,185,000
Total assets	\$27,266,000
Accounts payable	\$1,324,000
Other current liabilities	736,000
Future contingent liabilities	5,396,000
Total liabilities	\$7,456,000

The Company recorded \$11,360,000 in identifiable intangibles at fair value, consisting of \$2,090,000 in acquired customer relationships, \$370,000 in non-compete agreements from the former owners of BAMKO, and \$8,900,000 for the acquired trade name.

On the effective date, the estimated value for acquisition-related contingent consideration payable was \$5,396,000. 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.

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 purchase price and goodwill allocation are expected to be finalized during the remainder of 2016 as the Company completes its process of evaluating all relevant data associated with the transaction.

The intangible assets associated with the customer relationships will be amortized for seven years beginning on March 1, 2016 and the non-compete agreement will be amortized for five years and ten months. 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 \$90,000 and \$121,000 for the three and six month periods ended June 30, 2016, respectively.

For the three and six month periods ended June 30, 2016, the Company incurred and expensed transaction related expenses of approximately \$173,000 and \$1,072,000, respectively. These amounts are included in selling and administrative expenses on the consolidated statements of comprehensive income.

Net revenues for BAMKO of \$9,839,000 and \$13,639,000, respectively, are included in the Company's consolidated statements of comprehensive income for the three month period ended June 30, 2016 and for the period from the effective date of the acquisition, March 1, 2016, through June 30, 2016, respectively. For the three and six month periods ended June 30, 2016, income (loss) before taxes on income of \$88,000 and (\$410,000), respectively are included in the Company's consolidated statements of income. These amounts are inclusive of the acquisition related expenses discussed above.

On a pro forma basis as if the results of these acquisitions had been included in our consolidated results for the entire six-month periods ended June 30, 2016 and 2015, net sales would have increased approximately \$6,587,000 in 2016 and \$12,355,000 in 2015. Net income for the six-month period ended June 30, 2016 would have increased approximately \$1,021,000 and net income for the six-month period ended June 30, 2015 would have decreased approximately \$1,418,000 from our reported net income for these periods. Pre-tax acquisition related expenses of \$1,072,000 have been recorded as though they were incurred as of January 1, 2015 for this comparison.

## 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 by use of the words "may", "will", "should", "could", "expect", "anticipate", "estimate", "believe", "intend", "project", "potential", or "plan" or the negative of these words or other variations on these words or comparable terminology. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation: (1) projections of revenue, income, and other items relating to our financial position and results of operations, (2) statements of our plans, objectives, strategies, goals and intentions, (3) statements regarding the capabilities, capacities, market position and expected development of our business operations, and (4) statements of expected industry and general economic trends. 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, industrial, commercial, leisure and public safety industries where uniforms and service apparel are worn; the impact of competition; the price and availability of cotton and other manufacturing materials; our ability to successfully integrate operations following acquisitions; attracting and retaining senior management and key personnel 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, 2015. 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, 2015. 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 \$371,000.

***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; and
- 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, 2015 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 the six-month periods ended June 30, 2016 and 2015 includes the compensation expense for the share-based payments granted in those quarters. In the Company's share-based compensation strategy we utilize (1) a combination of stock options and stock appreciation rights ("SARS") that fully vest on the date of grant and (2) restricted stock grants that vest over time. Therefore, the fair value of the options and SARS granted is recognized as expense on the date of grant and the fair value of restricted stock grants is recognized as expense over the vesting period. 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 be material.

### **Business Outlook**

#### ***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. Our primary products are provided to workers employed by our customers and, as a result, our business prospects are dependent upon levels of employment and overall economic conditions, among other factors. Our revenues are impacted by our customers' opening and closing of locations and reductions and increases in headcount. Additionally, between 2009 and 2013 voluntary employee turnover had declined significantly because fewer alternative jobs were available to employees of our customers. While the current economic environment in the United States remains somewhat sluggish, we are continuing to see an improvement in the employment environment and voluntary employee turnover has been increasing. We also continue to see an increase in the demand for employees in the healthcare sector as a result of the Affordable Care Act. These factors are expected to have positive impacts on our prospects for growth in net sales in 2016; however, recent volatility in global equity markets may reflect a decrease in investor confidence in the global economy.

We have continued our efforts to increase penetration of the direct health care market. We were awarded our first two group purchasing organization contracts in 2015 and increased the number of healthcare facilities that we are able to pursue for direct sales by at least 4,500. These contracts give us the ability to pursue these healthcare facilities as customers. We are actively working to acquire these potential customers and to grow our direct healthcare business over the next several years. We expect to be awarded additional agreements for other group purchasing organizations in the future.



We have been and continue to actively pursue acquisitions to increase our market share in the Uniforms and Related Products segment. During the first quarter of 2016 we acquired substantially all of the assets of BAMKO, Inc. to strengthen our position in the promotional products and branded merchandise market as we believe this product line is a synergistic fit with our uniform business.

### ***Remote Staffing Solutions***

We are pursuing a diversified business model to include growth of our Remote Staffing Solutions segment, operating in El Salvador, Belize, and the United States. This business segment was initially started to provide remote staffing services for the Company at a lower cost structure in order to improve our own operating results. It has in fact 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 began selling remote staffing services to other companies at the end of 2009. We have grown this business from approximately \$1,000,000 in net sales to outside customers in 2010 to approximately \$12,000,000 in net sales to outside customers in 2015. We have spent significant effort over the last several years improving the depth of our management infrastructure in this segment to support significant growth in this segment in 2016 and beyond. We increased net sales to outside customers in this segment by approximately 49% in 2015 as compared to 2014 and by approximately 42% in 2014 as compared to 2013.

### **Results of Operations**

Net sales increased 19.5% from \$54,116,000 for the three months ended June 30, 2015 to \$64,660,000 for the three months ended June 30, 2016. The 19.5% aggregate increase in net sales is split between growth in our Uniforms and Related Products segment excluding net sales from BAMKO (contributing a decrease of 0.1%), the effect of the BAMKO acquisition (contributing 18.2%) and increases in net sales after intersegment eliminations from our Remote Staffing Solutions segment (contributing 1.4%). 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 6 to the consolidated interim financial statements for more information and a reconciliation of segment net sales to total net sales.

Net sales increased 22.1% from \$100,463,000 for the six months ended June 30, 2015 to \$122,628,000 for the six months ended June 30, 2016. The 22.1% increase in net sales is split between growth in our Uniforms and Related Products segment excluding net sales from BAMKO (contributing 6.8%), the effect of the BAMKO acquisition (contributing 13.6%) and increases in net sales after intersegment eliminations from our Remote Staffing Solutions Segment (contributing 1.7%).

Uniforms and Related Products net sales increased 19.1% for the three months ended June 30, 2016, compared to the same period in the prior year. This increase in net sales is almost entirely due to the inclusion of net sales of BAMKO in the three month period ended June 30, 2016. BAMKO was acquired effective March 1, 2016.

Uniforms and Related Products net sales increased 21.6% from \$95,044,000 for the six months ended June 30, 2015 to \$115,545,000 for the six months ended June 30, 2016. 14.4% of the increase in net sales is due to the inclusion of net sales of BAMKO from the March 1, 2016 effective date of the acquisition, with the balance attributed to our continued market penetration as well as continued increases in voluntary employee turnover in the marketplace.

Remote Staffing Solutions net sales increased 19.0% before intersegment eliminations and 25.8% after intersegment eliminations for the three months ended June 30, 2016, compared to the same period in the prior year. These increases are attributed to continued market penetration in 2016, both with respect to new and existing customers.

Remote Staffing Solutions net sales increased 22.2% before intersegment eliminations and 30.7% after intersegment eliminations for the six months ended June 30, 2016, compared to the same period in the prior year. These increases are attributed to continued market penetration in 2016, 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 67.4% for the three months ended June 30, 2016, and 66.8% in the comparable period for 2015. The percentage increase in 2016 is primarily attributed to an increase in direct product costs as a percentage of net sales on non BAMKO sales during 2016 (contributing 0.6%), an increase in overhead costs as a percentage of net sales on non BAMKO sales (contributing 0.3%), partially offset by lower cost of goods sold on BAMKO sales as a percentage of net sales (contributing 0.3%).

As a percentage of net sales, cost of goods sold for our Uniforms and Related Products segment was 67.0% for the six months ended June 30, 2016 and 66.9% for the comparable period in 2015. The increase as a percentage of net sales is not considered significant.

As a percentage of net sales, cost of goods sold for our Remote Staffing Solutions Segment was 45.2% for the three months ended June 30, 2016, and 44.2% in the comparable period for 2015. The percentage increase in 2016 as compared to 2015 is primarily attributed to an increase in the percentage of segment revenue coming from the domestic portion of our Remote Staffing Solutions segment from 19.4% in the three month period ended June 30, 2015 to 27.7% in the comparable period of 2016. The hourly rates charged for domestic services are higher than for offshore services but the margin percentage earned is lower.

As a percentage of net sales, cost of goods sold for our Remote Staffing Solutions segment was 46.0% for the six months ended June 30, 2016, and 43.4% in the comparable period for 2015. The percentage increase in 2016 as compared to 2015 is primarily attributed to an increase in the percentage of segment revenue coming from the domestic portion of our Remote Staffing Solutions segment from 17.9% in the six month period ended June 30, 2015 to 30.6% in the comparable period of 2016. The hourly rates charged for domestic services are higher than for offshore services but the margin percentage earned is lower.

As a percentage of net sales, selling and administrative expenses for our Uniforms and Related Products segment was 26.3% for the three months ended June 30, 2016 and 24.0% for the comparable period in 2015. Excluding the effect of BAMKO's results, selling and administrative expenses as a percentage of net sales would have been 25.0% for the three months ended June 30, 2016. Excluding this effect, the increase as a percentage of net sales is attributed primarily to higher medical costs from the Company's self-insured medical plan in the current period (contributing 0.6%), startup costs associated with the new factory that opened in Haiti in 2016 (contributing 0.2%), higher ongoing pension and retirement plan expense (contributing 0.3%), and other minor net increases (contributing 0.4%), partially offset by lower pension settlement losses recognized in 2016 (contributing 0.5%). BAMKO selling and administrative expenses for the three months ended June 30, 2016 were approximately \$3,229,000. Included within these expenses was approximately \$173,000 in expenses associated with the acquisition. Net of these acquisition-related expenses, BAMKO's selling and administrative expenses as a percentage of BAMKO's net sales would have been 31.1% for the three months ended June 30, 2016.

As a percentage of net sales, selling and administrative expenses for our Uniforms and Related Products segment was 27.4% for the six months ended June 30, 2016 and 25.5% for the comparable period in 2015. Excluding the effect of BAMKO's results, selling and administrative expenses as a percentage of net sales would have been 26.0% for the six months ended June 30, 2016. Excluding this effect, the increase as a percentage of net sales is attributed primarily to increased salaries, wages and benefits exclusive of retirement plan expenses and medical costs as a result of the continuing growth in net sales (contributing 0.9%), higher medical costs from the Company's self-insured medical plan in the current period (contributing 0.5%), startup costs associated with the new factory that opened in Haiti in 2016 (contributing 0.2%), higher ongoing pension and retirement plan expense (contributing 0.3%), and other minor net increases (contributing 0.5%), partially offset by higher net sales in 2016 to cover operating expenses (contributing 1.9%). BAMKO selling and administrative expenses included in operating results for the period from March 1, 2016, the effective date of the acquisition, through June 30, 2016 were approximately \$5,205,000. Included within these expenses was approximately \$1,072,000 in expenses associated with the acquisition. Net of these acquisition-related expenses, BAMKO's selling and administrative expenses as a percentage of BAMKO's net sales would have been 30.3% for the six months ended June 30, 2016.

As a percentage of net sales, selling and administrative expenses for our Remote Staffing Solutions segment was 33.1% for the three months ended June 30, 2016 and 34.3% for the comparable period in 2015. An increase in salaries, wages and benefits to support continuing growth (contributing 2.8%) was offset primarily by higher net sales to cover operating expenses.

As a percentage of net sales, selling and administrative expenses for our Remote Staffing Solutions segment was 32.7% for the six months ended June 30, 2016 and 33.3% for the comparable period in 2015. An increase in salaries, wages and benefits to support continuing growth (contributing 3.8%) was offset primarily by higher net sales to cover operating expenses.

Interest expense increased from \$129,000 for the three months ended June 30, 2015 to \$192,000 for the three months ended June 30, 2016. This increase is attributed primarily to higher average borrowings outstanding in the three months ended June 30, 2016.

Interest expense increased from \$265,000 for the six months ended June 30, 2015 to \$340,000 for the six months ended June 30, 2016. This increase is attributed primarily to higher average borrowings outstanding in the six months ended June 30, 2016.

The Company's effective tax rate for the three months ended June 30, 2016 was 33.4% versus 32.8% for the three months ended June 30, 2015. The 0.6% increase in the effective tax rate is attributed primarily to increases in the State rate (0.3%), Federal surcharge (0.2%) and other items (0.1%).

The Company's effective tax rate for the six months ended June 30, 2016 was 33.5% versus 34.2% for the six months ended June 30, 2015. The 0.7% decrease in such effective tax rate is attributed primarily to an increase in the tax benefit of foreign source income (0.8%) partially offset by the balance of other items (0.1%).

## **Liquidity and Capital Resources**

Accounts receivable - trade increased 24.0% from \$29,914,000 on December 31, 2015 to \$37,091,000 on June 30, 2016. Approximately \$5,000,000 of this increase is attributed to trade receivables acquired as part of the BAMKO acquisition effective March 1, 2016. The balance of the increase is attributed primarily to higher sales in the last month of the current quarter versus the last month of the fourth quarter of 2015.

Prepaid expenses and other current assets increased 79.4% from \$6,214,000 on December 31, 2015 to \$11,150,000 as of June 30, 2016. This increase is primarily attributed to an increase in prepaid income taxes of \$776,000, assets acquired as part of the BAMKO acquisition effective March 1, 2016 of \$3,186,000, with the balance primarily related to timing of payments for prepaid insurance and other miscellaneous prepaid expenses.

Inventories decreased 0.6% from \$63,573,000 on December 31, 2015 to \$63,161,000 as of June 30, 2016. This decrease is attributed to an effort to reduce overall inventory levels partially offset by the acquisition of \$236,000 of inventory as part of the BAMKO acquisition.

Other intangible assets increased 71.8% from \$14,222,000 on December 31, 2015 to \$24,428,000 on June 30, 2016. This increase is attributed to other intangible assets acquired as part of the BAMKO acquisition effective March 1, 2016 of \$11,360,000, partially offset by scheduled amortization of other intangible assets.

Accounts payable increased 30.8% from \$11,775,000 on December 31, 2015 to \$15,397,000 on June 30, 2016. This increase is primarily due to timing of inventory purchases and \$1,324,000 in accounts payable assumed as part of the BAMKO acquisition.

Other current liabilities decreased 5.1% from \$8,307,000 on December 31, 2015 to \$7,883,000 on June 30, 2016. Accrued salaries, wages, incentive compensation and vacation decreased by approximately \$1,574,000 primarily due to the payment of year-end annual incentive compensation during the first quarter of the year partially offset by \$736,000 of other current liabilities assumed as part of the BAMKO acquisition and, an increase of \$263,000 in accrued self-insured medical costs.

Current portion of acquisition related contingencies increased by 10.2% from \$1,787,000 on December 31, 2015 to \$1,969,000 on June 30, 2016 due to the payment of the 2015 contingent amount associated with the HPI acquisition during the first six months of 2016.

Long-term acquisition related contingencies increased by 90.4% from \$3,866,000 on December 31, 2015 to \$7,361,000 as of June 30, 2016. This increase is primarily due to \$5,396,000 of contingent liability recorded as part of the BAMKO acquisition and the accretion of the liabilities as we move closer to the scheduled payment dates partially offset by the transfer of the \$1,969,000 balance expected to be paid in April 2017 to current liabilities. The contingent liability recorded as part of the BAMKO acquisition reflects liabilities specified in the asset purchase agreement for contingent consideration subject to a number of conditions, including the acquired business exceeding specified earnings targets, which is subject to acceleration upon the occurrence of certain events specified in the asset purchase agreement.

The Company will continue to evaluate its contingent liabilities 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 contingent liabilities may fluctuate significantly and actual amounts paid may be materially different from the estimated value of the liability.

Cash and cash equivalents increased by \$3,699,000 from \$1,036,000 on December 31, 2015 to \$4,735,000 as of June 30, 2016. During the six-months ended June 30, 2016, the Company generated cash of \$7,626,000 in operating activities, used cash of \$20,779,000 in investing activities, including \$15,252,000, net of cash acquired, related to the acquisition of BAMKO; and used \$5,527,000 for additions to property, plant and equipment, with approximately \$3,483,000 related to the new building project in El Salvador and the balance related to normal recurring additions; and generated \$16,770,000 from financing activities.

In the foreseeable future, the Company will continue its ongoing capital expenditure program designed to maintain and improve its facilities. As noted in prior periods, we are investing in a new call center building in El Salvador which was completed in June 2016 that almost triples our existing capacity there. We spent approximately \$6,000,000 on the El Salvador project through December 31, 2015 and approximately \$3,483,000 in the six-month period ended June 30, 2016. The Company at all times evaluates its capital expenditure program in light of prevailing economic conditions.

During the six-months ended June 30, 2016 and 2015, respectively, the Company paid cash dividends of \$2,270,000 and \$2,006,000.

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 (the “Initial Credit Facility”) in addition to a \$30,000,000 term loan utilized to finance the acquisition of substantially all of the assets of HPI Direct, Inc.

Effective March 8, 2016, the Company entered into an amended and restated 5-year credit agreement with Fifth Third Bank (“the Amended Credit Agreement”) that increased its revolving credit facility from \$15,000,000 to \$20,000,000 (the “Amended Credit Facility”) and refinanced its then-existing term loan with a new \$45,000,000 term loan to help finance the acquisition of substantially all of the assets of BAMKO, Inc. Interest is payable on the new term loan at LIBOR plus 0.85% (1.32% at June 30, 2016) and on the revolving credit facility at LIBOR (rounded up to the next 1/8<sup>th</sup> of 1%) plus 0.85% (1.35% at June 30, 2016). Both loans are based upon the one-month LIBOR rate for U.S. dollar-based borrowings. The Company pays a commitment fee of 0.10% per annum on the average unused portion of the commitment under the Amended Credit Facility. The available balance under the Amended Credit Facility is reduced by outstanding letters of credit. As of June 30, 2016, there were no outstanding under letters of credit.

In order to reduce interest rate risk on its debt, 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 its borrowings to achieve a net fixed rate of 2.53% per annum, beginning July 1, 2014 with a notional amount of \$14,250,000. The notional amount of the interest rate swap is reduced by the scheduled amortization of the principal balance of the original term loan of \$187,500 per month through July 1, 2015 and \$250,000 per month through June 1, 2018 with the remaining notional balance of \$3,250,000 to be eliminated on July 1, 2018. Effective at the inception of the new term loan, the fixed rate on the notional amount was reduced to 2.43%.

Under the terms of the interest rate swap, the Company receives variable interest rate payment and makes 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. As a result of the acquisition of BAMKO on March 8, 2016, the original term loan associated with this hedge was paid in full and replaced with the new \$45,000,000 term loan discussed above. At that time, the Company undesignated the original term loan as the hedged instrument and elected the new term loan as the designated hedged instrument. The negative fair value of the interest rate swap at that time of \$152,000 will be amortized as an expense over the remaining life of the swap agreement. At June 30, 2016, the interest rate swap had a negative fair value of \$138,000, which is presented within other current liabilities within the consolidated balance sheet. Approximately \$22,000 of this cumulative loss has been recognized in earnings in 2016. The balance of \$138,000, net of tax benefit of \$49,000, since the inception of the hedge in July 2013 has been recorded within OCI through June 30, 2016. The Company expects that approximately \$65,000 of these losses will be reclassified into earnings over the subsequent twelve-month period.

The remaining scheduled amortization for the term loan is as follows: 2016 \$3,214,000; 2017 through 2020 \$6,429,000 per year; 2021 \$14,463,000. The term loan does not include a prepayment penalty. In connection with the Amended Credit Agreement, the Company incurred approximately \$70,000 of debt financing costs, which primarily consisted of legal fees. These costs are being amortized over the life of the Amended Credit Agreement and are recorded as additional interest expense.

The Company's obligations under the Amended Credit Agreement are secured by substantially all of the operating assets of Superior Uniform Group, Inc. and are 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 a fixed charge coverage ratio (1.25:1). The Company is in full compliance with all terms, conditions and covenants of the Amended Credit Agreement.

The Company believes that income generated from operations and outside sources of credit, both trade and institutional, will be adequate to fund its operations for the remainder of the year and for the foreseeable future.

### **Off-Balance Sheet Arrangements**

The Company does not engage in any off-balance sheet financing arrangements. In particular, we do not have any interest in variable interest entities, which include special purpose entities and structured finance entities.

### **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 the reports that it files or submits 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 June 30, 2016, 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. One Risk Factor described in Part I, Item 1A-Risk Factors in our annual report on Form 10-K for the year ended December 31, 2015 has materially changed and another has formed, both as reflected in italics below. Unless included below, Risk Factors contained in our annual report on Form 10-K for the year ended December 31, 2015 have not materially changed.

#### **Risks Relating To Our Industry**

**Increases in the price of finished goods and raw materials used to manufacture our products could materially increase our costs and decrease our profitability.**

The principal fabrics used in our business are made from cotton, wool, silk, synthetic and cotton-synthetic blends. The prices we pay for these fabrics and our finished goods are dependent on the market price for the raw materials used to produce them, primarily cotton and chemical components of synthetic fabrics including raw materials such as chemicals and dyestuffs. *We also sell products made from other materials, including glass and plastic.* These finished goods and raw materials are subject to price volatility caused by weather, supply conditions, government regulations, economic climate, currency exchange rates, labor costs, and other unpredictable factors. Fluctuations in petroleum prices also may influence the prices of related items such as chemicals, dyestuffs and polyester yarn.

For example, during the latter part of 2010, cotton prices began increasing dramatically and reached historically high levels during 2011 due to weather-related and other supply disruptions, which when combined with robust global demand, particularly in Asia, created concerns about availability and increased costs for our products. While we were able to pass on a portion of these price increases to our customers during most of 2011, we saw a negative impact on our gross margins from the fourth quarter of 2011 through 2012.

Any increase in raw material prices increases our cost of sales and can decrease our profitability unless we are able to pass the costs on to our customers in the form of higher prices. In addition, if one or more of our competitors is able to reduce their production costs by taking advantage of any reductions in raw material prices or favorable sourcing agreements, we may face pricing pressures from those competitors and may be forced to reduce our prices or face a decline in net sales, either of which could have a material adverse effect on our business, results of operations and financial condition.

***Our growth is subject to global political and local currency-related risks.***

*We operate in many countries around the world. Our operations are subject to the effects of geopolitical risks. Political changes, some of which may be disruptive, can interfere with our supply chain and all of our activities in a particular location. Our operations are also affected by local currency volatility and currency controls. While some of the currency-related risks can be hedged using derivatives or other financial instruments, such attempts to mitigate these risks are costly and not always successful, and our ability to engage in such mitigation may decrease or become even more costly as a result of more volatile market conditions.*

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

There were no unregistered sales of equity securities during the quarter ended June 30, 2016, that were not previously reported in a current report on Form 8-K.

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) under the Exchange Act) of our common shares during the three months ended June 30, 2016.

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 (April 1, 2016 to April 30, 2016)	-	-	-	-
Month #2 (May 1, 2016 to May 31, 2016)	-	-	-	-
Month #3 (June 1, 2016 to June 30, 2016)	-	-	-	-
TOTAL	-	-	-	261,675

(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 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 Amended Credit Agreement with Fifth Third Bank, 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 the Amended Credit Agreement.

**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.

## 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: July 21, 2016

SUPERIOR UNIFORM GROUP, INC.

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

Date: July 21, 2016

By: /s/ Andrew D. Demott, Jr.  
Andrew D. Demott, Jr.  
Chief Operating Officer, Chief Financial  
Officer and Treasurer (Principal  
Financial and Accounting Officer)

## EXHIBIT INDEX

Exhibit No.	Description
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 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

\*\*This written statement 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 the purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

+Submitted electronically with this Report.