SUPERIOR UNIFORM GROUP INC
Form 10-Q
May 07, 2001

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FORM lO-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarter ended March 31, 2001

OR

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

Commission file number 1-5869-1

SUPERIOR UNIFORM GROUP, INC.

Incorporated - Florida Employer Identification No. 11-1385670

10099 Seminole Boulevard
Post Office Box 4002
Seminole, Florida 33775-0002
Telephone No.: 727-397-9611

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

As of May 1, 2001 the registrant had 7,124,327 common shares outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

SUPERIOR UNIFORM GROUP, INC.
CONDENSED SUMMARY OF OPERATIONS

	Three Months Ended March 31,	
	2001	2000
	(Unaudited)	
Net sales	$38,935,615	$38,821,270
Costs and expenses:		
Cost of goods sold	25,405,489	25,621,942
Selling and administrative expenses	10,807,268	10,747,597
Interest expense	527,589	360,386
	36,740,346	36,729,925
Earnings before taxes on income	2,195,269	2,091,345
Taxes on income	800,000	760,000
Net earnings	$ 1,395,269	$ 1,331,345
Weighted average number of shares outstanding during the period (Basic)	7,123,660 Shs.	7,465,843 Shs.
(Diluted)	7,129,923 Shs.	7,474,206 Shs.
Basic earnings per common share	$ 0.20	$ 0.18
Diluted earnings per common share	$ 0.20	$ 0.18
Cash dividends declared per common share	$ 0.135	$ 0.135

The results of the three months ended March 31, 2001 are not necessarily indicative of results to be expected for the full year ending December 31, 2001.

See accompanying notes to condensed interim financial statements.

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SUPERIOR UNIFORM GROUP, INC.
CONDENSED BALANCE SHEETS

ASSETS

	March 31, 2001 (Unaudited)	December 31, 2000

		(1)
CURRENT ASSETS:		
Cash and cash equivalents	$ 189,361	$ 188,288
Accounts receivable and other current assets	31,059,416	32,829,093
Inventories*	54,845,839	57,910,294
TOTAL CURRENT ASSETS	86,094,616	90,927,675
PROPERTY, PLANT AND EQUIPMENT, net	26,765,883	27,648,843
EXCESS OF COST OVER FAIR VALUE OF ASSETS ACQUIRED	8,120,446	8,225,098
OTHER ASSETS	3,346,280	3,237,588
	$124,327,225	$130,039,204

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 8,806,583	$ 8,970,663
Other current liabilities	4,459,254	3,371,489
Current portion of long-term debt	3,944,844	4,224,950
TOTAL CURRENT LIABILITIES	17,210,681	16,567,102
LONG-TERM DEBT, net of current portion	22,978,936	29,530,239
DEFERRED INCOME TAXES	2,330,000	2,300,000
SHAREHOLDERS' EQUITY	81,807,608	81,641,863
	$124,327,225	$130,039,204

* Inventories consist of the following:

	March 31, 2001 (Unaudited)	December 31, 2000
Finished goods	$ 39,835,084	$ 41,958,283
Work in process	4,695,214	4,331,287
Raw materials	10,315,541	11,620,724
	$ 54,845,839	$ 57,910,294

(1) The balance sheet as of December 31, 2000 has been derived from the audited balance sheet as of that date and has been condensed.

See accompanying notes to condensed interim financial statements.

CONDENSED SUMMARY OF CASH FLOWS

	Three Months Ended March 3	
	2001	200
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 1,395,269	$ 1,331
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,262,179	1,172
Deferred income taxes	30,000	(270
Changes in assets and liabilities:		
Accounts receivable and other current assets	1,769,677	(1,311
Inventories	3,064,455	(3,485
Accounts payable	(164,080)	1,651
Other current liabilities	811,765	2,746
Net cash flows provided by operating activities	8,169,265	1,835
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(276,492)	(1,215
Proceeds from disposals of property, plant and equipment	1,925	
Other assets	(108,692)	2
Net cash used in investing activities	(383,259)	(1,213
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	--	2,823
Repayment of long-term debt	(6,831,409)	(636
Declaration of cash dividends	(961,649)	(1,020
Common stock acquired and retired	--	(4,571
Proceeds received on exercised stock options	8,125	
Net cash used in financing activities	(7,784,933)	(3,405
Net increase (decrease) in cash and cash equivalents	1,073	(2,783
Cash and cash equivalents balance, beginning of year	188,288	3,021
Cash and cash equivalents balance, end of period	$ 189,361	$ 238

See accompanying notes to condensed interim financial statements.

SUPERIOR UNIFORM GROUP, INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Note 1 - Summary of Significant Interim Accounting Policies:

a) 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.

b) Inventories

Inventories at interim dates are determined by using both perpetual records and gross profit calculations.

c) Accounting for income taxes

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

d) 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.

	2001	2000
Net Income used in the computation of basic and diluted earnings per share	$1,395,269	$1,331,345
Weighted average shares outstanding	7,123,660	7,465,843
Common stock equivalents	6,263	8,363
Total weighted average shares outstanding	7,129,923	7,474,206
Earnings per share:		
Basic	$ 0.20	$ 0.18
Diluted	$ 0.20	$ 0.18

e) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

f) Comprehensive Income (Loss)

The Company adopted the provisions of FAS 130, "Reporting Comprehensive Income" in the first quarter of 1998. FAS No. 130 requires disclosures of comprehensive income including per-share amounts in addition to the existing income statement. Comprehensive income is defined as the change in equity during a period, from transactions and other events, excluding changes resulting from investments by owners (e.g., supplemental stock offering) and distributions to owners (e.g., dividends). As of March 31, 2001, accumulated comprehensive income (loss) consisted of the following:

Balance on December 31, 2000	$ --
Transition adjustment for SFAS 133	(48,000)
Net change during the period related to cash flow hedges	(228,000)
Balance on March 31, 2001	$ (276,000)

g) Operating Segments

FAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" requires disclosures of certain information about operating segments and about products and services, geographic areas in which the Company operates, and their major customers. The Company has evaluated the effect of this new standard and has determined that currently it operates in one segment, as defined in this statement.

h) Derivative Financial Instruments

The Company has only limited involvement with derivative financial instruments. The Company has one interest rate swap agreement to hedge against the potential impact on earnings from increases in market interest rates of a variable rate term loan. Under the interest rate swap agreement, the Company receives or makes payments on a monthly basis, based on the differential between a specified interest rate and one month LIBOR. A term loan of $10,302,502 is designated as a hedged item for interest rate swaps at March 31, 2001.

This interest rate swap is accounted for as a cash flow hedge in accordance with FAS 133 and FAS 138 which were implemented as of the beginning of the fiscal year. As of the report date, all swaps met effectiveness tests, and as such no gains or losses were included in net income during the quarter related to hedge ineffectiveness and there was no income adjustment related to any portion excluded from the assessment of hedge effectiveness. A loss of $228,000 was included in other comprehensive income (loss). The original term of the contract is ten years.

i) Reclassifications

Certain reclassifications to the 2000 financial information have been made to conform to the 2001 presentation.

NOTE 2 - Long-Term Debt:

	March 31, 2001	December 31, 2000

Note payable to First Union, pursuant to revolving credit agreement, maturing March 26, 2004	$ 3,737,945	$ 9,365,944
6.75% term loan payable to First Union, with monthly payments of principal and interest, maturing April 1, 2009	10,302,502	10,539,246
6.65% note payable to MassMutual Life Insurance Company due $1,666,667 annually through 2005	7,916,667	8,333,333
Variable rate term loan payable to First Union, with monthly principal payments of $83,333, plus interest, maturing November 1, 2005	4,666,666	4,916,666
9.9% note payable to MassMutual Life Insurance Company due $600,000 annually through 2001	300,000	600,000
	26,923,780	33,755,189
Less payments due within one year included in current liabilities	3,944,844	4,224,950
	$22,978,936	$29,530,239

On March 26, 1999, the Company entered into a 3-year credit agreement with First Union that made available to the Company up to $15,000,000 on a revolving credit basis. Interest is payable at LIBOR plus 0.60% based upon the one-month LIBOR rate for U.S. dollar based borrowings (5.68% at March 31, 2001). The Company pays an annual commitment fee of 0.15% on the average unused portion of the commitment. The available balance under the credit agreement is reduced by outstanding letters of credit. As of March 31, 2001, approximately $989,000 was outstanding under letters of credit. On March 27, 2001, the Company entered into an agreement with First Union to extend the maturity of the revolving credit agreement. The revolving credit agreement matures on March 26, 2004. At the option of the Company, any outstanding balance on the agreement at that date will convert to a one-year term loan. The remaining terms of the original revolving credit agreement remain unchanged. The Company also entered into a $12,000,000 10-year term loan on March 26, 1999 with the same bank. The term loan is an amortizing loan, with monthly payments of principal and interest, maturing on April 1, 2009. The term loan carries a variable interest rate of LIBOR plus 0.80% based upon the one-month LIBOR rate for U.S.dollar based borrowings. Concurrent with the execution of the term loan agreement, the Company entered into an interest rate swap with the bank under which the Company receives a variable rate of interest on a notional amount equal to the outstanding balance of the term loan from the bank and the Company pays a fixed rate of 6.75% on a notional amount equal to the outstanding balance of the term loan to the bank.

On October 16, 2000, the Company entered into a 5-year term loan with First Union. The term loan is an amortizing loan, with monthly payments of principal in the amount of $83,333 plus interest, maturing on November 1, 2005. The term loan carries a variable interest rate of LIBOR plus 0.80% based upon the one-month LIBOR rate for U.S. dollar based borrowings (5.88% at March 31, 2001). The proceeds of this term loan were utilized to reduce the outstanding balance on the Company's revolving credit agreement. Concurrent with the execution of the new term loan agreement, First Union and the Company amended the March 26,

1999 term loan and the revolving credit agreement to revise the net worth requirements. The net worth requirements included below reflect this amendment.

The credit agreement and the term loans with First Union and the agreements with MassMutual Life Insurance Company contain restrictive provisions concerning debt to net worth ratios, other borrowings, capital expenditures, rental commitments, tangible net worth ($63,479,000 at March 31, 2001); working capital ratio (2.5:1), fixed charges coverage ratio (2.5:1), stock repurchases and payment of dividends. At March 31, 2001, under the most restrictive terms of the debt agreements, retained earnings of approximately $10,484,000 were available for declaration of dividends. The Company is in full compliance with all terms, conditions and covenants of the various credit agreements.

NOTE 3 - Subsequent Event:

On April 23, 2001, the Company received a one-time payment of $4.0 million in connection with the resolution of outstanding vendor matters which the Company expects to report as a pre-tax gain of approximately $1.6 million in the second quarter.

The interim information contained above is not certified or audited; it reflects all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements.

The financial information included in this form has been reviewed by Deloitte & Touche LLP, independent certified public accountants; such review was made in accordance with established professional standards and procedures for such a review.

All financial information has been prepared in accordance with the accounting principles or practices reflected in the financial statements for the year ended December 31, 2000, filed with the Securities and Exchange Commission. Reference is hereby made to registrant's Financial Statements for 2000, heretofore filed with registrant's Form 10-K.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
Superior Uniform Group, Inc.
Seminole, Florida

We have reviewed the accompanying condensed balance sheet of Superior Uniform Group, Inc. (the "Company") as of March 31, 2001 and the related condensed summaries of operations and cash flows for the three-month periods ended March 31, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Superior Uniform Group, Inc. as of December 31, 2000, and the related statements of earnings, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2001, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2000 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Certified Public Accountants
Tampa, Florida
April 23, 2001

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Net sales increased from $38,821,270 for the three months ended March 31, 2000 to $38,935,615 for the three months ended March 31, 2001.

Cost of goods sold, as a percentage of sales, approximated 65.25% and 66%, respectively for the three months ended March 31, 2001 and 2000. This decrease is attributed to manufacturing and sourcing efficiencies.

Selling and administrative expenses, as a percentage of sales, was approximately 27.7% for the first three months of 2001 and 2000.

Interest expense of $527,589 for the three month period ended March 31, 2001 increased 46.4% from $360,386 for the similar period ended March 31, 2000. This increase is attributed to higher outstanding borrowings in the current period.

Net earnings increased 4.8% to $1,395,269 for the three months ended March 31, 2001 as compared to net earnings of $1,331,345 for the same period ended March 31, 2000.

Accounts receivable and other current assets decreased 5.4% from $32,829,093 on December 31, 2000 to $31,059,416 as of March 31, 2001.

Inventories as of March 31, 2001 decreased 5.3% to $54,845,839 from $57,910,294 on December 31, 2000.

Accounts payable decreased 1.8% from $8,970,663 on December 31, 2000 to $8,806,583 on March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by $1,073 from $188,288 on December 31, 2000 to $189,361 as of March 31, 2001. Additionally, total borrowings under long-term debt agreements decreased by $6,831,409 from $33,755,189 on December 31, 2000 to $26,923,780 on March 31, 2001. The Company has operated without hindrance or

restraint with its present working capital, as income generated from operations and outside sources of credit, both trade and institutional, have been more than adequate.

In the foreseeable future, the Company will continue its ongoing capital expenditure program designed to maintain and improve its facilities. The Company at all times evaluates its capital expenditure program in light of prevailing economic conditions. The Company believes that its cash flow from operating activities together with other capital resources and funds from credit sources will be adequate to meet all of its funding requirements for the remainder of the year and for the foreseeable future.

During the three months ended March 31, 2001 and 2000, respectively, the Company paid cash dividends of $961,649 and $1,020,374. During those same periods, the Company reacquired and retired -0- and 471,500 shares, respectively, with costs of $ -0- and $4,571,954. The Company anticipates that it will continue to pay dividends and that it will reacquire and retire additional shares of its common stock in the future as financial conditions permit.

On April 23, 2001, the Company received a one-time payment of $4.0 million in connection with the resolution of outstanding vendor matters which the Company expects to report as a pre-tax gain of approximately $1.6 million in the second quarter.

Statements contained in this Quarterly Report contain certain forward-looking statements that involve a number of risks and uncertainties. Among the factors that could cause actual results to differ materially are the following - general economic conditions in the areas of the United States in which the Company's customers are located; changes in the healthcare, resort and commercial industries where uniforms and service apparel are worn; the impact of competition; and the availability of manufacturing materials.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 2. Changes in Securities

None.

ITEM 3. Defaults Upon Senior Securities

Inapplicable.

ITEM 4. Submission of Matters to a Vote of Security-Holders

None.

ITEM 5. Other Information

Inapplicable.

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits

4.1 Second Amendment to Loan Agreement and Other Loan Documents with First Union

4.2 Renewal Revolving Credit Note with First Union

15 Letter re: Unaudited Interim Financial Information.

b) Reports on Form 8-K

None.

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: May 7, 2001

SUPERIOR UNIFORM GROUP, INC.

By /s/ Gerald M. Benstock

Gerald M. Benstock
Chairman and Chief Executive Officer

By /s/ Andrew D. Demott, Jr.

Andrew D. Demott, Jr.
Vice President, CFO, Treasurer
and Principal Accounting Officer