

SUPERIOR UNIFORM GROUP INC  
Form 10-Q  
October 25, 2007

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

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarter ended September 30, 2007

OR

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

Commission file number 1-5869-1

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**SUPERIOR UNIFORM GROUP, INC.**

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**Incorporated - Florida**

**Employer Identification No.**  
**11-1385670**

**10055 Seminole Boulevard**

**Seminole, Florida 33772-2539**

**Telephone No.: 727-397-9611**

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of October 22, 2007, the registrant had 6,660,809 common shares outstanding, which is registrant's only class of common stock.

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**PART I - FINANCIAL INFORMATION**

## ITEM 1. Financial Statements

**SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Net sales	\$ 31,235,531	\$ 33,440,168
Costs and expenses:		
Cost of goods sold	21,080,264	22,917,781
Selling and administrative expenses	8,588,528	8,939,397
Interest expense	79,367	110,775
	29,748,159	31,967,953
Earnings before taxes on income	1,487,372	1,472,215
Taxes on income	270,000	560,000
Net earnings	\$ 1,217,372	\$ 912,215
Weighted average number of shares outstanding during the period	(Basic) 6,656,214	6,619,404
	(Diluted) 6,676,054	6,661,217
Basic net earnings per common share	\$ 0.18	\$ 0.14
Diluted net earnings per common share	\$ 0.18	\$ 0.14
Dividends per common share	\$ 0.135	\$ 0.135

See accompanying notes to condensed consolidated interim financial statements.

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

(Continued)

(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Net sales	\$ 91,527,855	\$ 96,081,293
Costs and expenses:		
Cost of goods sold	61,545,308	65,499,895
Selling and administrative expenses	27,004,697	26,830,867
Interest expense	255,840	346,422
	88,805,845	92,677,184
Earnings before taxes on income	2,722,010	3,404,109
Taxes on income	720,000	1,310,000
Net earnings	\$ 2,002,010	\$ 2,094,109
Weighted average number of shares outstanding during the period	(Basic) (Diluted)	6,642,178 6,674,418
		6,933,373 6,966,694
Basic net earnings per common share	\$ 0.30	\$ 0.30
Diluted net earnings per common share	\$ 0.30	\$ 0.30
Dividends per common share	\$ 0.405	\$ 0.405

See accompanying notes to condensed consolidated interim financial statements.

## SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (Unaudited)	December 31, 2006 (1)
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,245,182	\$ 3,920,276
Accounts receivable and other current assets	23,584,223	28,500,316
Inventories*	41,163,980	33,251,964
<b>TOTAL CURRENT ASSETS</b>	<b>67,993,385</b>	<b>65,672,556</b>
PROPERTY, PLANT AND EQUIPMENT, NET	14,067,291	15,393,879
GOODWILL	1,617,411	1,617,411
OTHER INTANGIBLE ASSETS, NET	833,555	1,012,175
OTHER ASSETS	1,654,456	1,462,753
	<b>\$ 86,166,098</b>	<b>\$ 85,158,774</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 6,838,140	\$ 5,025,981
Other current liabilities	2,525,700	2,457,839
Current portion of long-term debt	1,525,470	1,777,734
<b>TOTAL CURRENT LIABILITIES</b>	<b>10,889,310</b>	<b>9,261,554</b>
LONG-TERM DEBT	1,048,482	2,201,806
LONG-TERM PENSION LIABILITY	1,131,008	1,108,223
OTHER LONG-TERM LIABILITIES	565,000	
DEFERRED INCOME TAXES	240,000	485,000
SHAREHOLDERS' EQUITY	72,292,298	72,102,191
	<b>\$ 86,166,098</b>	<b>\$ 85,158,774</b>

\* Inventories consist of the following:

	September 30, 2007 (Unaudited)	December 31, 2006 (1)
Finished goods	\$ 32,403,851	\$ 30,692,108
Work in process	218,047	163,276
Raw materials	8,542,082	2,396,580
	<b>\$ 41,163,980</b>	<b>\$ 33,251,964</b>

(1) The balance sheet as of December 31, 2006 has been derived from the audited balance sheet as of that date and has been condensed. See accompanying notes to condensed consolidated interim financial statements.



**SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

	Nine Months Ended September 30,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 2,002,010	\$ 2,094,109
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	2,596,236	2,913,165
Provision for bad debts	82,388	79,000
Share-based compensation expense	539,915	502,051
Deferred income tax benefit	(249,000)	(55,000)
Gain on sale of property, plant and equipment	(76,640)	(71,655)
Changes in assets and liabilities:		
Accounts receivable and other current assets	637,252	(1,562,559)
Inventories	(3,106,563)	4,427,767
Other assets	(201,703)	93,695
Accounts payable	1,812,159	650,836
Accrued expenses	(10,874)	179,551
Pension liability	22,785	(12,838)
Other long-term liabilities	(77,000)	
Net cash provided by operating activities	3,970,965	9,238,122
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(1,099,222)	(690,093)
Disposals of property, plant and equipment	84,834	71,655
Other assets	10,000	4,637,891
Net cash (used in) provided by investing activities	(1,004,388)	4,019,453
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	10,420,000	17,320,000
Repayment of long-term debt	(11,825,588)	(18,655,911)
Payment of cash dividends	(2,691,169)	(2,800,330)
Proceeds received on exercise of stock options	455,086	966,728
Common stock reacquired and retired		(8,705,251)
Net cash used in financing activities	(3,641,671)	(11,874,764)
Net (decrease) increase in cash and cash equivalents	(675,094)	1,382,811
Cash and cash equivalents balance, beginning of year	3,920,276	3,220,174
Cash and cash equivalents balance, end of period	\$ 3,245,182	\$ 4,602,985

See accompanying notes to condensed consolidated interim financial statements.

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SUPERIOR UNIFORM GROUP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(Unaudited)

NOTE 1 Summary of Significant Interim Accounting Policies:

a) Basis of presentation

The condensed consolidated interim financial statements include the accounts of Superior Uniform Group, Inc. and its wholly-owned subsidiary, Fashion Seal Corporation. Intercompany items have been eliminated in consolidation. The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed 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, 2006, and filed with the Securities and Exchange Commission. The interim financial information contained herein is not certified or audited; it reflects all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements. The unaudited financial information included in this report as of and for the three and nine months ended September 30, 2007 has been reviewed by Grant Thornton LLP, independent registered public accounting firm, and their review report thereon accompanies this filing. Such review was made in accordance with established professional standards and procedures for such a review. The results of operations for any interim period are not necessarily indicative of results to be expected for the full year.

b) Revenue recognition

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

c) Recognition of costs and expenses

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

d) Advertising expenses

The Company expenses advertising costs as incurred. Total advertising costs for the three months ended September 30, 2007 and 2006, respectively were \$35,852 and \$48,174. Advertising costs for the nine months ended September 30, 2007 and 2006, respectively were \$136,551 and \$143,105.

e) Shipping and handling fees and costs

The Company follows EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*, which requires shipping and handling fees billed to customers to be classified as revenue and shipping and handling costs to be either classified as cost of sales or disclosed in the notes to the financial statements. The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with in-bound and out-bound freight are generally recorded in cost of goods sold. Other shipping and handling costs are included in selling and administrative expenses and totaled \$1,855,682 and \$2,083,042 for the three months ended September 30, 2007 and 2006, respectively. The shipping and handling costs included in selling and administrative expenses totaled \$5,827,427 and \$6,283,935, for the nine months ended September 30, 2007 and 2006, respectively.

f) Inventories



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

g) Accounting for income taxes

The provision for income taxes is calculated by using the effective tax rate anticipated for the full year. The Company's effective tax rate for the three months ended September 30, 2007 was 18.2%. The Company's effective tax rate for the nine months ended September 30, 2007 was 26.5%. These rates differ from the federal statutory rate primarily due to the adjustment of the Company's reserve for uncertain tax positions as a result of the Internal Revenue Service completing audits of the Company's federal tax returns for 2004 and 2005. Additionally, the reserve was lowered for several other positions as a result of the expiration of the statute of limitations. The rate is also affected by non-deductible share-based compensation expense.

h) Employee benefit plan settlements

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

i) Earnings per share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Earnings used in the computation of basic and diluted net earnings per common share:				
Net earnings	\$ 1,217,372	\$ 912,215	\$ 2,002,010	\$ 2,094,109
Weighted average shares outstanding - basic	6,656,214	6,619,404	6,642,178	6,933,373
Common stock equivalents	19,840	41,813	32,240	33,321
Weighted average shares outstanding - diluted	6,676,054	6,661,217	6,674,418	6,966,694
Basic net earnings per common share	\$ 0.18	\$ 0.14	\$ 0.30	\$ 0.30
Diluted net earnings per common share	\$ 0.18	\$ 0.14	\$ 0.30	\$ 0.30

For the three months ended September 30, 2007 and 2006, 761,875 and 503,200 options and stock-settled stock appreciation rights, respectively, were not included in the computation of diluted net earnings per share because their effect would have been anti-dilutive. For the nine months ended September 30, 2007 and 2006, 585,342 and 614,717 options and stock-settled stock appreciation rights, respectively, were not included in the computation of diluted net earnings per share because their effect would have been anti-dilutive.

j) Use of estimates

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

k) Comprehensive income

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net earnings	\$ 1,217,372	\$ 912,215	\$ 2,002,010	\$ 2,094,109
Other comprehensive (loss) income :				
Net unrealized (loss) gain during the period related to cash flow hedges	(7,000)	(19,000)	10,000	54,000
Pensions - reclassification to net income during the period	2,757		7,265	
<b>Total comprehensive income:</b>	<b>\$ 1,213,129</b>	<b>\$ 893,215</b>	<b>\$ 2,019,275</b>	<b>\$ 2,148,109</b>

## l) Operating segments

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

## m) Derivative financial instruments

The Company has only limited involvement with derivative financial instruments. The Company has one interest rate swap agreement to hedge against the potential impact on earnings from increases in market interest rates associated with interest payments on 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. The interest rate payments associated with the term loan of \$2,573,952 are designated as a hedged item at September 30, 2007.

This interest rate swap is accounted for as a cash flow hedge in accordance with FAS No. 133 and FAS No. 138. As of the report date, the swap met the effectiveness tests, and as such no gains or losses were included in net earnings during the quarter related to hedge ineffectiveness and there was no income adjustment related to any portion excluded from the assessment of hedge effectiveness. Losses of \$7,000 and \$19,000 were included in other comprehensive income for the three months ended September 30, 2007 and 2006, respectively. Gains of \$10,000 and \$54,000 were included in other comprehensive income for the nine months ended September 30, 2007 and 2006, respectively. The original term of the agreement is ten years.

## n) Share-based compensation

The Company awards share-based compensation as an incentive for employees to contribute to the Company's long-term success. Historically, the Company has issued options and stock settled stock appreciation rights. At September 30, 2007, the Company had 1,614,525 shares of common stock authorized for awards of share-based compensation under its 2003 Incentive Stock and Awards Plan.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. Accordingly, the Company is now recognizing share-based compensation expense for all awards granted to employees, which is based on the fair value of the award on the date of grant. Under FAS No. 123(R), the Company's reported stock compensation expense will include expense related to stock compensation awards granted subsequent to January 1, 2006, which is based on the grant date fair value estimated in accordance with the provisions of FAS No. 123(R). All share-based awards previously granted by the Company were fully vested prior to the adoption of FAS No. 123(R). Determining the appropriate fair value model and calculating the fair value of stock compensation awards requires the input of certain highly complex and subjective assumptions, including the expected life of the stock compensation awards, the Company's common stock price volatility, and the rate of employee forfeitures. The assumptions used in calculating the fair value of stock compensation awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and the Company deems it necessary to use different assumptions, stock compensation expense could be materially different from what has been recorded in the current period.

For the three months ended September 30, 2007, the Company recognized \$114,096 of pre-tax share-based compensation expense under FAS No. 123(R), recorded in selling and administrative expense in the Condensed Consolidated Statements of Operations. This expense was offset by a \$7,000 deferred tax benefit for non-qualified share based compensation. For the three months ended September 30, 2006, the Company recognized \$125,205 of pre-tax share-based compensation expense under FAS No. 123(R), recorded in selling and administrative expense in the Condensed Consolidated Statements of Operations. For the nine months ended September 30, 2007, the Company recognized \$539,915 of pre-tax share-based compensation expense under FAS No. 123(R), recorded in selling and administrative expense in the Condensed Consolidated Statements of Operations. This expense was offset by a



\$42,000 deferred tax benefit for non-qualified share based compensation. For the nine months ended September 30, 2006, the Company recognized \$502,051 of pre-tax share-based compensation expense under FAS No. 123(R), recorded in selling and administrative expense in the Condensed Consolidated Statements of Operations. The 2006 expense was offset by a \$63,000 deferred tax benefit for non-qualified share based compensation. As of September 30, 2007, the Company had no unrecognized compensation cost expected to be recognized for prior share-based awards. The Company's standard vesting policies provide for immediate vesting at the date of grant.

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

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

During the nine-month period ended September 30, 2007, the Company received \$455,086 in cash from stock option exercises. No tax benefit was recognized for these exercises, as the options exercised were qualified incentive stock options. Additionally, during the nine-month period ended September 30, 2007, the Company received 28,685 shares of its Common Stock as payment for the issuance of 40,525 shares of its common stock related to the exercise of stock option agreements.

A summary of the changes in total stock options and stock appreciation rights outstanding during the nine months ended September 30, 2007 follows:

	Options and SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding December 31, 2006	938,850	\$ 13.03	
Granted	236,350		
Exercised	(83,650)		
Forfeited or expired	(40,375)		
Outstanding September 30, 2007	1,051,175	\$ 13.19	2.8 years

At September 30, 2007, options and stock appreciation rights outstanding, all of which were fully vested and exercisable, had aggregate intrinsic values of \$237,254.

Options exercised during the three and nine-month periods ended September 30, 2007, had intrinsic values of \$28,316 and \$271,283, respectively. The weighted average grant date fair value of the Company's options and SARs granted during the three months ended September 30, 2007 and 2006 was \$2.14 and \$2.28, respectively. The weighted average grant date fair value of the Company's options and SARs granted during the nine months ended September 30, 2007 and 2006 was \$2.28 and \$2.11, respectively. The fair values were estimated on the date of the grant using the Black-Scholes valuation model with the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Expected dividend yield (1)	4.4%	4.4%	4.2 to 4.4 %	4.2 to 4.5 %
Expected stock price volatility (2)	23.0 to 26.0 %	25.2%	23.0 to 26.0 %	25.1 to 26.7 %
Risk-free interest rate (3)	4.6 to 4.8%	4.8%	4.6 to 4.8%	4.6 to 5.1%
Expected life in years (4)	5.0 to 10.0	5.0	5.0 to 10.0	5.0 to 10.0

(1) The dividend yield assumption is based on the history and expectation of the Company's dividend payouts.

(2)

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The determination of expected stock price volatility for options and SARs granted is based on historical Superior common stock prices over a period commensurate with the expected life.

- (3) 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.
- (4) The expected life in years for options and SARs granted is based on the historical exercise patterns experienced by the Company when the award is made.

NOTE 2 Recent Accounting Pronouncements:

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: an Interpretation of FAS No. 109* ( FIN No. 48 ). FIN No. 48, which clarifies FAS No. 109, *Accounting for Income Taxes*, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company's financial statements.

We adopted the provisions of FIN No. 48, and FASB Staff Position No. FIN 48-1, on January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold at the adoption date were recognized or continued to be recognized. As a result of the implementation of FIN No. 48, we recognized a \$133,000 increase to the liability for uncertain tax positions, which was accounted for as an adjustment to the beginning balance of retained earnings.

As of the date of adoption, including the increase in the liability noted above, we had approximately \$728,000 of unrecognized tax benefits. Included in the balance at January 1, 2007, are \$728,000 of unrecognized tax benefits that, if recognized, would favorably affect the annual effective income tax rate. As of September 30, 2007, we have \$565,000 of unrecognized tax benefits. None of this liability is expected to be paid in the next twelve months. Accordingly, the balance of \$565,000 is included in other long-term liabilities.

We recognize interest and penalties related to uncertain tax positions in income tax expense. During the three months ended September 30, 2007, we recognized approximately \$9,000 of accrued interest associated with uncertain tax positions. During the nine-month period ended September 30, 2007, we recognized approximately \$36,000 of accrued interest associated with uncertain tax positions.

The Internal Revenue Service has completed an audit of our 2004 and 2005 federal income tax returns during the three months ended September 30, 2007. As a result, we incurred and paid approximately \$28,000 of interest and \$0 in penalties during the three months ended September 30, 2007. Additionally, the interest accrual was reduced by \$31,000 resulting from the audit and the expiration of the statute of limitations on various other uncertain tax positions.

As of September 30, 2007, we have approximately \$97,000 of accrued interest and \$46,000 of accrued penalties related to uncertain tax positions, which are included in the \$565,000 noted above. The earliest tax year open to examination by a major taxing jurisdiction is 2001.

In June 2006, the Emerging Issues Task Force reached a consensus on Issue No. 06-3 ( EITF 06-3 ), *Disclosure Requirements for Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions*. The consensus allows companies to choose between two acceptable alternatives based on their accounting policies for transactions in which the company collects taxes on behalf of a governmental authority, such as sales taxes. The guidance should be applied to financial reports through retrospective application for all periods presented, if amounts are significant, for interim and annual reporting beginning after February 1, 2007. The Company collects sales tax for various taxing authorities. It is the Company's policy to record these amounts on a net basis. Therefore, these amounts are not included in net sales for the Company. The adoption of EITF 06-3 has not had a material effect on our consolidated financial statements.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*. FAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. FAS No. 157 is effective for fiscal years beginning after November 15, 2007, the year beginning January 1, 2008 for the Company. The Company is currently reviewing the provisions of FAS No. 157 to determine the impact on its consolidated financial statements.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. FAS No. 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting FAS No. 159 on its financial position, cash flows, and results of operations.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, management has not determined whether implementation of such proposed standards would be material to the Company's consolidated financial statements.

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NOTE 3 Long-Term Debt:

	September 30, 2007	December 31, 2006
Note payable to Wachovia, pursuant to revolving credit agreement, maturing June 30, 2010	\$	\$
6.75% term loan payable to Wachovia, with monthly payments of principal and interest, maturing April 1, 2009	2,573,952	3,649,431
Note payable to Bank of America, 0% interest, paid on January 2, 2007		330,109
	2,573,952	3,979,540
Less payments due within one year included in current liabilities	1,525,470	1,777,734
Long-term debt less current maturities	\$ 1,048,482	\$ 2,201,806

On March 26, 1999, the Company entered into a 3-year credit agreement with Wachovia Bank 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 (5.1% at September 30, 2007). The Company pays an annual commitment fee of 0.15% on the average unused portion of the commitment. The available balance under the credit agreement is reduced by outstanding letters of credit. As of September 30, 2007, approximately \$372,000 was outstanding under letters of credit. On March 27, 2001, on April 27, 2004, and again on June 25, 2007, the Company entered into agreements with Wachovia Bank to extend the maturity of the revolving credit agreement. The revolving credit agreement matures on June 30, 2010. 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.

The credit agreement and the term loan with Wachovia contain restrictive provisions concerning liabilities to tangible net worth ratio (.75:1), other borrowings, capital expenditures, working capital ratio (2.5:1), and fixed charges coverage ratio (2.5:1). The Company is in full compliance with all terms, conditions and covenants of the various credit agreements.

NOTE 4 Periodic Pension Expense:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Service cost - benefits earned during the period	\$ 163,000	\$ 155,000	\$ 491,000	\$ 464,000
Interest cost on projected benefit obligation	249,000	248,000	748,000	743,000
Expected return on plan assets	(341,000)	(322,000)	(1,023,000)	(966,000)
Amortization of prior service cost	10,000	15,000	28,000	46,000
Recognized actuarial (gain) loss	(5,000)	6,000	(16,000)	17,000
Net periodic pension cost	\$ 76,000	\$ 102,000	\$ 228,000	\$ 304,000

Contributions of \$500,000 were made to the Company's benefit plans in the three and nine-month periods ending September 30, 2007 and September 30, 2006.





NOTE 5 Supplemental Cash Flow Information:

The Company repurchased \$4,805,453 of raw materials inventory from its primary supplier in Central America during the current period. The Company reduced the accounts receivable balance from the supplier by the same amount as payment for the inventory.

Cash paid for income taxes was \$1,037,687 and \$830,373, respectively, for the nine-month periods ended September 30, 2007 and 2006. Cash paid for interest was \$264,443 and \$357,529, respectively, for the nine-month periods ended September 30, 2007 and 2006. During the nine-month period ended September 30, 2007, the Company received 28,685 shares of its common stock as payment for the issuance of 40,525 shares of its common stock related to the exercise of stock option agreements.

NOTE 6 Contingencies:

The Company has entered into indemnification agreements with its directors and certain of its officers that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and officers in certain circumstances.

It is not possible to determine the aggregate maximum potential loss under these indemnification agreements. Historically, the Company has not incurred any costs as a result of obligations under these agreements and it has not accrued any liabilities related to such indemnification obligations in its consolidated financial statements for any period presented.

The Company is involved in various legal actions and claims arising from the normal course of business. In the opinion of management, the ultimate outcome of these matters will not have a material impact on the Company's results of operations, cash flows, or financial position.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Superior Uniform Group, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Superior Uniform Group, Inc. and subsidiary as of September 30, 2007, the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2007 and 2006, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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 upon our review, we are not aware of any material modifications that should be made to the accompanying interim 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of earnings, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 2 to the condensed consolidated interim financial statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

/s/ GRANT THORNTON LLP

Tampa, Florida  
October 25, 2007

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

*Certain matters discussed in this Form 10-Q are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as we believe, anticipate, expect or words of similar import. Similarly, statements that describe our future plans, objectives, strategies or goals are also forward-looking statements. 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 in the areas of the United States in which the Company's customers are located; changes in the healthcare, resort and commercial industries where uniforms and service apparel are worn; the impact of competition; the availability of manufacturing materials, and other factors described in the Company's filings with the Securities and Exchange Commission. 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, 2006. Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for the preparation of interim financial statements. 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. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue Recognition, Sales Returns and Allowances, and Allowance for Doubtful Accounts

The Company recognizes revenue in the period in which the product is shipped and title passes. The Company provides an allowance for estimated returns and allowances each period based upon historical experience and current allowance programs. Judgments and estimates are used in determining the collectability of accounts receivable. The Company analyzes specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances when evaluating the adequacy of the allowance for doubtful accounts. Management judgments and estimates are used in connection with establishing the allowance in any accounting period. Changes in estimates are reflected in the period they become known. 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.

Inventories

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

Insurance

The Company self-insures for certain obligations related to health and workers' compensation 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.

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## Share-Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. Accordingly, the Company is now recognizing share-based compensation expense for all awards granted to employees, which is based on the fair value of the award on the date of grant. Under FAS No. 123(R), the Company's reported stock compensation expense will include expense related to stock compensation awards granted subsequent to January 1, 2006, which is based on the grant date fair value estimated in accordance with the provisions of FAS No. 123(R). All share-based awards previously granted by the Company were fully vested prior to the adoption of FAS No. 123(R). Determining the appropriate fair value model and calculating the fair value of stock compensation awards requires the input of certain highly complex and subjective assumptions, including the expected life of the stock compensation awards, the Company's common stock price volatility, and the rate of employee forfeitures. The assumptions used in calculating the fair value of stock compensation awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and the Company deems it necessary to use different assumptions, stock compensation expense could be materially different from what has been recorded in the current period.

## Results of Operations

Net sales decreased 6.6% from \$33,440,168 for the three months ended September 30, 2006 to \$31,235,531 for the three months ended September 30, 2007. Net sales decreased 4.7% from \$96,081,293 for the nine months ended September 30, 2006 to \$91,527,855 for the nine months ended September 30, 2007. The decreases in sales in the three and nine-month periods are primarily attributed to the elimination of the uniform program at one of our major customers in the fourth quarter of 2006. This resulted in a decrease of approximately \$848,000 and \$2,618,000, respectively in net sales for the three and nine-month periods ended September 30, 2007. During the current period, we were awarded additional business from this customer that began shipping late in the second quarter. This resulted in net sales of approximately \$458,000 and \$1,000,000, respectively, in the three and nine-month periods ended September 30, 2007. A portion of the additional net sales that we expected to receive from this customer as well as several of the other new programs that we have discussed previously have been deferred until the fourth quarter of 2007 and the first quarter of 2008. Additionally, demand from existing customers was lower than expected and more than offset the new business generated in the current periods. The remainder of the decrease is attributed to customers lost as a result of the 2005 implementation of our new Warehouse Management System that resulted in disruptions to our service levels with customers during the first half of 2005. Certain of these lost customers were still winding down purchases from the Company during the first half of 2006.

Cost of goods sold, as a percentage of sales, approximated 67.5% for the three months ended September 30, 2007 compared to 68.5% for the three months ended September 30, 2006. Cost of goods sold, as a percentage of sales, approximated 67.2% for the nine months ended September 30, 2007 compared to 68.2% for the nine months ended September 30, 2006. The decrease as a percentage of sales in the three-month period is primarily attributed to improved efficiencies in our embroidery and alterations operations (0.2%) and more effective sourcing of finished products in the current period (0.8%). The decrease as a percentage of sales in the nine-month period is primarily attributed to improved efficiencies in our embroidery and alterations operations (0.5%) and more effective sourcing of finished products in the current period (0.5%).

Selling and administrative expenses, as a percentage of sales, approximated 27.5% and 26.7%, respectively, for the three-month periods ended September 30, 2007 and 2006. Selling and administrative expenses, as a percentage of net sales, were approximately 29.5% and 27.9%, respectively, for the first nine months of 2007 and 2006. The increase as a percentage of sales in the three-month period is primarily attributed to the decreased sales volume (1.8%) offset by savings from general cost cutting measures. The increase as a percentage of sales in the nine-month period is attributed to the following items: decreased sales volume (1.4%); increased salaries, wages and benefits (0.7%); offset by general cost savings measures.

Interest expense of \$79,367 for the three-month period ended September 30, 2007 decreased 28.4% from \$110,775 for the similar period ended September 30, 2006. Interest expense of \$255,840 for the nine-month period ended September 30, 2007 decreased 26.1% from \$346,422 for the similar period ended September 30, 2006. These decreases are attributed to lower outstanding borrowings in the current periods.

The Company's effective tax rate for the three months ended September 30, 2007 was 18.2% versus 38.0% for the three months ended September 30, 2006. The Company's effective tax rate for the nine months ended September 30, 2007 was 26.5% versus 38.5% for the nine months ended September 30, 2006. The significant decrease in the rates for the three and nine-month periods ended September 30, 2007 are attributed primarily to the outcome of the audits by the Internal Revenue Service of the Company's 2004 and 2005 federal tax returns as well as the expiration of the statute of limitations on several other uncertain tax positions of the Company during the three and nine month periods ended September 30, 2007.

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## Liquidity and Capital Resources

Accounts receivable and other current assets decreased approximately 17.2% from \$28,500,316 on December 31, 2006 to \$23,584,223 as of September 30, 2007. Approximately \$4,805,000 of this decrease is attributed to a change in how we deal with our primary supplier in Central America. Prior to July 2007, the Company shipped raw material inventory to our primary supplier and transferred title to the supplier and recorded a receivable due from the supplier. In July 2007, we modified the operating arrangement whereby the Company maintains title in the raw material inventory until such time as the supplier actually utilizes the fabric in production for the Company. As a result, raw material inventories increased by \$4,805,000 and accounts receivable and other assets decreased by the same amount.

Inventories increased approximately 23.8% from \$33,251,964 on December 31, 2006 to \$41,163,980 as of September 30, 2007. Approximately \$4,805,000 of this increase is attributed to the change in our operating arrangement with our Central American supplier as described above. The remainder of the increase is primarily attributed to increases in inventory levels in anticipation of higher net sales in future periods, as well as an increase in the amount of inventories being sourced from Asia.

Accounts payable increased 36.1% from \$5,025,981 on December 31, 2006 to \$6,838,140 on September 30, 2007, primarily due to the increased inventory purchases discussed above.

As noted above, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FAS No. 109* ( FIN No. 48 ), on January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold at the adoption date were recognized or continue to be recognized. As a result of the implementation of FIN No. 48, we recognized a \$133,000 increase to the liability for uncertain tax positions, which was accounted for as an adjustment to the beginning balance of retained earnings. As of the date of adoption, including the increase in the liability noted above, we had approximately \$728,000 of unrecognized tax benefits. Included in the balance at January 1, 2007, were \$728,000 of unrecognized tax benefits that, if recognized, would favorably affect the annual effective income tax rate. As of September 30, 2007, we had \$565,000 of unrecognized tax benefits. None of this liability is expected to be paid in the next twelve months. Accordingly, the balance of \$565,000 is included in other long-term liabilities. The ultimate date and amounts of payment related to this liability are subject to the outcomes of potential audits by various taxing authorities. The Internal Revenue Service has completed an audit of our 2004 and 2005 federal income tax returns during the three-month period ended September 30, 2007. Primarily as a result of this audit as well as the expiration of the statute of limitation on several other tax positions, we have reduced our liability for uncertain tax positions by \$163,000 during the nine months ended September 30, 2007. The earliest tax year open to examination by a major taxing jurisdiction is 2001.

Cash and cash equivalents decreased by \$675,094 from \$3,920,276 on December 31, 2006 to \$3,245,182 as of September 30, 2007. This decrease is attributed to \$3,970,965 provided from operating activities, offset by \$1,004,388 utilized in investing activities primarily related to fixed asset additions, offset by \$3,641,671 utilized in financing activities. Financing activities included the payment of cash dividends as discussed below and net repayments of long-term borrowings of \$1,405,588, offset by proceeds from stock option exercises of \$455,086. 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. At September 30, 2007, our principal sources of liquidity consisted of cash and available borrowings under our revolving credit facility and term loan with Wachovia. The credit agreement and the term loan with Wachovia contain restrictive provisions concerning liabilities to net worth ratio (.75:1), other borrowings, capital expenditures, working capital ratio (2.5:1), fixed charges coverage ratio (2.5:1), stock repurchases and payment of dividends. The Company is in full compliance with all terms, conditions and covenants of the various credit agreements.

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

During the nine-month periods ended September 30, 2007 and 2006, the Company paid cash dividends of approximately \$2,691,000 and \$2,800,000, respectively.

The Company did not reacquire any shares of its common stock in the nine-month period ended September 30, 2007. The Company received 28,685 shares of its common stock during the nine-month period ended September 30, 2007 as payment in lieu of cash for shares issued under stock option agreements. During the nine months ended September 30, 2006, the Company reacquired and retired 707,194 shares of its common stock, at a cost of approximately \$8,705,000. The Company anticipates that it will continue to pay dividends and that it will reacquire additional shares of its common stock in the future as financial conditions permit.

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 its anticipated funding requirements for the remainder of the year and for the foreseeable future.



**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risk from changes in interest rates, which may adversely affect its results of operations and financial condition. The Company seeks to minimize the risks from these interest rates when considered appropriate, through the limited use of derivative financial instruments. The Company's policy is not to use financial instruments for trading or other speculative purposes and the Company is not a party to any leveraged financial instruments. The Company has debt obligations with variable interest rates tied to LIBOR which are described in Liquidity and Capital Resources as well as Note 3 of the Notes to Condensed Consolidated Financial Statements. The Company estimates that a hypothetical increase in interest rates of 1% would have resulted in no material change in the Company's interest expense for the nine-month period ended September 30, 2007.

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. The interest rate payments associated with a term loan of \$2,573,952 are designated as a hedged item at September 30, 2007. This interest rate swap is accounted for as a cash flow hedge in accordance with FAS No. 133 and FAS No. 138. As of the report date, 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. Losses of \$7,000 and \$19,000 were included in other comprehensive income (loss) for the three months ended September 30, 2007 and 2006, respectively. Gains of \$10,000 and \$54,000 were included in other comprehensive income for the nine months ended September 30, 2007 and 2006, respectively. The original term of the agreement is ten years.

The Company is also exposed to changes in prevailing market interest rates affecting the return on its investments but does not consider this interest rate market risk exposure to be material to its financial condition or results of operations. The Company invests primarily in highly liquid debt instruments with strong credit ratings and short-term (less than three months) maturities.

**ITEM 4. Controls and Procedures**

The Principal Executive Officer, Michael Benstock, and the Principal Financial Officer, Andrew D. Demott, Jr., evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report (the Evaluation Date), and, based on such evaluation, concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure that information the Company is required to disclose in its filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. There have been no changes in the Company's internal control over financial reporting identified in connection with this evaluation that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

None.

**ITEM 1A. Risk Factors**

We are exposed to certain risks and uncertainties that could have a material adverse impact on our business, financial condition and operating results. There have been no material changes to the Risk Factors described in Part I, Item 1A-Risk Factors in our annual report on Form 10-K for the year ended December 31, 2006.

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

Inapplicable.



ITEM 3. Defaults Upon Senior Securities  
Inapplicable.

ITEM 4. Submission of Matters to a Vote of Security-Holders  
None.

ITEM 5. Other Information  
None.

ITEM 6. Exhibits  
See Exhibit Index.

### SIGNATURES

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

Date: October 25, 2007

SUPERIOR UNIFORM GROUP, INC.

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

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

EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Description</b>
15	Letter re: Unaudited Interim Financial Information.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.