

SUPERIOR UNIFORM GROUP INC
Form 10-K
February 23, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

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

SUPERIOR UNIFORM GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Florida	11-1385670
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

10055 Seminole Blvd.

Seminole, Florida 33772

(Address of Principal Executive Offices, including Zip Code)

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Registrant's telephone number, including area code: (727) 397-9611

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$.001 per share	Listed on the NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes _____ No _____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes _____ No _____

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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 Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

At June 30, 2016, the aggregate market value of the registrant’s common shares held by non-affiliates, computed by reference to the last sales price (\$19.09) as reported by the NASDAQ Stock Market, was approximately \$194,000,000 (based on the assumption, solely for purposes of this computation, that all directors and officers of the registrant were affiliates of the registrant).

The number of shares of common stock outstanding as of February 17, 2017 was 14,562,092 shares.

Documents Incorporated by Reference:

Portions of the registrant's Definitive Proxy Statement to be filed with the Commission not later than 120 days after the conclusion of the registrant’s fiscal year ended December 31, 2016, relating to its Annual Meeting of Shareholders to be held May 5, 2017, are incorporated by reference to furnish the information required by Items 10, 11, 12, 13 and 14 of Part III.

The exhibit index may be found on Pages 58 and 59.

PART I

References Used

References in this Form 10-K to “the Company,” “Superior,” “we,” “our,” or “us” mean Superior Uniform Group, Inc. together with its subsidiaries, except where the context otherwise requires. Unless otherwise indicated, all share and per share information in this Form 10-K has been adjusted for all periods presented to give retroactive effect to the 2-for-1 stock split effective on February 4, 2015.

Special Note Regarding Forward-Looking Statements

Certain matters discussed in this Form 10-K 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 Form 10-K 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 consummation of acquisitions; attracting and retaining senior management and key personnel, and those risks discussed under Item 1A of this report entitled “Risk Factors.” 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-K and we disclaim any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Item 1. Business

Overview

Superior Uniform Group, Inc. was organized in 1920 and was incorporated in 1922 as a New York company under the name Superior Surgical Mfg. Co., Inc. In 1998, the Company changed its name to Superior Uniform Group, Inc. (“Superior”) and its state of incorporation to Florida.

On July 1, 2013, the Company acquired substantially all of the assets of HPI Direct, Inc. (“HPI”), a company specializing in the design, manufacture and distribution of uniforms to major domestic retailers, foodservice chains, transportation and other service industries throughout the United States. The purchase price for the asset acquisition consisted of approximately \$32,483,000 in cash, and inclusive of the real estate purchase described below, the issuance of approximately 418,000 restricted shares of Superior’s common stock, the potential future payment of up to \$7,200,000 in additional contingent consideration through 2017, and the assumption of certain liabilities of HPI. The transaction also included the acquisition of the corporate offices and warehouse distribution facility from an entity related to HPI.

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 consisted of approximately \$15,161,000 in cash, net of cash acquired, the issuance of approximately 324,000 restricted shares of Superior’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 included the acquisition of BAMKO’s subsidiaries in Hong Kong, China, Brazil and England as well as an affiliate in India.

Following a recent evaluation, Superior has realigned its organizational structure and updated its reportable operating segments as a result of changes in its business primarily related to the acquisition of BAMKO effective March 1, 2016. A new Promotional Products segment has been created and consists of sales to customers of promotional products. Superior is now comprised of three reportable business segments: (1) Uniforms and Related Products, (2) Remote Staffing Solutions, and (3) Promotional Products. Superior’s Uniforms and Related Products segment, through its signature marketing brands Fashion Seal Healthcare®, HPI Direct®, Superior I.D.™, Worklon® and UniVogue®, manufactures and sells a wide range of uniforms, corporate identity apparel, career apparel and accessories for the hospital and healthcare fields; hotels; fast food and other restaurants; transportation; and the private security, industrial and commercial markets. In excess of 95% of Superior’s Uniforms and Related Products segment’s net sales are from the sale of uniforms and service apparel and directly-related products. Because the addition of the Promotional Products segment did not affect the composition of Superior’s other two segments, the Company did not restate

segment information for prior periods.

Superior services its Remote Staffing Solutions segment through multiple The Office Gurus entities, including its direct and indirect subsidiaries in El Salvador, Belize, and the United States, (collectively, “TOG”). TOG is a near-shore premium provider of cost effective multilingual telemarketing and total office support solutions.

The Promotional Products segment services customers that purchase primarily promotional and related products. The segment currently has sales offices in the United States, England and Brazil with support services in China, Hong Kong and India.

Products

Superior manufactures and sells a wide range of uniforms, corporate identity apparel, career apparel and accessories for the medical and health fields as well as for the industrial, commercial, leisure, and public safety markets in its Uniforms and Related Products segment. The Promotional Products segment produces and sells products for a wide variety of industries primarily to support marketing efforts.

Superior's principal products are:

Uniforms and service apparel and related products for personnel of:

Hospitals and health facilities;
Hotels, commercial buildings, residential buildings, and food service facilities;
Retail stores;
General and special purpose industrial uses;
Commercial enterprises (career apparel for banks, airlines, etc.);
Public and private safety and security organizations; and
Miscellaneous service uses.

Miscellaneous products:

directly related to uniforms and service apparel specified above (e.g. boots and bags); and
for use by linen suppliers and industrial launderers, to whom a substantial portion of Superior's uniforms and service apparel are sold; such products being primarily industrial laundry bags.
Public and private safety and security organizations; and
Miscellaneous service uses.

Promotional and related products to support:

Branded marketing programs; and
Event promotions

Uniforms and related products are typically distributed through distribution centers in the United States. Promotional products are typically shipped directly from our vendors to our customers.

We do not consider sales in any of our segments to be highly seasonal.

For a depiction of revenues from external customers, income before taxes on income and total assets by segment for each of the years ended December 31, 2016, 2015 and 2014, please refer to "Note 17. Operating Segment Information:" in the notes to the consolidated financial statements in this Form 10-K.

During the years ended December 31, 2016, 2015 and 2014, uniforms and service apparel and related products accounted for approximately 83%, 94% and 96% of net sales; promotional and related products accounted for approximately 11% of net sales in 2016 and no other single class of product listed above accounted for more than 10% of net sales.

Services

Through the recruitment and employment of highly qualified English-speaking agents, we provide our customers with extended office support from a versatile call and contact center environment in our Remote Staffing Solutions segment.

Competition

Superior competes in its Uniforms and Related Products segment with more than three dozen firms, including divisions of larger corporations. Superior competes with national and regional manufacturers, such as Cintas Corporation, Unifirst Corporation, G&K Services and ARAMARK—a division of ARAMARK Corporation. Superior also competes with local firms in most major metropolitan areas. The nature and degree of competition varies with the customer and the market. Industry statistics are not available, but we believe Superior is one of the leading suppliers of garments to hospitals, industrial clean rooms, hotels, motels, and food service establishments, and uniforms to linen suppliers. Superior experiences competition primarily based on breadth of products offered, styling and pricing. We believe that the strength of our brands and marketing, coupled with the quality of our products, allow us to compete effectively.

The market in which TOG operates has evolved into a global multi-billion dollar marketplace that is highly competitive and fragmented. TOG's competitors in the Remote Staffing Solutions segment range in size from very small firms offering specialized services or short-term project completion to very large independent firms, and include the in-house operations of many customers and potential customers. We compete directly and indirectly with various companies that provide contact center and other business process outsourcing solutions on an outsourced basis. These companies include, but are certainly not limited to, global providers such as APAC Customer Services, Convergys, Sitel, Atento, Sykes, Harte Hanks, and Teleperformance. TOG also competes with local entities in other offshore geographies. The list of potential competitors includes both publicly traded and privately held companies.

The promotional products industry is highly fragmented. We compete with a multitude of foreign, regional, and local competitors that vary by market. Major competitors in the Promotional Products segment include Staples, Inc. and BDA, Inc. We believe our creative services, product development, proprietary web platforms and our extensive global sourcing network along with our success with major brands will enable us to continue to be competitive and grow in this market.

Customers

The Uniform and Related Products segment has a substantial number of customers, the largest of which accounted for approximately 9.2% of that segment's 2016 net sales. The Remote Staffing Solutions segment's largest customer represented 13.4% of that segment's 2016 external revenues, and the largest customer in the Promotional Products segment represented 8.5% of that segment's net sales in 2016.

Backlog

The Uniform and Related Products segment normally completes shipments of orders from stock within one week after the receipt of the order. As of February 20, 2017, the backlog of all orders that we believe to be firm for our Uniform and Related Products segment was approximately \$6,614,000, compared to approximately \$9,300,000 as of February 22, 2016. The Promotional Products segment typically produces custom products based upon confirmed orders. The average length of time to produce orders is four to six months. The backlog of all orders for our Promotional Products segment was approximately \$12,800,000 as of February 20, 2017.

Raw Materials, Working Capital and Inventory

The principal fabrics used in our Uniforms and Related Products segment are made from cotton, polyester, wool, silk, synthetic and cotton-synthetic blends. The majority of such fabrics are sourced in the Far East. The raw materials used in the fabrics we source from our suppliers are primarily cotton, polyester yarn, dyestuffs and chemical components of synthetic fabrics.

Superior's Uniform and Related Products segment markets itself to its customers as a "stock house." Therefore, Superior at all times carries substantial inventories of raw materials (principally piece goods) and finished garments, which requires substantial working capital. The segment's principal raw materials are textile products. In 2016 and 2015, approximately 32% and 42%, respectively, of the segment's products were obtained from suppliers located in Central America and Haiti, and approximately 31% and 26%, respectively, were sourced from or contained raw materials sourced from China. Superior does not believe that it is dependent upon any of its suppliers, despite the concentration of its purchasing from a few sources, as other suppliers of the same or similar products are readily available. However, if Superior's Uniform and Related Products segment is unable to continue to obtain its products from Central America, Haiti and China, it could significantly disrupt Superior's business. Because the Company manufactures and sources products in Central America, Haiti and China, the Company is affected by economic and political conditions in those countries, including possible employee turnover, labor and other unrest and lack of developed infrastructure, as well as decisions by the U.S. government to impose or increase import duties or other import regulations.

The Promotional Products segment relies on the supply of different types of raw materials, including plastic, glass, fabric and metal. Prices within the promotional products industry are directly affected by the cost of raw materials. The market for promotional products is price sensitive and has historically exhibited price and demand cyclicity. The Promotional Products segment has flexibility in its suppliers, as other suppliers of the same or similar products are widely available. Additionally, the nature of the promotional products industry is such that should specific types of raw materials undergo significant cost increases, it is possible that alternative products using different materials could be utilized for similar promotional activities. However, if cost increases cannot be entirely passed on to customers and alternative suppliers or suitable product alternatives are unavailable, profit margins could decline. Moreover, because approximately 59% of the raw materials and products sourced by the Promotional Products segment in 2016 came from China, economic and political conditions in China or the United States, including those resulting in the imposition or increase of import duties and other import regulations, could have a material adverse effect on this business segment.

Intellectual Property

Superior owns and uses several trademarks and service marks relating to its brands that have significant value and are instrumental to its ability to market its products. Superior's most significant trademark is its mark "Fashion Seal Healthcare " (presently registered with the United States Patent and Trademark Office until August 6, 2017). We are in the process of renewing our registration of this trademark, which we expect to effectuate without difficulty. The Fashion Seal Healthcare trademark is critically important to the marketing and operation of Superior's business, as more than 23% of Superior's products are sold under that name.

Environmental Matters

In view of the nature of our business, compliance with federal, state, and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has had no material effect upon our operations or earnings, and we do not expect it to have a material impact in the foreseeable future.

Employees

Superior employed 1,632 persons, of which 1,620 were full-time employees, as of December 31, 2016.

Securities Exchange Act Reports

The Company maintains an internet website at the following address: www.superioruniformgroup.com. The information on the Company's website is not incorporated by reference in this annual report on Form 10-K.

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission (the "SEC") in accordance with the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and Section 16 filings by our officers, directors and 10% shareholders. We make this information available on our website free of charge as soon as reasonably practicable after we or they electronically file the information with, or furnish it to, the SEC.

Item 1A. Risk Factors

Our business, operations and financial condition are subject to various risks, and many of those risks are driven by factors that we cannot control or predict. The following discussion addresses those risks that management believes are the most significant. You should take those risks into account in evaluating or making any investment decision involving the Company. Additional risks and uncertainties not presently known or that we currently believe to be less significant may also adversely affect us.

Risks Relating To Our Industry

We face intense competition within our industry and our revenue and/or profits may decrease if we are not able to respond to this competition effectively.

Customers in the uniform and corporate identity apparel industry and in the promotional products industry choose suppliers primarily based upon the quality, price and breadth of products offered. We encounter competition from a number of companies in the geographic areas we serve. Major competitors for our Uniforms and Related Products segment include publicly held companies such as Cintas Corporation, Unifirst Corporation and G&K Services, as well as ARAMARK — a division of ARAMARK Corporation. Major competitors for our Promotional Products segment include companies such as Staples, Inc. and BDA, Inc.. We also compete with a multitude of foreign, regional and local competitors that vary by market. If our existing or future competitors seek to gain or retain market share by reducing prices, we may be required to lower our prices, which would adversely affect our operating results. Similarly, if customers or potential customers perceive the products offered by our existing or future competitors to be of higher quality than ours or part of a broader product mix, our revenues may decline, which would adversely affect our operating results. In addition, our competitors generally compete with us for acquisition candidates, which can increase the price for acquisitions and reduce the number of acquisition candidates available to us.

Regional or national economic slowdowns, high unemployment levels, or cost increases might have an adverse effect on our operating results.

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, including from voluntary turnover, which affect the quantity of uniform orders on a per-employee basis.

If we are unable to offset these effects through the addition of new customers (through acquisition or otherwise), the penetration of existing customers with a broader mix of product and service offerings, or decreased production costs that can be passed on in the form of lower prices, our revenue growth rates will be negatively impacted. Events or conditions in a particular geographic area, such as adverse weather and other factors, could also hurt our operating results. While we do not believe that our exposure is greater than that of our competitors, we could be adversely affected by increases in the prices of fabric, natural gas, gasoline, wages, employee benefits, insurance costs and other components of product cost unless we can recover such increases through proportional increases in the prices for our products and services. Competitive and general economic conditions might limit our ability and that of our competitors to increase prices to cover such increases in our product cost.

Volatility in the global financial markets could adversely affect results.

In the past, global financial markets have experienced extreme disruption, including, among other things, volatility in security prices, diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. In addition, global equity markets have been highly volatile this year. There can be no assurance that there will not be further change or volatility, which could lead to challenges in our business and negatively impact our financial results. The tightening of credit in financial markets adversely affects the ability of our customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in orders and spending for our products and services. We are unable to predict the likely duration and severity of any disruption in financial markets and adverse economic conditions and the effects they may have on our business and financial condition.

The uniform and corporate identity apparel and promotional products industries are subject to pricing pressures that may cause us to lower the prices we charge for our products and adversely affect our financial performance.

Many of our competitors source their product requirements from developing countries to achieve a lower cost operating environment, possibly with lower costs than our offshore facilities, and those manufacturers may use these cost savings to reduce prices. To remain competitive, we must adjust our prices from time to time in response to these industry-wide pricing pressures. Moreover, increased customer demands for allowances, incentives and other forms of economic support could reduce our gross margins and affect our profitability. Our financial performance may be negatively affected by these pricing pressures if we are forced to reduce our prices and we cannot reduce our product costs proportionally or if our product costs increase and we cannot increase our prices proportionately.

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 for our uniforms are made from cotton, wool, silk, synthetic and cotton-synthetic blends. The principal components in our promotional products are plastic, glass, fabric and metal. The prices we pay for these fabrics and components 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. These finished goods and raw materials are subject to price volatility caused by weather, supply conditions, government regulations, economic and political 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.

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.

Changes to trade regulation, quotas, duties or tariffs, caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs or limit the amount of products that we can import.

Our operations are subject to various international trade agreements and regulations, such as the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR), Caribbean Basin Trade Partnership Act (CBTPA), Haitian Hemispheric Opportunity through Partnership Encouragement Act, as amended (HOPE), the Food Conservation and Energy Act of 2008 (HOPE II), the Haiti Economic Lift Program of 2010 (HELP), the African Growth and Opportunity Act (AGOA), and the activities and regulations of the World Trade Organization (WTO). Generally, these trade agreements benefit our business by reducing or eliminating the duties and/or quotas assessed on products manufactured in a particular country. However, trade agreements can also impose requirements that negatively affect our business, such as limiting the countries from which we can purchase raw materials or limiting the products that qualify as duty free, and setting duties or quotas on products that may be imported into the United States from a particular country. In addition, increased competition from developing countries could have a material adverse effect on our business, results of operations or financial condition.

The countries in which our products are manufactured or into which they are imported may from time to time impose new quotas, duties, tariffs and requirements as to where raw materials must be purchased to qualify for free or reduced duty. These countries may also create additional workplace regulations or other restrictions on our imports or adversely modify existing restrictions. Adverse changes in these costs and restrictions could harm our business. We cannot assure you that future trade agreements will not provide our competitors an advantage over us, or increase our costs, either of which could have a material adverse effect on our business, results of operations or financial condition. Nor can we assure you that the changing geopolitical and U.S. political environments will not result in a trade agreement or regulation being altered which adversely affects our company. Specifically, the current U.S. administration has voiced strong concerns about imports from countries that it perceives as engaging in unfair trade practices, and may decide to impose import duties or other restrictions on products or raw materials sourced from those countries, which may include China and other countries from which we import raw materials or in which we manufacture our products. Any such duties or restrictions could have a material adverse effect on our business, results of operations or financial condition.

The corporate identity apparel and uniform industry is subject to changing fashion trends and if we misjudge consumer preferences, the image of one or more of our brands may suffer and the demand for our products may decrease.

The apparel industry, including uniforms and corporate identity apparel, is subject to shifting customer demands and evolving fashion trends and our success is also dependent upon our ability to anticipate and promptly respond to these changes. Failure to anticipate, identify or promptly react to changing trends or styles may result in decreased demand for our products, as well as excess inventories and markdowns, which could have a material adverse effect on our business, results of operations, and financial condition. In addition, if we misjudge consumer preferences, our brand image may be impaired. We believe our products are, however, in general, less subject to fashion trends compared to many other apparel manufacturers because we manufacture and sell uniforms, corporate identity apparel and other accessories.

Risks Relating To Our Business

Our success depends upon the continued protection of our trademarks and other intellectual property rights and we may be forced to incur substantial costs to maintain, defend, protect and enforce our intellectual property rights.

Our owned intellectual property and certain of our licensed intellectual property have significant value and are instrumental to our ability to market our products. While we own and use several trademarks, our “Fashion Seal Healthcare” mark is critically important to our business, as more than 23% of our products are sold under that name.

We cannot assure you that our owned or licensed intellectual property or the operation of our business does not infringe on or otherwise violate the intellectual property rights of others. We cannot assure you that third parties will not assert claims against us on any such basis or that we will be able to successfully resolve such claims. In addition, although we seek international protection of our intellectual property, the laws of some foreign countries may not allow us to protect, defend or enforce our intellectual property rights to the same extent as the laws of the United States. We could also incur substantial costs to defend legal actions relating to use of our intellectual property or prosecute legal actions against others using our intellectual property, either of which could have a material adverse effect on our business, results of operations or financial condition. There also can be no assurance that we will be able to negotiate and conclude extensions of existing license agreements on similar economic terms or at all.

Our customers may cancel or decrease the quantity of their orders, which could negatively impact our operating results.

Although we have long-standing customer relationships, we do not have long-term contracts with many of our customers. Sales to many of our customers are on an order-by-order basis. If we cannot fill customers' orders on time, orders may be cancelled and relationships with customers may suffer, which could have an adverse effect on us, especially if the relationship is with a major customer. Furthermore, if any of our customers experience a significant downturn in their business, or fail to remain committed to our programs or brands, the customer may reduce or discontinue purchases from us. The reduction in the amount of our products purchased by customers could have a material adverse effect on our business, results of operations or financial condition.

In addition, some of our customers have experienced significant changes and difficulties, including consolidation of ownership, increased centralization of buying decisions, restructurings, bankruptcies and liquidations. A significant adverse change in a customer relationship or in a customer's financial position could cause us to limit or discontinue business with that customer, require us to assume more credit risk relating to that customer's receivables or limit our ability to collect amounts related to previous purchases by that customer, all of which could have a material adverse effect on our business, results of operations or financial condition.

We have significant pension obligations with respect to our employees and our available cash flow may be adversely affected in the event that payments become due under any pension plans that are unfunded or underfunded.

A portion of our active and retired employees participate in defined benefit pension plans under which we are obligated to provide prescribed levels of benefits regardless of the value of the underlying assets, if any, of the applicable pension plan. If our obligations under a plan are unfunded or underfunded, we will have to use cash flow from operations and other sources to pay our obligations either as they become due or over some shorter funding period. As of December 31, 2016, we had approximately \$9,467,000 in unfunded or underfunded obligations related to our pension plans, compared to \$8,925,000 as of December 31, 2015.

We may undertake acquisitions to expand our business, which may pose risks to our business.

We selectively pursue acquisitions from time to time as part of our growth strategy. We compete with others within our industry for suitable acquisition candidates. This competition may increase the price for acquisitions and reduce the number of acquisition candidates available to us. As a result, acquisition candidates may not be available to us in the future on favorable terms. Even if we are able to acquire businesses on favorable terms, managing growth through acquisition is a difficult process that includes integration and training of personnel, combining plant and operating procedures, and additional matters related to the integration of acquired businesses within our existing organization. Unanticipated issues related to integration may result in additional expense or in disruption to our operations, either of which could negatively impact our ability to achieve anticipated benefits. While we believe we will be able to fully integrate acquired businesses, we can give no assurance that we will be successful in this regard.

We are subject to international, federal, state and local laws and regulations and failure to comply with them may expose us to potential liability.

We are subject to international, federal, state and local laws and regulations affecting our business, including those promulgated under the Occupational Safety and Health Act, the Consumer Product Safety Act, the Flammable Fabrics Act, the Textile Fiber Product Identification Act, the rules and regulations of the Consumer Products Safety

Commission and various labor, workplace and related laws, as well as environmental laws and regulations. Failure to comply with such laws may expose us to potential liability and have an adverse effect on our results of operations.

Shortages of supply of sourced goods or raw materials from suppliers, interruptions in our manufacturing, and local conditions in the countries in which we operate could adversely affect our results of operations.

We utilize multiple supply sources and manufacturing facilities. However, an unexpected interruption in any of the sources or facilities could temporarily adversely affect our results of operations until alternate sources or facilities can be secured. In 2016 and 2015, approximately 31% and 26%, respectively, of products for our Uniform and Related Products segment were sourced from or contained raw materials sourced from China. In 2016 and 2015 approximately 32% and 42%, respectively, of products for our Uniform and Related Products segment were obtained from suppliers located in Central America and Haiti. In 2016, approximately 59% of our products for our Promotional Products segment were sourced from China. If we are unable to continue to obtain our products from China, Central America and/or Haiti, it could significantly disrupt our business. Because we source products and raw materials and maintain operations in these locations, we are affected by economic and political conditions in those countries, including possible employee turnover, labor and other unrest and lack of developed infrastructure, as well as decisions by the U.S. government to impose or increase import duties or other import regulations.

Our business may be impacted by adverse weather, cyber-security attacks and other unpredicted events

Our corporate headquarters is located in Florida, which is a hurricane-sensitive area. Should a hurricane occur, the possibly resulting infrastructure damage and disruption to the area could negatively affect Superior, such as by damage to, or total destruction of, our headquarters, surrounding transportation infrastructure, network communications, and other forms of communications. Some of our suppliers, such as those located in Central America and Haiti, are exposed to hurricanes and earthquakes; the damages that such events could produce could affect the supply of our products. In addition, similar disruptions to the business of our customers located in areas affected by hurricanes or earthquakes may adversely impact sales of our products.

Disruption in our computer systems could adversely affect our business. We rely on computer systems to process transactions, communicate with customers, manage our business, and process and maintain information. We have measures in place to monitor and protect our computer systems, but these measures might not be sufficient protection from unpredicted events. Cyber-security attacks are evolving and disruptions can be caused by a variety of events, such as viruses, malicious malware, attempts to gain unauthorized access to data or other types of cyber-security attacks. Such events could produce disruptions that result in an unexpected delay in operations, loss of confidential or otherwise protected information, corruption of data, and expenses related to the repair or replacement of our computer systems. Compromising and/or loss of information could result in loss of sales or legal or regulatory claims which could adversely affect our revenues and profits or damage our reputation.

Implementation of technology initiatives could disrupt our operations in the near term and fail to provide the anticipated benefits.

As our business grows, we continue to make significant investments in our technology, including in the areas of warehouse management and product design. The costs, potential problems and interruptions associated with the implementation of technology initiatives could disrupt or reduce the efficiency of our operations in the near term. They may also require us to divert resources from our core business to ensure that implementation is successful. In addition, new or upgraded technology might not provide the anticipated benefits; it might take longer than expected to realize the anticipated benefits; the technology might fail or cost more than anticipated.

Our Remote Staffing Solutions business is dependent on the trend toward outsourcing.

Our business and growth depend in large part on the industry trend toward outsourced customer contact management services. Outsourcing means that an entity contracts with a third party, such as us, to provide customer contact services rather than perform such services in-house. There can be no assurance that this trend will continue, as organizations may elect to perform such services themselves. A significant change in this trend could have a material adverse effect on our business, financial condition and results of operations.

Inability to attract and retain key management or other personnel could adversely impact our business.

Our success is dependent on the skills, experience, and efforts of our senior management and other key personnel. If, for any reason, one or more senior executive or key personnel was not to remain active in our company, or if we were unable to attract and retain senior management or key personnel, our results of operations could be adversely affected.

Certain existing shareholders have significant control.

At December 31, 2016, our executive officers and certain of their family members collectively owned 33.2% of our outstanding common stock. As a result, our executive officers and certain of their family members have significant influence over the election of our Board of Directors, the approval or disapproval of any other matters requiring shareholder approval, and the affairs and policies of our company.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2016, the Company owned or leased approximately 20 facilities containing an aggregate of approximately 690,000 square feet located in the United States, Central America, Haiti, Europe, and Asia, which are used for manufacturing, distribution, and office space supporting our Uniforms and Related Products, Remote Staffing Solutions, and Promotional Products segments. Our owned facilities total approximately 245,000 square feet, including our 60,000 square feet corporate headquarters in Seminole, Florida (which houses a call center and is involved with all of our segments), and 75,000 square feet warehousing and distribution location in Alpharetta, GA (used in conjunction with our Uniforms and Related Products segment), and 53,000 square feet call center in El Salvador (which serves our Remote Staffing Solutions segment). Our principal Promotional Products location is leased office space in Los Angeles, CA; we also lease office space for use with this segment in other countries, including India and China. Our distribution center in Eudora, AR, which is used primarily for our Uniforms and Related Products segment, is rented for a nominal amount from a municipality providing incentives for businesses to locate in that area and may be purchased for a nominal amount.

The Company has an ongoing program designed to maintain and improve its facilities. The Company's properties have adequate productive capacity to meet the Company's present needs as well as those of the foreseeable future.

Item 3. Legal Proceedings

We are a party to certain lawsuits in the ordinary course of business. We do not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market on which Superior's common shares are traded is the NASDAQ Stock Market under the symbol “SGC”.

The following table sets forth the high and low sales prices and cash dividends declared on our common stock by quarter for 2016 and 2015 as reported in the consolidated transaction reporting system of the NASDAQ Stock Market. The prices and dividends shown have been retroactively adjusted for the 2-for-1 stock split effective February 4, 2015.

QUARTER ENDED						
2016				2015		
Mar.	June	Sept.	Dec.	Mar.	June	Sept. Dec.
31	30	30	31	31	30	30 31

Common Shares: