SUPERIOR GROUP OF COMPANIES, INC.
Form 10-Q
July 26, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from ________ to __________

Commission file number: 001-05869

Exact name of registrant as specified in its charter:
Superior Group of Companies, Inc.

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

Address of principal executive offices:
10055 Seminole Boulevard
Seminole, Florida 33772-2539

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

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

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

Yes [X]	No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X]	No [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [_]		Accelerated filer [X]
Non-accelerated filer [_]	(Do not check if a smaller reporting company)	Smaller Reporting Company [ ]
		Emerging Growth Company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Company is a shell company (as defined in

Rule 12b-2 of the Exchange Act).

Yes [_] No [X]

As of July 23, 2018, the registrant had 15,311,541 shares of common stock outstanding, which is the registrant's only class of common stock.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Superior Group of Companies, Inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED JUNE 30,
(Unaudited)
(In thousands, except shares and per share data)

	2018	2017
Net sales	$***82,392***	$*65,604*
Costs and expenses:		
Cost of goods sold	***53,114***	*42,230*
Selling and administrative expenses	***23,327***	*16,994*
Other periodic pension costs	***96***	*484*
Interest expense	***758***	*195*
	77,295	*59,903*
Income before taxes on income	***5,097***	*5,701*
Income tax expense	***1,280***	*1,360*
Net income	$***3,817***	$*4,341*
Weighted average number of shares outstanding during the period		
(Basic)	***14,956,221***	*14,501,399*
(Diluted)	***15,559,404***	*15,040,431*
Per Share Data:		
Basic		
Net income	$***0.26***	$*0.30*
Diluted		
Net income	$***0.25***	$*0.29*
Other comprehensive income (loss), net of tax:		
Defined benefit pension plans:		
Recognition of net losses included in net periodic pension costs	***215***	*320*
Gain (loss) on cash flow hedging activities	***72***	*(52*)
Foreign currency translation adjustment	***(509***)	*(43*)
Other comprehensive (loss) income	***(222***)	*225*

Comprehensive income	**$*3,595***	$*4,566*
Cash dividends per common share	**$*0.0950***	$*0.0875*

See accompanying notes to consolidated interim financial statements.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Superior Group of Companies, Inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

SIX MONTHS ENDED JUNE 30,
(Unaudited)
(In thousands, except shares and per share data)

	2018	2017
Net sales	**$155,479**	$126,591
Costs and expenses:		
Cost of goods sold	**101,326**	81,003
Selling and administrative expenses	**44,509**	34,423
Other periodic pension costs	**192**	698
Interest expense	**1,035**	379
	147,062	116,503
Gain on sale of property, plant and equipment	**-**	1,018
Income before taxes on income	**8,417**	11,106
Income tax expense	**2,150**	2,930
Net income	**$6,267**	$8,176
Weighted average number of shares outstanding during the period		
(Basic)	**14,888,940**	14,426,060
(Diluted)	**15,508,517**	14,985,063
Per Share Data:		
Basic		
Net income	**$0.42**	$0.57
Diluted		
Net income	**$0.40**	$0.55
Other comprehensive income, net of tax:		
Defined benefit pension plans:		
Recognition of net losses included in net periodic pension costs	**431**	496
Gain (loss) on cash flow hedging activities	**212**	(180)
Foreign currency translation adjustment	**(457)**	7

Other comprehensive income	***186***	*323*
Comprehensive income	**$*6,453***	$*8,499*
Cash dividends per common share	**$*0.1900***	$*0.1750*

See accompanying notes to consolidated interim financial statements.

3

Superior Group of Companies, Inc. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value data)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ *4,164***	$ *8,130*
Accounts receivable, less allowance for doubtful accounts of $1,722 and $1,382, respectively	***63,269***	*50,569*
Accounts receivable - other	***2,522***	*1,848*
Inventories*	***67,852***	*64,979*
Contract assets	***46,826***	-
Prepaid expenses and other current assets	***10,830***	*11,011*
TOTAL CURRENT ASSETS	***195,463***	*136,537*
PROPERTY, PLANT AND EQUIPMENT, NET	***28,564***	*26,844*
OTHER INTANGIBLE ASSETS, NET	***66,338***	*29,061*
GOODWILL	***35,327***	*16,032*
DEFERRED INCOME TAXES	**-**	*2,900*
OTHER ASSETS	***9,470***	*7,564*
	$ *335,162*	$ *218,938*
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	**$ *22,337***	$ *19,752*
Other current liabilities	***11,327***	*12,409*
Current portion of long-term debt	***6,000***	*6,000*
Current portion of acquisition-related contingent liabilities	***1,410***	*3,061*
TOTAL CURRENT LIABILITIES	***41,074***	*41,222*
LONG-TERM DEBT	***122,801***	*32,933*
LONG-TERM PENSION LIABILITY	***7,947***	*8,319*
LONG-TERM ACQUISITION-RELATED CONTINGENT LIABILITIES	***5,056***	*7,283*

DEFERRED INCOME TAXES	***8,900***	***-***
OTHER LONG-TERM LIABILITIES	***3,800***	*4,213*
COMMITMENTS AND CONTINGENCIES (NOTE 5)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.001 par value - authorized 300,000 shares (none issued)	-	-
Common stock, $.001 par value - authorized 50,000,000 shares, issued and outstanding - 15,311,541 and 15,081,947, respectively.	***15***	*15*
Additional paid-in capital	***54,998***	*49,103*
Retained earnings	***97,664***	*83,129*
Accumulated other comprehensive income (loss), net of tax:		
Pensions	***(6,851)***	*(7,282)*
Cash flow hedges	***122***	*(90)*
Foreign currency translation adjustment	***(364)***	*93*
TOTAL SHAREHOLDERS' EQUITY	***145,584***	*124,968*
	$ *335,162*	$*218,938*

* Inventories consist of the following:

	June 30, 2018 (Unaudited)	December 31, 2017
Finished goods	**$ 58,633**	$ 54,354
Work in process	**939**	604
Raw materials	**8,280**	10,021
	$ 67,852	$ 64,979

See accompanying notes to consolidated interim financial statements.

4

Superior Group of Companies, Inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30,
(Unaudited)
(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$*6,267***	$*8,176*
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	***3,646***	*2,715*
Provision for bad debts - accounts receivable	***323***	*575*
Share-based compensation expense	***1,490***	*1,108*
Deferred income tax provision (benefit)	***302***	*(509)*
Gain on sale of property, plant and equipment	-	*(1,018)*
Change in fair value of acquisition-related contingent liabilities	***(840)***	*81*
Changes in assets and liabilities, net of acquistion of business		
Accounts receivable - trade	***(3,492)***	*552*
Accounts receivable - other	***(674)***	*674*
Contract assets	***(972)***	-
Inventories	***2,953***	*1,632*
Prepaid expenses and other current assets	***242***	*(1,353)*
Other assets	***(1,827)***	*(1,784)*
Accounts payable and other current liabilities	***(7,368)***	*(2,223)*
Long-term pension liability	***195***	*(894)*
Other long-term liabilities	***(497)***	*829*
Net cash (used in) provided by operating activities	***(252)***	*8,561*
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	***(2,414)***	*(2,004)*
Acquistion of business, net of acquired cash	***(85,597)***	**-**
Proceeds from disposals of property, plant and equipment	-	*2,810*
Net cash (used in) provided by investing activities	***(88,011)***	*806*
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	***146,157***	*72,422*
Repayment of long-term debt	***(56,289)***	*(74,088)*
Payment of cash dividends	***(2,827)***	*(2,490)*
Payment of acquisition-related contingent liabilities	***(3,033)***	*(1,800)*
Proceeds received on exercise of stock options	***405***	*798*
Tax benefit from vesting of acquisition-related restricted stock	***105***	*70*
Tax withholding on exercise of stock rights	***(17)***	*(421)*
Net cash provided by (used in) financing activities	***84,501***	*(5,509)*

Effect of currency exchange rates on cash	***(204)***	*76*
Net (decrease) increase in cash and cash equivalents	***(3,966)***	*3,934*
Cash and cash equivalents balance, beginning of year	***8,130***	*3,649*
Cash and cash equivalents balance, end of period	**$*4,164***	$*7,583*

See accompanying notes to consolidated interim financial statements.

Superior Group of Companies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

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

a) Basis of presentation

The consolidated interim financial statements include the accounts of Superior Group of Companies, Inc. and its wholly-owned subsidiaries, The Office Gurus, LLC, SUG Holding, Fashion Seal Corporation, BAMKO, LLC and CID Resources, Inc.; The Office Gurus, Ltda. de C.V., The Office Masters, Ltda., de C.V. and The Office Gurus, Ltd., each a subsidiary of Fashion Seal Corporation and SUG Holding; Power Three Web, Ltda. and Superior Sourcing, each a wholly-owned subsidiary of SUG Holding; BAMKO Importação, Exportação e Comércio de Brindes Ltda., a subsidiary of BAMKO, LLC and SUG Holding; Guangzhou Ben Gao Trading Limited, Worldwide Sourcing Solutions Limited, and BAMKO UK, Limited, each a direct or indirect subsidiary of BAMKO, LLC; and BAMKO India Private Limited, a *99%*-owned subsidiary of BAMKO, LLC. All of these entities are referred to collectively as "the Company". Effective *May 3, 2018* Superior Uniform Group, Inc. changed its name to Superior Group of Companies, Inc. 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 financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form *10*-K for the year ended *December 31, 2017,* and filed with the Securities and Exchange Commission. The interim financial information contained herein is *not* certified or audited; it reflects all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements. The results of operations for any interim period are *not* necessarily indicative of results to be expected for the full year.

b) Revenue recognition and allowance for doubtful accounts

The Company recognizes revenue in accordance with ASC *606* effective *January 1, 2018.* The majority of our revenues are recognized as goods are shipped and title passes and as services are provided. Under the new standard revenue is recognized for on hand inventory that is covered by a contract termination clause and has *no* alternative use. See Note *1*(p). The Company collects sales tax for various taxing authorities. It is the Company's policy to record revenues on a net basis. Therefore, sales taxes collected are *not* included in net sales for the Company. Variable consideration for estimated returns and allowances is recorded based upon historical experience and current allowance programs. Judgments and estimates are used in determining the collectability of accounts receivable and in establishing allowances for doubtful accounts. 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. Changes in estimates are reflected in the period they become known. Charge-offs of accounts receivable are made once all collection efforts have been exhausted. 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.

c) Recognition of costs and expenses

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

d) Amortization of other intangible assets

The Company amortizes identifiable intangible assets on a straight line basis over their expected useful lives. Amortization expense for other intangible assets was *$1.1* million and *$0.6* million for the *three*-month periods ended *June 30, 2018* and *2017* respectively. Amortization expense for other intangible assets was *$1.8* million and *$1.1* million for the *six*-month periods ended *June 30, 2018* and *2017,* respectively.

e) Advertising expenses

The Company expenses advertising costs as incurred. Advertising costs for the *three*-month periods ended *June 30, 2018* and *2017* were *$0.2* million and *$0.1* million, respectively. Advertising costs for the *six*-month periods ended *June 30, 2018* and *2017* were *$0.2* million and *$0.1* million, respectively.

f) Shipping and handling fees and costs

The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with in-bound and out-bound freight are generally recorded in cost of goods sold. Other shipping and handling costs such as labor and overhead are included in selling and administrative expenses and totaled *$3.3* million and *$2.7* million for the *three*-month periods ended *June 30, 2018* and *2017,* respectively. Other shipping and handling costs such as labor and overhead are included in selling and administrative expenses and totaled *$6.0* million and *$5.4* million for the *six*-month periods ended *June 30, 2018* and *2017,* respectively.

g) Inventories

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

h) Accounting for income taxes

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

i) Employee benefit plan settlements

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

j) Earnings per share

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

k) Derivative financial instruments

The Company uses certain financial derivatives to mitigate its exposure to volatility in interest rates and foreign currency. The Company records derivatives on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. On the date a derivative contract is entered into, the Company *may* elect to designate the derivative as a fair value hedge, a cash flow hedge, or the hedge of a net investment in a foreign operation. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative that is used in the hedging transaction is highly effective. For those instruments that are designated as a cash flow hedge and meet certain documentary and analytical requirements to qualify for hedge accounting treatment, changes in the fair value for the effective portion are reported in other comprehensive income ("OCI"), net of related income tax effects, and are reclassified to the income statement when the effects of the item being hedged are recognized in the income statement. The Company discontinues hedge accounting prospectively when it is determined that the derivative is *no* longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is *no* longer appropriate. In situations in which the Company does *not* elect hedge accounting or hedge accounting is discontinued and the derivative is retained, the Company carries or continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value through earnings.

The nature of the Company's business activities involves the management of various financial and market risks, including those related to changes in interest rates and foreign currency. The Company does *not* enter into derivative instruments for speculative purposes. The Company manages market and credit risks associated with its derivative instruments by establishing and monitoring limits as to the types and degree of risk that *may* be undertaken, and by entering into transactions with high-quality counterparties.

Effective *March 3, 2017,* in order to reduce the interest rate risk on its future debt, the Company entered into an interest rate swap agreement that was designed to effectively convert or hedge the variable interest rate on a portion of its future borrowings to achieve a net fixed rate beginning *March 1, 2018* with a notional amount of *$18.0* million. This agreement was amended on *May 2, 2018. (*See Note *2.*)

On *January 3, 2017,* the Company entered into a foreign exchange forward contract to lock in the exchange rate on the Brazilian real to limit the risk of changes in foreign currency on the expected payment of a customer receivable. The amount of the contract was *$1.8* million and settled on *June 29, 2017.* For the *three* month and *six* month periods ended *June 30, 2017* respectively the Company recognized a gain of *$0.1* million and a loss of *$0.1* million on this contract which were included in selling and administrative expenses.

l) Use of estimates

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

m) Comprehensive income

Total comprehensive income represents the change in equity during a period from sources other than transactions with shareholders and, as such, includes net earnings. For the Company, the only other components of total comprehensive income are the change in pension costs, change in fair value of qualifying hedges, and foreign currency translation adjustments.

n) Operating segments

Accounting standards require disclosures of certain information about operating segments and about products and services, geographic areas in which the Company operates, and their major customers. The Company has evaluated its operations and has determined that it has *three* reportable segments - Uniforms and Related Products, Remote Staffing Solutions and Promotional Products. (See Note *8.*)

o) Share-based compensation

The Company awards share-based compensation as an incentive for employees to contribute to the Company's long-term success. Historically, the Company has granted options, stock-settled stock appreciation rights, and restricted stock. In *2016,* the Company began issuing performance shares as well. At *June 30, 2018,* the Company had *3,497,119* shares of common stock available for grant of awards of share-based compensation under its *2013* Incentive Stock and Awards Plan.

The Company recognizes 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. 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 and the Company's common stock price volatility, risk free interest rate and dividend rate. 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.

p) Recent Accounting Pronouncements

In *February 2016,* the FASB issued ASU *2016-02* that amends the accounting guidance on leases. The primary change in this ASU requires lessees to recognize, in the balance sheet, a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset over the lease term. The amendments in this ASU are to be applied using a modified retrospective approach and are effective for fiscal years beginning after *December 15, 2018.* The Company is in the preliminary phases of assessing the effect of this ASU. We have *not* yet selected a transition date nor have we yet determined the effect of this ASU on our results of operations, financial condition, or cash flows.

In *March 2016,* the FASB issued ASU *2016-09,* "Compensation – Stock Compensation (Topic *718*): Improvements to Employee Share-Based Payment Accounting". This update was issued as part of FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendment requires that excess tax benefits for share-based payments be recorded as a reduction of income tax expense and reflected within operating cash flows rather than being recorded in paid-in-capital and reflected within financing cash flows. The standard also clarifies that all cash payments when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows and provides for an accounting policy election to account for forfeitures when they occur. The amendments in this update were effective for annual and interim periods beginning after *December 15, 2016.* Early adoption is permitted in any interim or annual period but must be reflected as of the beginning of the fiscal year. The Company elected to early adopt the standard in the *fourth* quarter of *2016* which required us to reflect the adjustments as of *January 1, 2016.* The Company has made an accounting policy election to account for forfeitures in compensation cost when they occur. There was *no* material impact of this election in the *three* or *six* months ended *June 30, 2018* or *2017.*

In *March 2017,* the FASB issued ASU *2017-07* "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The amendment requires the service cost component be presented in the same line item as compensation costs for the pertinent employees during the period. The other components of net pension cost must be presented outside a subtotal of income from operations, if *one* is presented. The amendments are effective for annual periods beginning after *December 15, 2017* and must be applied retrospectively. The Company adopted ASU *2017-07* in the *first* quarter of *2018.* As a result, we have added an additional line item to our consolidated statements of comprehensive income and restated our *2017* results to reflect the change in accounting principle. Service costs are included in selling and administrative expenses and other components of net pension cost are included in other periodic pension costs.

In *May 2014,* the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *No. 2014-09,* Revenue from Contracts with Customers (Topic *606*) that superseded most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a *five*-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disaggregated disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. ASC *606* was adopted by the Company on *January 1, 2018* using the modified retrospective method. The cumulative effect of applying the new standard was recorded as an adjustment to the opening balance of retained earnings, as further described below. The comparative information for prior periods has *not* been restated and continues to be reported under the accounting standards in effect for those periods. For our Uniforms and Related Products and Promotional Products segments, our revenue is primarily generated from the sale of finished products to customers as products are shipped and title passes to the customers. For certain contracts with customers, the Company creates an asset with *no* alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date. For these contracts, we have moved from a point in time model to an over time model in which our measure of progress is finished goods with *no* alternative use. We expect the new standard will have *no* cash impact and does *not* affect the economics of our underlying customer contracts.

We recorded a net increase in opening retained earnings of *$11.2* million as of *January 1, 2018* due to the cumulative impact of ASC *606.* The impact on revenues for the *three* months ended *June 30, 2018* was a decrease of *$2.9* million as a result of ASC *606.* The impact on revenues for the *six* months ended *June 30, 2018* was an increase of *$0.8* million as a result of ASC *606.*

The opening retained earnings adjustment is as follows (in thousands):

Net sales	$*42,880*
Cost of goods sold	*27,397*
Selling and administrative expenses	*706*
Income before taxes on income	*14,777*
Income tax expense	*3,542*
Adjustment to opening retained earnings	$*11,235*

Payment of the cumulative tax adjustment will be made over *four* years as a change in accounting method.

The following tables disaggregate our net sales by major source (in thousands):

	As Reported for Three Months Ended 6/30/2018	Balances Without Adoption of ASC 606	Effect of Change 6/30/2018
Uniform and Related Products	$ *56,403*	$ *60,001*	$ *(3,598*)
Remote Staffing Solutions	*6,975*	*6,975*	-
Promotional Products	*19,014*	*18,355*	*659*
	$ *82,392*	$ *85,331*	$ *(2,939*)

	As Reported for Six Months Ended	Balances Without Adoption of	Effect of Change

	6/30/2018	ASC 606	6/30/2018
Uniform and Related Products	$ *104,528*	$ *105,126*	$ *(598*)
Remote Staffing Solutions	*13,261*	*13,261*	-
Promotional Products	*37,690*	*36,302*	*1,388*
	$ *155,479*	$ *154,689*	$ *790*

Revenue for our Uniforms and Related Products and Promotional Products segments is recognized when the obligations under the terms of a contract with a customer are satisfied. This generally occurs when the goods are transferred to the customer. Revenue is measured as the amount of consideration we expect to receive in exchange for the goods. Sales taxes, sales discounts and customer rebates are also excluded from revenue. In accordance with ASC *606* revenue is recorded for goods that the customer is obligated to purchase under the termination terms of the contract which have *no* alternative use. Contract termination terms *may* involve variable consideration clauses such as discounts and rebates and revenue has been adjusted accordingly in our ASC *606* adjustment. Revenue from our Remote Staffing segment is recognized as services are delivered and did *not* generate an ASC *606* adjustment in the *three* or *six* month periods ended *June 30, 2018.*

The Company does *not* have any remaining performance obligations related to revenue recorded for ASC *606* for the quarter ended *June 30, 2018.*

The impact of adoption of ASC *606* on our consolidated balance sheet and statement of comprehensive income as of *June 30, 2018* is as follows (in thousands):

Balance Sheet

	As Reported 6/30/2018	Balances Without Adoption of ASC 606	Effect of Change 6/30/2018
Assets:			
Contract assets	$ *46,826*	$ -	$ *46,826*
Inventory	*67,852*	*94,692*	*(26,840*)
Prepaid and other current assets	*10,830*	*11,791*	*(961*)
Deferred taxes	*(8,900*)	*(6,014*)	*(2,886*)
Liabilities:			
Accounts payable	$ *22,337*	$ *19,841*	$ *2,496*
Other current liabilites	*11,327*	*10,023*	*1,304*

In accordance with ASC *606,* the Company has recognized contract assets of *$46.8* million as of *June 30, 2018* for goods produced without an alternative use which the Company has an enforceable right to payment but has *not* yet been invoiced to the customer.

	As Reported for Three Months Ended 6/30/2018	Balances Without Adoption of ASC 606	Effect of Change 6/30/2018
Statement of comprehensive income:			
Net sales	$ *82,392*	$ *85,331*	$ *(2,939*)
Cost of goods sold	*53,114*	*55,147*	*(2,033*)
Selling and administrative expenses	*23,327*	*23,417*	*(90*)

Balances

	As Reported for Six Months Ended 6/30/2018	Without Adoption of ASC 606	Effect of Change 6/30/2018
Statement of comprehensive income:			
Net sales	$ *155,479*	$ *154,689*	$ *790*
Cost of goods sold	*101,326*	*100,643*	*683*
Selling and administrative expenses	*44,509*	*44,531*	*(22*)

The cost of goods sold associated with our ASC *606* adjustment include the cost of the garments, alterations (if applicable) and shipping costs. Selling and administrative expenses consist of sales commissions.

NOTE 2 - Long-Term Debt:	June 30,	December 31,
(In thousands)	2018	2017
Note payable to BB&T, pursuant to revolving credit agreement, maturing May 2023	$ *9,524*	$ *1,475*
Term loan payable to BB&T maturing February 26, 2024	$ *34,500*	$ *37,500*
Term loan payable to BB&T maturing May 2020	$ *85,000*	$ -
	$ *129,024*	$ *38,975*
Less:		
Payments due within one year included in current liabilities	$ *6,000*	$ *6,000*
Debt issuance costs	$ *223*	$ *42*
Long-term debt less current maturities	$ *122,801*	$ *32,933*

Effective *March 8, 2016,* the Company entered into an amended and restated *5*-year credit agreement with Fifth Third Bank that increased its revolving credit facility from *$15* million to *$20* million and refinanced its then-existing term loan with a new *$45* million term loan to help finance the acquisition of substantially all of the assets of BAMKO, Inc. Both loans were based upon the *one*-month LIBOR rate for U.S. dollar based borrowings. Interest was payable on the term loan at LIBOR plus *0.85%* and on the revolving credit facility at LIBOR (rounded up to the next *1/8*th of *1%*) plus *0.85%.* The Company paid a commitment fee of *0.10%* per annum on the average unused portion of the commitment under the revolving credit facility. This credit agreement was paid in full on *February 28, 2017* with the proceeds from a new loan agreement with Branch Banking and Trust Company ("BB&T").

Effective *February 28, 2017,* the Company entered into a new *7*-year credit agreement with BB&T (the "Credit Agreement") that provided a new revolving credit facility of *$35* million which was to terminate on *February 25, 2022,* and provided a new term loan of *$42* million (the "Term Loan") which matures on *February 26, 2024.* Both loans were based upon the *one*-month LIBOR rate for U.S. dollar based borrowings. Interest was payable for each loan at LIBOR (rounded up to the next *1/100*th of *1%*) plus *0.75%.* The Company paid a commitment fee of *0.10%* per annum on the average unused portion of the commitment under the revolving credit facility.

Effective *May 2, 2018,* and concurrently with the closing of the CID Resources acquisition, the Company entered into an Amended and Restated Credit Agreement, dated as of *May 2, 2018 (*the "Amended and Restated Credit Agreement"), with its existing lender, BB&T pursuant to which the Company's existing revolving credit facility was increased from *$35* million to *$75* million and provided an additional term loan in the principal amount of *$85* million. *No* principal payments are due on the *$85* million term loan prior to its maturity. The term of the revolving credit facility was extended until *May 2023* and the *$85* million term loan matures in *May 2020.* The Company's existing term loan in the principal amount of *$42* million remains outstanding with a maturity date of *February 2024* and with the same amortization schedule. The scheduled amortization for the *$42* million Term Loan is as follows: *2018* through *2023 - $6.0* million per year; and *2024 - $1.5* million. The revolving credit facility, *$42* million term loan and *$85* million term loan are collectively referred to as the "Credit Facilities."

Obligations outstanding under the revolving credit facility and the *$42* million term loan generally have a variable interest rate of *one*-month LIBOR plus *0.68%* (*2.75%* at *June 30, 2018).* Obligations outstanding under the new *$85* million term loan generally have a variable interest rate of *one*-month LIBOR plus *0.93%* for the *first twelve* months after the effective date (*3.00%* at *June 30, 2018),* plus *1.5%* for the period from *thirteen* months through *eighteen* months after the effective date, plus *1.75%* thereafter. The Company is obligated to pay a commitment fee of *0.10%* per annum on the average unused portion of the commitment under the revolving credit facility and a commitment fee of *0.25%* on the outstanding balance of the *$85* million term loan on *June 1, 2019* and *December 1, 2019.* The available balance under the revolving credit facility is reduced by outstanding letters of credit. As of *June 30, 2018,* there were *no* outstanding letters of credit. The term loans do *not* contain pre-payment penalties.

The Amended and Restated Credit Agreement contains customary events of default and negative covenants, including but *not* limited to those governing indebtedness, liens, fundamental changes, investments, restricted payments, and sales of assets. The Amended and Restated Credit Agreement also requires the Company to comply with a fixed charge coverage ratio of at least *1.25:1* and a funded debt to EBITDA ratio *not* to exceed *4.0:1.* The Credit Facilities are secured by substantially all of the operating assets of the Company as collateral, and the Company's obligations under the Credit Facilities are guaranteed by all of its domestic subsidiaries. The Company's obligations under the Credit Facilities are subject to acceleration upon the occurrence of an event of default as defined in the Amended and Restated Credit Agreement. The Company is in full compliance with all terms, conditions and covenants of the Amended and Restated Credit Agreement.

In connection with the Credit Agreement and the Amended and Restated Credit Agreement, the Company incurred approximately *$0.1* million and *$0.2* million of debt financing costs respectively, which primarily consisted of a loan commitment fee and legal fees. These costs are being amortized over the life of both Credit Agreements as additional interest expense.

Effective *July 1, 2013,* in order to reduce interest rate risk on its debt, the Company entered into an interest rate swap agreement with Fifth Third Bank, N.A. that was designed to effectively convert or hedge the variable interest rate on a portion of its borrowings to achieve a net fixed rate of *2.53%* per annum, beginning *July 1, 2014* with a notional amount of *$14.3* million. The notional amount of the interest rate swap was reduced by the scheduled amortization of the principal balance of the original term loan of *$0.2* million per month through *July 1, 2015* and *$0.3* million per month through *June 1, 2018* with the remaining notional balance of *$3.3* million to be eliminated on *July 1, 2018.* Effective *March 8, 2016,* the fixed rate on the notional amount was reduced to *2.43%.* Effective *February 24, 2017,* this interest rate swap agreement was terminated. On this date the swap agreement had *$0.1* million in cumulative gains in OCI which was reversed to earnings.

Effective *March 3, 2017,* in order to reduce the interest rate risk on its future debt, the Company entered into an interest rate swap agreement ("original swap") with BB&T that was designed to effectively convert or hedge the variable interest rate on a portion of its future borrowings to achieve a net fixed rate of *3.12%* per annum, beginning *March 1, 2018* with a notional amount of *$18.0* million. The notional amount of the interest rate swap is reduced by *$0.3* million per month beginning *April 1, 2018* through *February 26, 2024.* Under the terms of the interest rate swap, the Company will receive variable interest rate payments and make fixed interest rate payments on an amount equal to the notional amount at that time. Changes in the fair value of the interest rate swap designated as the hedging instrument that effectively offset the variability of cash flows associated with the variable rate, long-term debt obligation are recorded in OCI, net of related income tax effects. On *May 2, 2018,* in conjunction with the Amended and Restated Credit Agreement, the original swap was modified ("amended swap") to achieve a net fixed rate of *3.05%* per annum effective *May 1, 2018* and the remaining notional amount is *$17.5* million. There were *no* other changes to the original swap. As a result of the change, the Company has discontinued hedge accounting for the original swap and has elected *not* to designate the amended swap. As of *May 2, 2018,* the fair value of the original swap was *$0.1* million and will be amortized as interest expense over the remaining life of the amended swap. Changes to the fair value of the amended swap will be recorded as interest expense. As of *June 30, 2018,* there was *$0.1* million related to the original swap recorded within OCI.

NOTE *3* – Periodic Pension Expense:

The following table details the net periodic pension expense under the Company's plans for the periods presented:

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Service cost - benefits earned during the period	$*27*	$*16*	$*54*	$*32*
Interest cost on projected benefit obligation	*243*	*242*	*485*	*483*

Expected return on plan assets	*(430*)	*(305*)	*(859*)	*(609*)
Recognized actuarial loss	*283*	*270*	*566*	*547*
Settlement loss	-	*277*	-	*277*
Net periodic pension cost	$*123*	$*500*	$*246*	$*730*

The service cost component is included in selling and administrative expenses and the other components are included in other periodic pension costs in our consolidated statements of comprehensive income.

Effective *June 30, 2013,* the Company *no* longer accrues additional benefits for future service or for future increases in compensation levels for the Company's primary defined benefit pension plan.

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

There were *$0.1* million and *$1.5* million in contributions made to the Company's defined benefit plans during the *three*-month period ended *June 30, 2018* and *2017,* respectively. There were *$0.1* million and *$1.5* million in contributions made to the Company's defined benefit plans during the *six*-month period ended *June 30, 2018* and *2017,* respectively.

NOTE *4* - Supplemental Cash Flow Information:

Cash paid for income taxes was *$0.7* million and *$3.7* million, respectively, for the *six*-month periods ended *June 30, 2018* and *2017.* Cash paid for interest was *$0.8* million and *$0.3* million, respectively for the *six*-month periods ended *June 30, 2018* and *2017.*

During the *three* months ended *June 30, 2018* and *2017,* respectively, the Company received *1,031* and *27,341* shares of its common stock as payment of the exercise price in the exercise of stock options for *6,000* and *71,599* shares.

During the *six* months ended *June 30, 2018* and *2017,* respectively, the Company received *6,894* and *43,841* shares of its common stock as payment of the exercise price in the exercise of stock options for *26,234* and *113,143* shares.

As a result of the adoption of ASC *606* the following amounts were recorded on *January 1, 2018: $43.3* million in contract assets, a reduction in inventory of *$24.9* million, an increase in accounts payable of *$2.6* million, an increase in other current liabilities of *$1.1* million, and a decrease in deferred tax assets of *$3.5* million.

In conjunction with the acquisition of CID, the Company issued *150,094* shares of its common stock with a fair value of *$3.8* million as part of the purchase price.

NOTE *5* – Contingencies:

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

NOTE *6* – Share-Based Compensation:

In *2003,* the stockholders of the Company approved the *2003* Incentive Stock and Awards Plan (the *"2003* Plan"), authorizing the granting of incentive stock options, non-qualified stock options, stock appreciation rights ("SARS"), restricted stock, performance shares and other stock based compensation. This plan expired in *May* of *2013,* at which time, the stockholders of the Company approved the *2013* Incentive Stock and Awards Plan (the *"2013* Plan"), authorizing the granting of incentive stock options, non-qualified stock options, SARS, restricted stock, performance shares and other stock based compensation. A total of *5,000,000* shares of common stock (subject to adjustment for expirations and cancellations of options outstanding from the *2003* Plan subsequent to its termination) have been reserved for issuance under the *2013* Plan. All options and SARS under both plans have been or will be granted with exercise prices at least equal to the fair market value of the shares on the date of grant. At *June 30, 2018,* the Company had *3,497,119* shares of common stock available for grant of share-based compensation under the *2013* Plan.

Share-based compensation is recorded in selling and administrative expense in the consolidated statements of comprehensive income. The following table details the share-based compensation expense by type of award and the total related tax benefit for the periods presented:

	Three Months Ended June 30, (In thousands)		Six Months Ended June 30, (In thousands)	
	2018	2017	2018	2017
Stock options and SARS	$*121*	$*82*	$*944*	$*747*
Restricted stock	*140*	*80*	*264*	*164*
Performance shares	*177*	*104*	*282*	*197*
Total share-based compensation expense	$*438*	$*266*	$*1,490*	$*1,108*
Related income tax benefit	$*74*	$*58*	$*185*	$*168*

Stock options and SARS

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

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

A summary of stock option transactions during the *six* months ended *June 30, 2018* follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2017	*633,877*	$ *13.33*
Granted	*98,385*	*23.67*
Exercised	*(58,058*)	*9.95*
Lapsed	-	-
Cancelled	*(1,350*)	*19.34*
Outstanding June 30, 2018	*672,854*	$ *15.12*

At *June 30, 2018,* options outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of *$4.1* million. The weighted-average remaining contractual term was *39* months.

Options exercised during the *three*-month period ended *June 30, 2018* and *2017* had intrinsic values of *$0.3* million and *$1.7* million, respectively. Options exercised during the *six*-month period ended *June 30, 2018* and *2017* had intrinsic values of *$0.9* million and *$2.3* million, respectively.

The weighted average fair values of the Company's *11,000* options granted during each of the *three*-month periods ended *June 30, 2018* and *2017* were *$10.98* and *$7.41,* respectively. The weighted average fair values of the Company's *98,385* and *101,012* options granted during each of the *six*-month periods ending *June 30, 2018* and *2017* was *$6.43* and *$5.11,* respectively.

During the *three*-month periods ended *June 30, 2018* and *2017,* respectively, the Company received *$0.1* million and *$0.7* million in cash from stock option exercises. Additionally, during the *three*-month periods ended *June 30, 2018* and *2017,* respectively, the Company received *1,031* and *27,341* shares of its common stock as payment of the exercise price in the exercise of stock options for *6,000* and *71,599* shares. During the *six*-month periods ended *June 30, 2018* and *2017,* respectively, the Company received *$0.4* million and *$0.8* million in cash from stock option exercises. Additionally, during the *six*-month periods ended *June 30, 2018* and *2017,* the Company received *6,894* and *43,841* shares of its common stock as payment of the exercise price in the exercise of stock options for *26,234* and *113,143* shares. The tax benefit recognized for these exercises during the *three*-month periods ended *June 30, 2018* and *2017* was *$0.1* million and *$0.2* million, respectively. The tax benefit recognized for these exercises during the *six*-month periods ended *June 30, 2018* and *2017* was *$0.1* million and *$0.2* million, respectively.

The following table summarizes information about stock options outstanding as of *June 30, 2018:*

Range of Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$ 3.82 - *$ 5.88*	*90,800*	*3.05*	$ *5.34*
$ 7.36 - *$10.38*	*127,767*	*1.80*	$ *7.87*
$16.35 - *$18.66*	*310,187*	*3.17*	$ *17.30*
$21.63 - *$24.28*	*144,100*	*4.83*	$ *23.02*
$ 3.82 - *$24.28*	*672,854*	*3.25*	$ *15.12*

A summary of stock-settled SARS transactions during the *six* months ended *June 30, 2018* follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2017	*146,504*	$ *17.38*
Granted	*48,515*	*23.59*
Exercised	*(12,125)*	*17.92*
Lapsed	-	-
Cancelled	-	-
Outstanding June 30, 2018	*182,894*	$ *18.99*

15

At *June 30, 2018,* SARS outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of *$0.5* million. The weighted-average remaining contractual term was *37* months.

The weighted average fair values of the Company's *48,515* and *43,988* SARS granted during the *six*-month periods ended *June 30, 2018* and *2017* was *$6.06* and *$4.83,* respectively.

There were *no* SARS exercised during the *three*-month period ended *June 30, 2018.* There were *68,698* SARS exercised during the *three*-month period ended *June 30, 2017.* SARS exercised during the *three*-month period ended *June 30, 2017* had an intrinsic value of *$0.8* million. The tax benefit recognized for the exercise during the *three*-month period ended *June 30, 2017* was *$0.3* million.

There were *12,125* and *128,062* SARS exercised during the *six*-month periods ended *June 30, 2018* and *2017,* respectively. SARS exercised during the *six*-month periods ended *June 30, 2018* and *2017* had intrinsic values of *$0.1* million and *$1.5* million, respectively. The tax benefit recognized for these exercises during each of the *six*-month periods ended *June 30, 2018* and *2017* was *$0.1* million and *$0.6* million, respectively.

The following table summarizes information about SARS outstanding as of *June 30, 2018:*

Range of Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$16.35 - *$18.66*	*134,379*	*2.58*	$ *17.33*
$23.59 - *$23.59*	*48,515*	*4.58*	$ *23.59*
$16.35 - *$23.59*	*182,894*	*3.11*	$ *18.99*

Options and SARS have never been repriced by the Company in any year.

16

The following table summarizes significant assumptions utilized to determine the fair value of options and SARS.

Three months ended June 30,	SARS	Options
Exercise price		
2018	*N/A*	$ *24.28*
2017	*N/A*	$ *18.05*
Market price		
2018	*N/A*	$ *24.28*
2017	*N/A*	$ *18.05*
Risk free interest rate[1]		
2018	*N/A*	*2.9* %
2017	*N/A*	*2.4* %
Expected award life (years)[2]		
2018	*N/A*	*10*
2017	*N/A*	*10*
Expected volatility[3]		
2018	*N/A*	*42.1* %
2017	*N/A*	*41.4* %
Expected dividend yield[4]		
2018	*N/A*	*1.6* %
2017	*N/A*	*1.9* %

Six months ended June 30,	SARS	Options
Exercise price		
2018	$ *23.59*	*$23.59 - $24.28*
2017	$ *16.97*	*$16.97 - $18.05*
Market price		