SUPERIOR GROUP OF COMPANIES, INC.
Form 10-K
February 21, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

[ ] 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 GROUP OF COMPANIES, 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)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.001 per share	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 X_____

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 X_____

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 every Interactive Data File required to be submitted 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 such files).

Yes __X___ 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. ___

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 __ Smaller Reporting Company X
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 registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ______ No X_____

At June 30, 2018, the aggregate market value of the registrant’s common shares held by non-affiliates, computed by reference to the last sales price ($20.71) as reported by the NASDAQ Stock Market, was approximately $209.3 million (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 19, 2019 was 15,343,736 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, 2018, relating to its Annual Meeting of Shareholders to be held May 3, 2019, 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 70 and 71.

PART I

References Used

References in this Form 10-K to "the Company," "Superior," "we," "our," or "us" mean Superior Group of Companies, Inc. together with its subsidiaries, except where the context otherwise requires.

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 may 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: the impact of competition; 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; our ability to identify suitable acquisition targets, successfully integrate any acquired businesses, successfully manage our expanding operations, or discover liabilities associated with such businesses in the diligence process; the price and availability of cotton and other manufacturing materials; 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 Group of Companies, 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. and its state of incorporation to Florida. In 2018, the Company changed its name to Superior Group of Companies, Inc. (“Superior” or the “Company”).

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 $32.5 million 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 $7.2 million 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 is a full-service merchandise sourcing and promotional products company based in Los Angeles. With sales offices in the United States and Brazil, as well as support offices in China, Hong Kong, and India, BAMKO serves many well-known brands. The transaction had an effective date of March 1, 2016. The purchase price for the asset acquisition consisted of approximately $15.2 million in cash, net of cash acquired, the issuance of approximately 324,000 restricted shares of Superior’s common stock that vests over a five-year period, the potential future payments of approximately $5.5 million in additional contingent consideration through 2021, and the assumption of certain liabilities of BAMKO, Inc. The transaction also included the acquisition of BAMKO’s subsidiaries in Hong Kong, China, Brazil and England as well as an affiliate in India. Depending on the context, when using the term “BAMKO” in this Form10-K, we refer either to the Company’s wholly-owned subsidiary housing the acquired business (BAMKO, LLC) or to the business acquired in the transaction, as subsequently grown through additional acquisitions.

On August 21, 2017, the Company, through BAMKO, acquired substantially all of the assets of PublicIdentity, Inc. (“Public Identity”). Public Identity is a promotional products and branded merchandise agency that provides promotional products and branded merchandise to corporate clients and universities. The purchase price consisted of $0.8 million in cash, the issuance of approximately 54,000 restricted shares of Superior’s common stock and future payments of approximately $0.4 million in additional consideration through 2020. The majority of the shares issued vest over a three-year period.

On November 30, 2017, BAMKO closed on the acquisition of substantially all of the assets of Tangerine Promotions, Ltd. and Tangerine Promotions West, Inc. (collectively, "Tangerine"), a promotional products and branded merchandise agency that serves many well-known brands. Tangerine is one of the leading providers of Point-of-Purchase (POP) and Point-of-Sale (POS) merchandise in the country. The transaction had an effective date of December 1, 2017. The purchase price for the asset acquisition consisted of approximately $7.2 million in cash, subject to adjustment, the issuance of approximately 83,000 restricted shares of Superior's common stock that vests over a four-year period, the potential future payments of approximately $5.5 million in additional contingent consideration through 2021, and the assumption of certain liabilities of Tangerine.

On May 2, 2018, the Company acquired CID Resources, Inc., a Delaware corporation ("CID"), which manufactures medical uniforms, lab coats, and layers, and sells its products to specialty uniform retailers, ecommerce medical uniform retailers, and other retailers. The purchase price of the acquisition consisted of the following: (a) approximately $84.4 million in cash, subject to adjustment for cash on hand, indebtedness, unpaid seller expenses and working capital (excluding cash), in each case as of the closing date, and (b) the issuance of 150,094 shares of the Company's common stock to an equityholder. The working capital adjustment was based on the difference between working capital as of the closing date and a target amount of approximately $39.5 million.

Superior is 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, primarily through its signature marketing brands Fashion Seal Healthcare®, HPI™ and WonderWink®, 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. Superior services its Remote Staffing Solutions segment through multiple The Office Gurus entities, including its 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 primarily purchase promotional and related products. The segment currently has sales offices in the United States and Brazil and support services in China, Hong Kong, and India.

Products

Superior manufactures (through third parties or its own facilities) and sells a wide range of uniforms, corporate identity apparel, career apparel and accessories for the medical, health, 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 for personnel of:

Hospitals and health facilities;

Hotels;
Food service facilities;
Retail stores;
General and special purpose industrial uses;
Airlines;
Public and private safety and security organizations; and
Miscellaneous service uses.

Miscellaneous products:

Directly related to uniforms and service apparel (e.g. boots and bags);
For use by linen suppliers and industrial launderers (e.g. industrial laundry bags);
For use by private safety and security organizations; and
Other miscellaneous products.

Promotional and related products to support:

Branded marketing programs;
Event promotions;
Employee rewards and incentives; and
Specialty packaging and displays

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, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, uniforms and service apparel and related products accounted for approximately 69%, 77% and 83% of net sales. During the years ended December 31, 2018, 2017 and 2016, promotional and related products accounted for approximately 23%, 16% and 11% of net sales 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 companies, such as, Crest—a division of ARAMARK Corporation, Cintas Corporation, Lands' End, Medline, Standard Textile, Strategic Partners, Inc., Twin Hill and Unifirst 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. We believe Superior is one of the leading suppliers of garments to hospitals, retailers, hotels, food service establishments, and linen suppliers. Superior experiences competition primarily based on breadth of products and services 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 solutions on an outsourced basis. These companies include, but are certainly not limited to, global providers such as APAC Customer Services, Atento, Convergys, Harte Hanks, Sitel, Sykes and Teleperformance. TOG also competes with local entities in other offshore locations. 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 BDA, Inc., HALO Branded Solutions, Inc. and Staples, Inc., We believe our creative services, product development, proprietary web platforms and 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 8.5% of that segment's 2018 net sales. The Remote Staffing Solutions segment's largest customer represented 10.7% of that segment's 2018 external revenues, and the largest customer in the Promotional Products segment represented 18.3% of that segment's net sales in 2018.

Backlog

The Uniform and Related Products segment normally completes shipments of orders from stock within three days after the receipt of the order. As of February 18, 2019, the backlog of all orders that we believe to be firm for our Uniform and Related Products segment was approximately $9.0 million, compared to approximately $7.1 million as of February 19, 2018. The backlog mostly consists of future orders which are placed well in advance of when needed and specially made to a customer's specifications. 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 $27.0 million as of February 18, 2019 as compared to $25.0 million as of February 19, 2018.

Raw Materials, Working Capital and Inventory

The principal fabrics used in our Uniforms and Related Products segment are made from cotton, polyester, wool, 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 carries substantial inventories of raw materials (principally piece goods) and finished garments, which requires substantial working capital, as we believe to be common in the industry. The segment's principal raw materials are textile products. In 2018, 2017 and 2016, approximately 25%, 34% and 32%, respectively, of the segment's products were obtained from suppliers located in Central America and Haiti, and approximately 24%, 34% and 31%, respectively, were 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, tariffs 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 cyclicality. The Promotional Products segment has flexibility in its suppliers, as other suppliers of the same or similar products are more 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, in 2018, 2017 and 2016, because approximately 28%, 67% and 59%, respectively, of the raw materials and products sourced by the Promotional Products segment came from China, economic and political conditions in China or the United States, including those resulting in the imposition or increase of import duties, tarrifs 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 trademarks, which are critically important to the marketing and operation of Superior's uniform segment, are Fashion Seal Healthcare® and WonderWink®. Fashion Seal Healthcare (presently registered with the United States Patent and Trademark Office until 2027) represents more than 23% of sales in that segment. WonderWink (presently registered with the United States Patent and Trademark Office until at least 2021) represents more than 12% of sales in that segment.

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 2,906 persons, of which 2,877 were full-time employees, as of December 31, 2018.

Securities Exchange Act Reports

The Company maintains an internet website at the following address: www.superiorgroupofcompanies.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 industries 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 and services 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 companies such as Crest - a division of ARAMARK Corporation, Cintas Corporation, Lands' End, Medline, Standard Textile, Strategic Partners, Inc., Twin Hill and UniFirst Corporation. Major competitors for our Promotional Products segment include companies such as BDA, Inc., HALO Branded Solutions, Inc., and Staples, Inc. Major competitors for our Remote Staffing Solution segment include APAC Customer Services, Atento, Convergys, Harte Hanks, Sitel, Sykes, and Teleperformance. 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 or services 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. We also compete for qualified labor in the markets in which we have locations and/or remote-based employees. 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.

Global, national or regional economic slowdowns, high unemployment levels, changes in tax laws or cost increases might have an adverse effect on our operating results.

Our primary products are used by workers and, as a result, our business prospects are dependent upon levels of employment and overall economic conditions on a global, national and regional level, 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, such as 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 negatively affect our operating results. Likewise, increases in tax rates or other changes in tax laws or other regulations can negatively affect our profitability.

Finally, 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 any 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 securities prices, diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. 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 also 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. Some of our competitors have more purchasing power than we do, which enables them to obtain products at lower costs. To remain competitive, we must adjust our prices and margins from time-to-time in response to these industry-wide pricing pressures. Additionally, increased customer demands for allowances, incentives and other forms of economic support could reduce our margins and affect our profitability. Our financial performance will 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 proportionally.

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, 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, tariffs or other restrictions caused by the changing U.S. and geopolitical environments or otherwise, such as those with respect to China, may materially harm our revenue and results of operations, such as by increasing our costs and/or limiting 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 and regulations benefit our business by reducing or eliminating the quotas, duties and/or tariffs assessed on products manufactured in a particular country. However, trade agreements and regulations can also impose requirements that have a material adverse effect on our business, revenue and results of operations, such as limiting the countries from which we can purchase raw materials, limiting the products that qualify as duty free, and setting quotas, duties and/or tariffs on products that may be imported into the United States from a particular country.

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 also may 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 or regulations 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 quotas, duties, tariffs or other restrictions on products or raw materials sourced from those countries, which include countries from which we import raw materials or in which we manufacture our products. Any such quotas, duties, tariffs or restrictions could have a material adverse effect on our business, results of operations or financial condition.

For example, in July 2018, the Trump Administration announced a list of categories of goods subject to tariffs. These tariffs became effective for certain goods in September of 2018, initially at a rate of 10%. The Trump Administration announced that these tariffs would increase to 25% in January of 2019, but subsequently indefinitely delayed that increase; it is possible that the Trump Administration could implement that, or a different, tariff rate or rescind its position on tariffs. Certain inbound products in our Uniforms and Related Products and Promotional Products segments to the United States are subject to these tariffs assessed on the manufactured cost of goods at the time of import. As a result, we have had to increase prices for certain products and may be required to raise those prices further, or raise our prices on other products, which may result in the loss of customers and harm our operating performance. We also have shifted some production out of China and may seek to shift additional production out of China, which may result in additional costs and disruption to our operations. Additionally, the Trump Administration continues to signal that it may alter trade agreements and terms between China and the United States, including limitations of trade. It is possible further tariffs will be imposed on imports of our products, or that our business will be impacted further by retaliatory trade measures taken by China or other countries in response to existing or future tariffs.

The apparel industry, including uniforms and corporate identity apparel, 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, in general, less subject to fashion trends compared to many other apparel manufacturers because the majority of what we manufacture and sell are uniforms, scrubs, 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® and WonderWink® marks are critically important to our business, as more than 23% and 12%, respectively, of our Uniform and Related Products segment's products are sold under those names. 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 do 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 pursue acquisitions from time-to-time 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 industries 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.

Acquisition valuations require us to make certain estimates and assumptions to determine the fair value of the acquired entities (including the underlying assets and liabilities). If our estimates or assumptions to value the acquired assets and liabilites are not accurate, we may be exposed to losses, and/or unexpected usage of cash flow to fund the operations of the acquired operations that may be material.

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 facility 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 and in disruption to our operations, and may require a disproportionate amount of our management’s attention, any of which could negatively impact our ability to achieve anticipated benefits, such as revenue and cost synergies. Growth of our business through acquisition generally increases our operating complexity and the level of responsibility for both existing and new management personnel. Managing and sustaining our growth and expansion may require substantial enhancements to our operational and financial systems and controls, as well as additional administrative, operational and financial resources. We may be required to invest in additional support personnel, facilities and systems to address the increased complexities associated with business or segment expansion. These investments could result in higher overall operating costs and lower operating profits for the business as a whole. There can be no assurance that we will be successful in integrating acquired businesses or managing our expanding operations.

In addition, although we conduct due diligence investigations prior to each acquisition, there can be no assurance that we will discover or adequately protect against all material liabilities of an acquired business for which we may be responsible as a successor owner or operator. The failure to identify suitable acquisitions, successfully integrate these acquired businesses, successfully manage our expanding operations, or to discover liabilities associated with such businesses in the diligence process, could adversely affect our business, results of operations or financial condition.

In order to finance such acquisitions, we may need to obtain additional funds either through public or private financings, including bank and other secured and unsecured borrowings and/or the issuance of equity or debt securities. There can be no assurance that such financings would be available to us on reasonable terms. Any future issuances of equity securities or debt securities with equity features may be dilutive to our shareholders.

If our information technology systems suffer interruptions or failures, including as a result of cyber-attacks, our business operations could be disrupted and our reputation could suffer.

We rely on information technology systems to process transactions, communicate with customers, manage our business, and process and maintain information. The measures we have in place to monitor and protect our information technology systems might not provide sufficient protection from catastrophic events, power surges, viruses, malicious software (including ransomware), attempts to gain unauthorized access to data or other types of cyber-based attacks. As cyber-attacks become more frequent, sophisticated, damaging and difficult to predict, any such event could negatively impact our business operations, such as by product disruptions that result in an unexpected delay in operations, interruptions in our ability to deliver products and services to our customers, loss of confidential or otherwise protected information, corruption of data, and expenses related to the repair or replacement of our information technology 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.

Our indebtedness may limit cash flow available to invest in the ongoing needs of our business.

Our outstanding indebtedness, including the term loan with Branch Banking & Trust Company we restructured in January 2019, may have negative consequences on our business, such as requiring us to dedicate a sizable portion of our cash flow from operations to the payment of debt service, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, dividend increases, stock buybacks and other general corporate purposes, and increasing our vulnerability to adverse economic or industry conditions.

Pledged as collateral under our indebtedness are substantially all of the assets of the Company. Our credit agreement requires compliance with certain financial ratios and covenants and satisfaction of specified financial tests. Failure to meet any financial ratios, covenants or financial tests could result in an event of default under our credit agreement. If an event of default occurs, our lender could increase our borrowing costs, restrict our ability to obtain additional borrowings under our line of credit, accelerate all amounts outstanding, or enforce its interest against collateral pledged under the credit agreement.

Potential transition from LIBOR as a benchmark borrowing rate.

On July 27, 2017, the U.K. Financial Conduct Authority (the "FCA"), which regulates the London interbank offered rate ("LIBOR"), announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021, and LIBOR may be discontinued or modified by 2021.

Interest rates on the Company's current debt instruments are benchmarked against LIBOR. These debt instruments mature after December 31, 2021, which is the date at which banks are expected to stop reporting the data used to create this benchmark reference rate. While there is a general industry expectation that a new benchmark rate known as the Secured Overnight Financing Rate ("SOFR") will be used instead, it is uncertain how many or which industry participants will switch from one benchmark rate to another or whether a benchmark other than SOFR will become prevalent. Further, the Company's debt instruments do not currently identify an alternative benchmark rate to replace LIBOR, nor is the impact of such a change determinable. The transition to SOFR or any other benchmark rate may impact interest rates on the Company's borrowings, including its corporate debt and interest-rate swap. If the impact is significantly adverse, the Company's ability to service its debt or comply with its debt covenants could be jeopardized.

Further, a change from LIBOR to another indexed benchmark rate may affect companies or individuals with exposure to LIBOR with whom the Company relies upon to conduct business, such as its current banking institutions, vendors, customers, brokers/dealers, investment companies or investment advisors. Adverse impacts on any market participants on whom the Company relies to conduct business or access capital markets could significantly affect the Company's business operations and cash flow.

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, 2018, we had approximately $8.8 million in unfunded or underfunded obligations related to our pension plans, compared to $8.4 million as of December 31, 2017.

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 and regulations 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 2018, 2017 and 2016, approximately 24%, 34% and 31%, respectively, of products for our Uniform and Related Products segment were sourced from China. In 2018, 2017 and 2016, approximately 25%, 34% and 32%, respectively, of products for our Uniform and Related Products segment were obtained from suppliers located in Central America and Haiti. In 2018, 2017 and 2016, approximately 28%, 67% and 59% respectively, of our products for our Promotional Products segment were sourced from China. If we are unable to continue to obtain our products from the countries from which we obtain products, such as China, El Salvador, and 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. **See also** "***Changes to trade regulation, quotas, duties, tariffs or other restrictions caused by the changing U.S. and geopolitical environments or otherwise, such as those related to trade with respect to China, may materially harm our revenue and results of operations, such as by increasing our costs and/or limiting the amount of products that we can import.***"

Our business may be impacted by adverse weather 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 our company, such as by damage to, or total destruction of our headquarters, surrounding transportation infrastructure, network communications, and other forms of communication. Some of our other locations and those of our suppliers, such as those located in Central America and Haiti, are exposed to hurricanes, earthquakes, and other weather events or unpredicted events; the damages that such events could produce could affect the supply of our products and services. In addition, similar disruptions to the business of our customers located in areas affected by hurricanes, earthquakes, and other weather events or unpredicted events may adversely impact sales of our products and services.

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, enterprise risk 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, might take longer than expected to realize the anticipated benefits, might fail, or might cost more than anticipated.

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

Our Remote Staffing Solutions business and growth within that segment 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.

We may recognize impairment charges, which could adversely affect our financial condition and results of operations.

We assess our goodwill and other intangible assets and our long-lived assets for impairment when required by U.S. Generally Accepted Accounting Principles (U.S. GAAP). These accounting principles require that we record an impairment charge if circumstances indicate that the asset carrying values exceed their estimated fair values. The estimated fair value of these assets is impacted by general economic conditions in the locations in which we operate. Deterioration in these general economic conditions may result in: declining revenue, which can lead to excess capacity and declining operating cash flow; reductions in management's estimates for future revenue and operating cash flow growth; increases in borrowing rates and other deterioration in factors that impact our weighted average cost of capital; and deteriorating real estate values. If our assessment of goodwill, other intangible assets or long-lived assets indicates an impairment of the carrying value for which we recognize an impairment charge, this may adversely affect our consolidated financial condition and consolidated results of operations.

If we are unable to accurately predict our future tax liabilities or become subject to increased levels of taxation or our tax contingencies are unfavorably resolved, our results of operations and financial condition could be adversely affected.

The United States recently adopted tax reform legislation commonly known as the Tax Cuts and Jobs Act, which imposes a new tax on our non-U.S. operations. The U.S. tax changes also provide flexibility related to repatriating non-U.S. earnings to the United States without additional U.S. taxation, and as a result, we have changed classification of certain earnings that were previously deemed to be permanently reinvested offshore and recorded deferred tax liabilities for the associated withholding taxes. Other changes in tax laws or regulations in the jurisdictions in which we do business, including the United States, or changes in how the Tax Cuts and Jobs Act or other tax laws are implemented or interpreted, could further impact our effective tax rate, further restrict our ability to repatriate undistributed offshore earnings, or impose new restrictions, costs or prohibitions on our current practices and reduce our net income and adversely affect our cash flows.

We are also subject to tax audits in the United States and other jurisdictions and our tax positions may be challenged by tax authorities. Although we believe that our current tax provisions are reasonable and appropriate, there can be no assurance that these items will be settled for the amounts accrued, that additional tax exposures will not be identified in the future or that additional tax reserves will not be necessary for any such exposures. Any increase in the amount of taxation incurred as a result of challenges to our tax filing positions could result in a material adverse effect on our business, results of operations and financial condition.

Certain existing shareholders have significant control.

At December 31, 2018, our executive officers, Directors, and certain of their family members collectively owned 34.9% 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, 2018, the Company owned or leased approximately 30 facilities containing an aggregate of approximately 1,249,000 square feet located in the United States, Central America, South America, Haiti and Asia, which are used for manufacturing, distribution, call and customer service centers, and office space supporting our Uniforms and Related Products, Remote Staffing Solutions, and Promotional Products segments. Our owned facilities total approximately 453,000 square feet, including our 66,000 square feet corporate headquarters in Seminole, Florida (which also houses a call center and is involved with all of our segments), 290,000 square feet warehousing and distribution locations in Alpharetta and Gainesville, GA, and in Dallas, TX (used in conjunction with our Uniforms and Related products segment) and 43,000 square feet call center in El Salvador (which serves our Remote Staffing Solutions segment). Our principal Promotional Products locations are leased office space in Los Angeles, CA and Chicago, IL; we also lease office space for use with this segment in other countries, including Brazil, India and China. Our distribution center in Eudora, AR is used primarily for our Uniforms and Related Products segment, and 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 2018 and 2017 as reported in the consolidated transaction reporting system of the NASDAQ Stock Market.

QUARTER ENDED	
2018	2017