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			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Common Shares:								
High	$28.49	$27.79	$22.36	$19.49	$19.69	$23.33	$23.63	$28.85
Low	$22.94	$19.69	$18.00	$15.30	$16.65	$17.13	$20.70	$22.24
Dividends (total for 2018 $.40; 2017-$0.37)	$0.095	$0.095	$0.100	$0.100	$0.088	$0.088	$0.095	$0.095

We declared cash dividends of $0.095 per share in the first and second quarters and $0.10 per share in the third and fourth quarters during the fiscal year ended December 31, 2018.

We intend to pay regular quarterly distributions to our holders of common shares, the amount of which may change from time to time; however, there can be no assurances that we will in fact pay such distributions on a regular basis. Future distributions will be declared and paid at the discretion of our Board of Directors, and will depend upon cash generated by operating activities, our financial condition, capital requirements, and such other factors as our Board of Directors deem relevant.

Under our credit agreement with Branch Banking and Trust Company (“BB&T”), if an event of default exists, we may not make distributions to our shareholders. The Company is in full compliance with all terms, conditions and covenants of its credit agreement.

On February 19, 2019, we had 145 shareholders of record and the closing price for our common shares on the NASDAQ Stock Market was $18.00 per share.

Information regarding the Company’s equity compensation plans is incorporated by reference to the information set forth in Item 12 of Part III of this Form 10-K under the section entitled “Equity Compensation Plan Information.”

Stock Performance Graph

The following graph shows a five-year comparison of the cumulative total return on $100 invested in our common stock, The NASDAQ Composite Index and The NYSE MKT Wholesale and Retail Trade Index, which is comprised of all NYSE American companies with SIC codes from 5000 through 5999.

The graph illustrates the cumulative values at the end of each succeeding fiscal year resulting from the change in the stock price, assuming a reinvestment of dividends. Over the five year period, $100 invested in Superior Group of Companies, Inc. stock grew to $253.00, compared to $165.84 for the NASDAQ Composite Index and $69.70 for the NYSE Wholesale and Retail Trade Index.

	12/13	12/14	12/15	12/16	12/17	12/18
Superior Group of Companies	100.00	195.57	230.19	271.13	375.80	253.00
NASDAQ Composite	100.00	114.62	122.81	133.19	172.11	165.84
NYSE MKT Wholesale and Retail Trade Index	100.00	88.15	64.62	76.62	75.93	69.70

Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases made by or on behalf of Superior Group of Companies, Inc. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common shares during the three months ended December 31, 2018.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[1]
Month #1 (October 1, 2018 to October 31, 2018)	60,666	$ $18.54	60,666	
Month #2 (November 1, 2018 to November 30, 2018)	57,315	$ $18.19	57,315	
Month #3 (December 1, 2018 to December 31, 2018)	26,044	$ $18.07	26,044	
TOTAL	144,025	$ $18.32	144,025	58,216

[1]On August 1, 2008, the Company's Board of Directors approved an increase to the outstanding authorization to allow for the repurchase of 1,000,000 additional shares of the Company's outstanding shares of common stock. There is no expiration date or other restriction governing the period over which we can make our share repurchases under the program. All such purchases were open market transactions.

Under our Credit Agreement with Branch Banking and Trust Company, if an event of default exists, we may not make distributions to our shareholders. The Company is in full compliance with all terms, conditions and covenants of the Credit Agreement.

Item 6. Selected Financial Data

You should read the following selected consolidated financial data together with our consolidated financial statements and the related notes and with "Item 7" - Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-K.

We have derived the consolidated statement of operations data for the years ended December 31, 2018, 2017, and 2016 and the consolidated balance sheet data as of December 31, 2018 and 2017 from our audited consolidated financial statements, which are included elsewhere in this Form 10-K. We have derived the consolidated statements of operations data for the years ended December 31, 2015 and 2014 and the consolidated balance sheet data as of December 31, 2016, 2015, and 2014 from our audited consolidated financial statements that are not included in this Form 10K. Our historical results for any prior period are not indicative of results to be expected in any future period.

SUPERIOR GROUP OF COMPANIES, INC. AND SUBSIDIARIES

FIVE YEAR FINANCIAL SUMMARY
YEARS ENDED DECEMBER 31,
(In thousands, except per share amounts)

	2018	2017	2016	2015	2014
Net sales	$346,350	$266,814	$252,596	$210,317	$196,249
Costs and expenses:					
Cost of goods sold	224,653	170,462	165,614	138,884	127,512
Selling and administrative expenses	96,710	70,592	65,124	52,018	50,724
Other periodic pension costs	385	1,224	1,272	-	-
Interest expense	3,207	802	688	519	484
	324,955	243,080	232,698	191,421	178,720
Gain on sale of property, plant and equipment	-	1,048	-	-	-
Income before taxes on income	21,395	24,782	19,898	18,896	17,529
Income tax expense	4,420	9,760	5,260	5,830	6,180
Net income	$16,975	$15,022	$14,638	$13,066	$11,349
Per Share Data:					
Basic					
Net income	$1.14	$1.04	$1.04	$0.95	$0.85
Diluted					
Net income	$1.10	$0.99	$0.98	$0.90	$0.82
Cash dividends per common share	$0.390	$0.365	$0.340	$0.315	$0.285

At year end:					
Total assets	$335,086	$218,938	$196,848	$151,731	$139,937
Long-term debt	$111,522	$32,933	$36,227	$21,131	$22,660
Working capital	$150,819	$95,315	$93,107	$79,380	$77,191
Shareholders' equity	$150,921	$124,968	$110,550	$92,690	$80,412

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements, which present our results of operations for the years ended December 31, 2018, 2017 and 2016, as well as our financial positions at December 31, 2018 and 2017, contained elsewhere in this Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-K, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the "Special Note Regarding Forward Looking Statements" and "Risk Factors" sections of this Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Recent Acquisitions

As described in "Item 1. Business – Overview," on March 8, 2016, the Company closed on the acquisition of substantially all of the assets of BAMKO, Inc. with an effective date of March 1, 2016. BAMKO is a full-service merchandise sourcing and promotional products company based in Los Angeles, CA. The purchase price for the asset acquisition consisted of approximately $15.2 million 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. Depending on the context, when using the term "BAMKO" in this Form 10-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, 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"). The transaction had an effective date of December 1, 2017. Tangerine is a promotional products and branded merchandise agency that serves many well-known brands. The company is one of the leading providers of Point-of-Purchase (POP) and Point-of-Sale (POS) merchandise in the country. 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 uniforms, lab coats, and layers, and sells its products to specialty uniform retailers, ecommerce medical uniform retailers, and other retailers. The purchase price in 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 of CID. 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.

Business Outlook

Uniforms and Related Products

Historically, we have manufactured and sold a wide range of uniforms, career apparel and accessories, which comprises our Uniforms and Related Products segment. Our primary products are provided to workers and, as a result, our business prospects are dependent upon levels of employment and overall economic conditions, among other factors. Our revenues are impacted by our ability to attract and retain new customers, our customers' opening and closing of locations and reductions and increases in headcount. Additionally, voluntary employee turnover at our customers can have a significant impact on our business. The current economic environment in the United States is continuing to see moderate improvement in the employment environment and voluntary employee turnover has been increasing. We also continue to see an increase in the demand for employees in the healthcare sector and our acquisition of CID provides us with a market to sell Fashion Seal Healthcare apparel to retail stores and into the digital marketplace. These factors are expected to have positive impacts on our prospects for growth in net sales in 2019.

We have continued our efforts to increase penetration of the health care market. We have been and continue to pursue acquisitions to increase our market share in the Uniforms and Related Products segment.

Remote Staffing Solutions

This business segment, which operates in El Salvador, Belize and the United States, was initially started to provide remote staffing services for the Company at a lower cost structure in order to improve our own operating results. It has in fact enabled us to reduce operating expenses in our Uniforms and Related Products segment and to more effectively service our customers' needs in that segment. We began selling remote staffing services to other companies during 2009. We have grown this business from approximately $1.0 million in net sales to outside customers in 2010 to approximately $27.3 million in net sales to outside customers in 2018. We have spent significant effort over the last several years improving the depth of our management infrastructure and expanding our facilities in this segment to support significant growth. We increased net sales to outside customers by approximately 42%, 34%, and 20% in 2018, 2017 and 2016, respectively.

Promotional Products

We have been involved in the sale of promotional products, on a limited basis, to our Uniforms and Related Products customers for over a decade. However, we lacked the scale and expertise to be a recognized name in this market prior to our acquisition of substantially all of the assets of BAMKO effective March 1, 2016. BAMKO has been operating in the promotional products industry for more than 15 years and we believe that BAMKO's strong back office and support systems located in India, China and Hong Kong, as well as their "direct to factory" sourcing operations provide us with a competitive advantage. We believe that BAMKO has well developed systems and processes that can serve as a platform for additional acquisitions that we expect to complete in this highly fragmented market. We completed two additional acquisitions in this segment in late 2017. We believe promotional products are a synergistic fit with our uniform business.

Year Ended December 31, 2018 vs. 2017

Operations

Net Sales

(In thousands, except percentages)

	2018	2017	% Change	
Uniforms and Related Products	$238,165	$204,644	16.4	%
Remote Staffing Solutions	31,311	23,021	36.0	
Promotional Products	80,913	42,904	88.6	
Net intersegment eliminations	(4,039)	(3,755)	7.6	
Consolidated Net Sales	$346,350	$266,814	29.8	%

Net Sales

Net sales for the Company increased 29.8% from $266.8 million in 2017 to $346.4 million in 2018. The aggregate increase in net sales is attributed to the acquisitions of Public Identity on August 21, 2017, Tangerine on December 1, 2017 and CID Resources on May 2, 2018 (contributing 28.9%), an increase in net sales after intersegment eliminations for our Remote Staffing Solutions segment (contributing 3.0%) and an increase in net sales from our Promotional Products segment (contributing 1.1%); partially offset by other decreases from our Uniforms and Related Products segment (contributing 3.2%).

Uniforms and Related Products net sales increased 16.4% in 2018 compared to 2017. The increase is primarily due to the CID acquisition (contributing 20.5%); partially offset by other net decreases in sales to new and existing customers (contributing 7.1%).

Remote Staffing Solutions net sales increased 36.0% before intersegment eliminations and 41.6% after intersegment eliminations for the year ended December 31, 2018 compared to the year ended December 31, 2017. These increases are attributed to continued market penetration in 2018, with respect to both new and existing customers.

Promotional Products net sales increased 88.6% in 2018 compared to 2017. The increase is primarily due to the two acquisitions in the latter part of 2017 (contributing 81.5%) and other increases (contributing 1.5%). As we have noted in the past, net sales in this segment will tend to fluctuate more significantly than our Uniforms and Related Products segment from quarter to quarter.

Cost of Goods Sold

Cost of goods sold consists primarily of direct costs of acquiring inventory, including cost of merchandise, inbound freight charges, purchasing costs, and inspection costs for our Uniforms and Related Products and Promotional Products segments. Cost of goods sold for our Remote Staffing Solutions segment includes salaries and payroll related benefits for agents. The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with out-bound freight are generally recorded in cost of goods sold. Other shipping and handling costs are included in selling and administrative expenses.

As a percentage of net sales, cost of goods sold for our Uniforms and Related Products segment was 64.8% in 2018 and 64.6% in 2017. The increase is primarily due to changes in customer and product mix: partially offset by the acquisition of CID which tends to have higher gross margins. Exclusive of the results from CID, our Uniform Segment would have had cost of goods sold as a percentage of net sales of 65.8% for the year ended December 31, 2018.

As a percentage of net sales, cost of goods sold for our Remote Staffing Solutions segment was 42.8% in 2018 and 45.9% in 2017. The percentage decrease in 2018 as compared to 2017 is primarily attributed to an increase in the percentage of revenue coming from the offshore portion of revenue which has higher gross margins.

As a percentage of net sales, cost of goods sold for our Promotional Products segment was 72.0% in 2018 and 67.7% in 2017. The increase as a percentage of net sales is primarily attributed to the acquisition of Tangerine, which has lower gross margins compared to the other operating divisions in the segment. Exclusive of the results from Tangerine, our Promotional Products segment would have had cost of goods sold as a percentage of net sales of 67.3% for the year ended December 31, 2018. In addition, cost of goods sold as a percentage of revenue for this segment can fluctuate from quarter to quarter based on the service requirements of individual contracts that shipped during the quarter.

Selling and Administrative Expenses

As a percentage of net sales, selling and administrative expenses for our Uniforms and Related Products segment approximated 28.9% in 2018 and 25.9% in 2017. Included within these expenses for 2018 was approximately $2.1 million associated with the CID acquisition. CID's selling and administrative expenses were approximately 34.9% of CID's net sales for the year ended December 31, 2018 and included amortization expense for intangible assets as a result of the acquisition. Also, due to the nature of CID's business, it tends to have higher selling and marketing expenses than our other uniform businesses. Exclusive of acquisition related expenses and CID's selling and administrative expenses, selling and administrative expenses for the Uniform and Related Products segment as a percentage of net sales would have been 26.5%. This increase is attributed to lower net sales to cover operating expenses (contributing 1.1%) and losses on investments related to the supplemental executive retirement plan (contributing 0.3%) partially offset by lower salaries, wages, bonuses and related expenses (contributing 0.5%) and lower amortization of non-compete agreements (contributing 0.3%).

As a percentage of net sales, selling and administrative expenses for our Remote Staffing Solutions segment approximated 35.6% in 2018 and 34.2% in 2017. The increase is primarily attributed to investments in the business to support continued sales growth.

As a percentage of net sales, selling and administrative expenses for our Promotional Products segment were 23.9% in 2018 and 28.4% in 2017. The decrease is primarily related to higher net sales to cover operating costs for the year ended December 31, 2018. In addition, the decrease is a result of fair market value adjustments for the acquisition related contingent liabilities (contributing 1.9%). These decreases were partially offset by higher amortization expense due to the acquisitions in 2017 (contributing 1.6%).

Other Periodic Pension Costs

Other periodic pension costs decreased from $1.2 million in 2017 to $0.4 million in 2018. The decrease was primarily due to lower settlement losses and higher expected return on plan assets in 2018.

Gain on Sale of Property, Plant and Equipment

In the quarter ended March 31, 2017, we sold our former call center building and related assets in El Salvador in our Remote Staffing Solutions segment for net proceeds of $2.8 million and realized a gain on sale of $1.0 million.

Interest Expense

Interest expense increased to $3.2 million for the year ended December 31, 2018 from $0.8 million for the year ended December 31, 2017 primarily due to increased borrowing related to the May 2, 2018 acquisition of CID and higher interest rates.

Income Taxes

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (“Tax Act”) that instituted fundamental changes to the U.S. tax system. The Tax Act includes changes to the taxation of foreign earnings by implementing a dividend exemption system, expansion of the current anti-deferral rules, a minimum tax on low-taxed foreign earnings and new measures to deter base erosion. The Tax Act also permanently reduces the corporate tax rate from 34% to 21%, imposes a one-time mandatory transition tax on the historical earnings of foreign affiliates and implements a territorial style tax system. As a result of the transition tax under the Tax Act, the Company will no longer consider its undistributed earnings from foreign subsidiaries as indefinitely reinvested and has provided a deferred tax liability primarily for foreign withholding taxes that would be expected to apply when the foreign subsidiaries distribute such earnings as dividends to the Company in the United States. The Tax Act imposes a U.S. tax on global intangible low taxed income (“GILTI”) that is earned by certain foreign affiliates owned by a U.S. shareholder. The computation of GILTI is still subject to interpretation and while clarifying guidance was recently released, more is expected. GILTI is generally intended to impose tax on the earnings of a foreign corporation that are deemed to exceed a certain threshold return relative to the underlying business investment. In accordance with guidance issued by FASB, the Company has made a policy election to treat future taxes related to GILTI as a current period expense in the reporting period in which the tax is incurred. The Company will be impacted by GILTI relative to the earnings of its foreign subsidiaries in 2018 and beyond, which may be material to our consolidated financial statements.

The effective tax rate was 20.7% and 39.4% in the year ended December 31, 2018 and 2017, respectively. The 18.7% decrease in the effective tax rate between years is attributed primarily to the reduction in corporate tax rate (contributing 13.0%), the 2017 transition tax (contributing 6.7%), the 2017 revaluation of deferred taxes (contributing 6.9%), and an increase in the benefit of foreign sourced income (contributing 2.3%); partially offset by the addition of the GILTI tax (contributing 2.7%), a decrease in the excess tax benefit associated with share based compensation (contributing 6.9%) and other minor increases (contributing 0.6%).

The effective tax rate may vary from quarter to quarter due to unusual or infrequently occurring items, the resolution of income tax audits, changes in tax laws, the tax impact from employee share-based payments, taxes incurred in connection to the territorial style tax system, or other items.

For further discussion of changes in the effective tax rate, refer to the Note 7 to the Consolidated Financial Statements.

Year Ended December 31, 2017 vs. 2016

<u>Operations</u>

Net Sales

(In thousands, except percentages)

	2017	2016	% Change
Uniforms and Related Products	$204,644	$210,373	(2.7)%
Remote Staffing Solutions	23,021	17,953	28.2
Promotional Products	42,904	27,816	54.2
Net intersegment eliminations	(3,755)	(3,546)	5.9
Consolidated Net Sales	$266,814	$252,596	5.6 %

Net Sales

Net sales for the Company increased 5.6% from $252.6 million in 2016 to $266.8 million in 2017. The aggregate increase in net sales is attributed to the acquisitions of BAMKO effective March 1, 2016, Public Identity on August 21, 2017, and Tangerine on December 1, 2017 (contributing 6.0%), increases in net sales after intersegment eliminations from our Remote Staffing Solutions segment (contributing 1.9%), partially offset by a reduction in net sales from our Uniforms and Related Products segment (contributing a decrease of 2.3%).

Uniforms and Related Products net sales decreased 2.7% in 2017 compared to 2016. The decrease in net sales in this segment is attributed to several factors. One of our larger customers was acquired by one of its competitors in 2016. The acquiring company was serviced by a different uniform provider that has taken over this account. We will continue to service this customer at a reduced rate. The net reduction from this customer was approximately $4.6 million. The reduction of recurring sales to this customer was partially offset by sales of remaining inventory in the second quarter. Finally, one of our large customers elected not to repeat two large promotional uniform programs that have been a part of their business for several years now. This resulted in a decrease in net sales of approximately $2.9 million. These decreases were partially offset by continued market penetration and increases in voluntary employee turnover.

Remote Staffing Solutions net sales increased 28.2% before intersegment eliminations and 33.7% after intersegment eliminations in 2017. These increases are attributed to continued market penetration in 2017, both with respect to new and existing customers.

Promotional Products net sales increased 54.2% in 2017 compared to the period from the BAMKO acquisition date of March 1, 2016 through December 31, 2016. The increase is partially due to two additional months of sales in 2017 (contributing 23.0%), and two acquisitions in the latter part of 2017 (contributing 16.0%). The balance of the increase is primarily due to new customer acquisitions and expanded programs with existing customers.

Cost of Goods Sold

Cost of goods sold consists primarily of direct costs of acquiring inventory, including cost of merchandise, inbound freight charges, purchasing costs, and inspection costs for our Uniforms and Related Products and Promotional Products segments. Cost of goods sold for our Remote Staffing Solutions segment includes salaries and payroll related benefits for agents. The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with out-bound freight are generally recorded in cost of goods sold. Other shipping and handling costs are included in selling and administrative expenses.

As a percentage of net sales, cost of goods sold for our Uniforms and Related Products segment was 64.6% in 2017 and 66.7% in 2016. The decrease as a percentage of net sales is primarily attributed to a decrease in direct product costs as a percentage of net sales during 2017.

As a percentage of net sales, cost of goods sold for our Remote Staffing Solutions segment was 45.9% in 2017, and 46.4% in 2016. The percentage decrease in 2017 as compared to 2016 is primarily attributed to a decrease in the percentage of segment revenue coming from the domestic portion of our Remote Staffing Solutions segment from 29.2% in 2016 to 19.8% in 2017. The hourly rates charged for domestic services are higher than offshore services but the margin percentage earned is lower.

As a percentage of net sales, cost of goods sold for our Promotional Products segment was 67.7% in 2017 and 65.2% in 2016. Cost of goods sold as a percentage of revenue for this segment can fluctuate based on the service requirements of individual contracts.

Selling and Administrative Expenses

As a percentage of net sales, selling and administrative expenses for our Uniforms and Related Products segment approximated 25.9% in 2017 and 24.2% in 2016. The increase as a percentage of net sales was primarily due to lower net sales in 2017 to cover operating expenses (contributing 0.7%) and increased salaries, wages and benefits exclusive of medical costs (contributing 0.5%), higher bad debt expense due primarily to a customer bankruptcy (contributing 0.3%) and other minor increases (contributing 0.4%). These increases were partially offset by lower medical claims in 2017 (contributing 0.2%).

As a percentage of net sales, selling and administrative expenses for our Remote Staffing Solutions segment approximated 34.2% in 2017 and 34.0% in 2016. The increase as a percentage of net sales is attributed primarily to an increase in payroll related costs (contributing 3.3%), higher broker fees (contributing 1.1%), higher facilities costs and depreciation due to our expanded facility in El Salvador (contributing 2.2%) and other minor increases (contributing 3.4%). These increases were mostly offset by higher net sales to cover operating expenses (contributing 9.8%).

As a percentage of net sales, selling and administrative expenses for our Promotional Products segment were 28.4% in 2017 and 37.3% from the BAMKO acquisition date of March 1, 2016 through December 31, 2016. Included within these expenses for 2017 was approximately $0.3 million in of expenses for acquisitions. Included within these expenses for 2016 was approximately $1.1 million of expenses associated with the BAMKO acquisition. Net of these acquisition related expenses, selling and administrative expenses would have been 27.3% of net sales in 2017 and 33.2% of net sales in 2016. The decrease is primarily related to higher sales to cover operating costs, partially offset by a higher payroll related costs (contributing 1.8%) and a lower gain on foreign currency (contributing 0.9%).

Gain on Sale of Property, Plant and Equipment

In the quarter ended March 31, 2017, we sold our former call center building and related assets in El Salvador in our Remote Staffing Solutions segment for net proceeds of $2.8 million and realized a gain on sale of $1.0 million.

Interest Expense

Interest expense increased to $0.8 million for the year ended December 31, 2017 from $0.7 million for the year ended December 31, 2016. This increase is attributed primarily to higher average borrowings outstanding primarily due to the BAMKO acquisition.

Income Taxes

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (“Tax Act”) that instituted fundamental changes to the U.S. tax system. The Tax Act includes changes to the taxation of foreign earnings by implementing a dividend exemption system, expansion of the current anti-deferral rules, a minimum tax on low-taxed foreign earnings and new measures to deter base erosion. The Tax Act also permanently reduces the corporate tax rate from 34% to 21%, imposes a one-time mandatory transition tax on the historical earnings of foreign affiliates and implements a territorial style tax system. The impacts of these changes are reflected in the 2017 tax expense which resulted in a provisional charge of approximately $4.0 million, which is subject to adjustment given the provisional nature of the charge. This resulted in an effective tax rate higher than the statutory rate in 2017. As a result of the transition tax under The Act, the Company will no longer consider its undistributed earnings from foreign subsidiaries as indefinitely reinvested and has provided a deferred tax liability primarily for foreign withholding taxes that would be expected to apply when the Company dividends these earnings back to the United States. The effective income tax rate in 2017 was 39.4% and in 2016 was 26.4%. The 13.0% increase in the effective tax rate is attributed primarily to the Tax Act (contributing 17.1%) and other increases (contributing 0.1%), partially offset by an increase in the benefit of foreign sourced income (contributing 1.4%) and an increase in the excess tax benefit associated with share based compensation (contributing 2.8%).

The Tax Act imposes a U.S. tax on global intangible low taxed income (“GILTI”) that is earned by certain foreign affiliates owned by a U.S. shareholder. The computation of GILTI is generally intended to impose tax on the earnings of a foreign corporation that are deemed to exceed a certain threshold return relative to the underlying business investment. In accordance with guidance issued by FASB, the Company has made a policy election to treat future taxes related to GILTI as a current period expense in the reporting period in which the tax is incurred.

For further discussion of changes in the effective tax rate, refer to the Note 7 to the Consolidated Financial Statements.

Liquidity and Capital Resources

Overview

Management uses a number of standards in measuring the Company’s liquidity, such as: working capital, profitability ratios, long-term debt as a percentage of long-term debt and equity, and activity ratios. The strength of the Company’s balance sheet provides the ability to pursue acquisitions, to invest in new product lines and technologies, and to invest in additional working capital as necessary. As of December 31, 2018, approximately $4.8 million of our cash is held in our foreign subsidiaries. As a result of the Tax Act, the Company no longer intends to permanently reinvest its historical foreign earnings and plans to repatriate the funds as needed for liquidity.

The Company’s primary source of liquidity has been its net income and the use of credit facilities and term loans as described further below. In the future, the Company may continue to use credit facilities and other secured and unsecured borrowings as a source of liquidity. The Company may also begin relying on the issuance of equity or debt securities. There can be no assurance that any 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. Additionally, the cost of the Company’s future sources of liquidity may differ from the costs of the Company’s sources of liquidity to date.

Balance Sheet

Accounts receivable-trade increased 26.6% from $50.6 million on December 31, 2017 to $64.0 million on December 31, 2018. $7.6 million of the increase is due to the acquisition of CID.

Inventories were $65.0 million on December 31, 2017 and $67.3 million as of December 31, 2018. An increase primarily related to the acquisition of CID of $31.5 million was mostly offset by the adoption of ASC 606, which reduced inventory by $27.1 million.

Contract assets of $49.2 million relate to the adoption of ASC 606 on January 1, 2018. See Note 1 in the notes to consolidated financial statements.

Other intangible assets increased from $29.1 million on December 31, 2017 to $66.3 million on December 31, 2018. This increase is due to the acquisition of CID, partially offset by amortization.

Goodwill increased from $16.0 million on December 31, 2017 to $34.0 million on December 31, 2018. This increase is due to the acquisition of CID.

Deferred income taxes changed from a $2.9 million asset on December 31, 2017 to an $8.5 million liability on December 31, 2018. The change is primarily attributed to the acquisition of CID contributing $9.5 million and the tax effect of the cumulative effect of the adoption of ASC 606 on January 1, 2018 of $2.7 million.

Other assets increased 16.8% from $7.6 million on December 31, 2017 to $8.8 million on December 31, 2018. The increase is primarily due to higher investments in our Non-Qualified Deferred Compensation Plan due to higher employee contributions to the plan.

Accounts payable increased 25.0% from $19.8 million on December 31, 2017 to $24.7 million on December 31, 2018. This increase is primarily due to the acquisition of CID contributing $3.1 million and the adoption of ASC 606 contributing $2.7 million.

Current portion of acquisition-related contingent liabilities decreased from $3.1 million on December 31, 2017 to $0.9 million on December 31, 2018. This reduction was primarily due to the final payment for the HPI acquisition of $2.0 million which was made during the first quarter of 2018 and the payment for the BAMKO acquisition that was made during the second quarter of 2018 of $1.0 million. These decreases were partially offset by $0.9 million for the BAMKO payment due in the second quarter of 2019. We do not expect to make a payment for the Tangerine acquisition in 2019.

Long-term debt increased from $32.9 million on December 31, 2017 to $111.5 million on December 31, 2018. The increase is due to the new term loan to fund the acquisition of CID, partially offset by scheduled repayments on our other term loan and lower borrowings on our revolver loan. See Note 6 in the notes to consolidated financial statements.

Long-term acquisition-related contingent liabilities decreased from $7.3 million as of December 31, 2017 to $5.4 million on December 31, 2018. The decrease is primarily due to reclassifications to current liabilities for the payments due in the second quarter of 2019 and adjustments to the fair value of continent liabilities for BAMKO and Tangerine.

Cash Flows

Cash and cash equivalents decreased by $2.8 million from $8.1 million on December 31, 2017 to $5.4 million as of December 31, 2018. During the year ended December 31, 2018, the Company generated cash of $19.9 million from operating activities, used cash of $85.6 million for the acquisition of CID and $4.9 million to fund capital expenditures, and generated $68.1 million from financing activities.

For the foreseeable future, the Company will continue its ongoing capital expenditure program designed to maintain and improve its facilities.

During the years ended December 31, 2018, 2017 and 2016, the Company paid cash dividends of $5.8 million, $5.3 million and $4.7 million, respectively.

Capital Expenditures

In the foreseeable future, the Company expects to continue its ongoing capital expenditure program designed to improve the effectiveness and capabilities of its facilities and technology. As noted in prior periods, we have invested in a new call center building in El Salvador which was completed in June 2016 that almost tripled our prior capacity. We spent approximately $6.8 million on the El Salvador project through December 31, 2015 and approximately $3.6 million in the twelve-month period ended December 31, 2016. The Company at all times evaluates its capital expenditure program in light of prevailing economic conditions.

Dividends and Share Repurchase Program

During the years ended December 31, 2018, 2017 and 2016, respectively, the Company paid cash dividends of $5.8 million, $5.3 million and $4.7 million. The Company reacquired 158,359 shares of its common stock at a total cost of $2.9 million in the year ended December 31, 2018 and 45,100 shares of its common stock at a total cost of $0.7 million in the year ended December 31, 2016, pursuant to its stock repurchase program. No stock was reacquired in the year ended December 31, 2017.

On August 1, 2008, the Company's Board of Directors approved an increase to the outstanding authorization under its common stock repurchase program to allow for the repurchase of 1,000,000 additional shares of the Company's outstanding shares of common stock. At December 31, 2018, the Company had 58,216 shares remaining for purchase under its common stock repurchase program. Shares purchased under the common stock repurchase program are constructively retired and returned to unissued status. We consider several factors in determining when to make share repurchases, including among other things, our cost of equity, our after-tax cost of borrowing, our debt to total capitalization targets and our expected future cash needs. There is no expiration date or other restriction governing the period over which we can make our share repurchases under the program. The Company anticipates that it will continue to pay dividends and that it will repurchase additional shares of its common stock in the future as financial conditions permit.

Credit Agreement

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 1/8th 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. The amounts outstanding under this credit agreement were paid in full on February 28, 2017 with the proceeds from a new loan agreement with 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 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 1/100th 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 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 with the original 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% (3.14% at December 31, 2018). Obligations outstanding under the $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 (3.39% at December 31, 2018), 1.5% for the period from thirteen months through eighteen months after the effective date, and 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 December 31, 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 maintain a fixed charge coverage ratio of at least 1.25:1 and a funded debt to EBITDA ratio not to exceed 4.0:1. As of December 31, 2018, the Company was in compliance with these ratios. 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.

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.

On January 22, 2019, the Company entered into a First Amendment to the Amended and Restated Credit Agreement pursuant to which the existing $85 million term loan was restructured. The Company used $20 million borrowed under its existing revolving credit facility to reduce the principal amount to $65 million. The maturity date on the loan was extended to January 22, 2026 and the interest rate was lowered to a variable interest rate of LIBOR plus $0.85%. The scheduled amortization for the $65 million term loan is as follows: 2019 - $8.5 million, 2020 through

2025 - $9.3 million per year; and 2026 - $0.8 million.

Interest Rate Swap Agreement

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 was $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. As of December 31, 2018, there was $0.1 million related to the original swap recorded within OCI. Changes to the fair value of the amended swap will be recorded as interest expense. As of December 31, 2018, the fair value of the amended swap was $0.1 million and was included in prepaid expenses and other current assets.

Long-Term Contractual Obligations

The following table sets forth a summary of our material contractual obligations as of December 31, 2018:

(In thousands)	Payments Due by Period (5)			
	2019	2020-2021	2022-2023	After 2023
Long-term debt (1)(5)	$6,000	$97,000	$ 12,000	$1,500
Note payable - revolving credit agreement (1)	-	-	-	1,193
Operating leases (2)	1,604	2,242	1,687	220
Acquisition-related liability (3)	125	115	-	-
Acquisition-related contingent liabilities (3)	961	5,121	2,912	-
Total long term contractual cash obligations	$8,690	$104,478	$ 16,599	$2,913

(1) Excludes estimates for interest payable as amounts are based on variable rates. See Note 6 to the consolidated financial statements.

(2) Amounts do not include certain operating expenses such as maintenance, insurance, and real estate taxes.

(3) The amounts represent the expected cash payment. The amounts on our consolidated balance sheet are stated at fair value.

(4) Certain long-term liabilities have been excluded from this table as we cannot make a reasonable estimate of the period of cash settlement. These long-term liabilities include unrecognized tax benefits of $0.6 million, pension liability of $7.1 million and deferred compensation liability of $2.9 million. We expect to contribute $0.1 million to our pension plan in 2019.

(5) On January 22, 2019, the Company entered into a First Amendment to the Amended and Restated Credit Agreement pursuant to which the existing $85 million term loan was restructured. The Company used $20 million borrowed under its existing line of credit to reduce the principal amount to $65 million. The scheduled amortization for the $65 million Term Loan is as follows: 2019 - $8.5 million, 2020 through 2025 - $9.3 million per year; and 2026 - $0.8 million.

Off-Balance Sheet Arrangements

The Company does not engage in any off-balance sheet financing arrangements. In particular, we do not have any interest in variable interest entities, which includes special purpose entities and structured finance entities.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in this Form 10-K. Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate the estimates that we have made. These estimates are based upon our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Our actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting estimates require our most difficult or subjective judgments or estimates about the effect of matters that are inherently uncertain. A discussion of our critical accounting estimates, the underlying judgments and uncertainties used to make them and the likelihood that materially different estimates would be reported under different conditions or using different assumptions is as follows:

Allowance for Losses on Accounts Receivable

Judgments and estimates are used in determining the collectability of accounts receivable. The Company analyzes specific accounts receivable and historical bad debt experience, customer credit worthiness, current economic trends and the age of outstanding balances when evaluating the adequacy of the allowance for doubtful accounts. Management judgments and estimates are used in connection with establishing the allowance in any accounting period. Changes in estimates are reflected in the period they become known. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. An additional impairment in value of one percent of net accounts receivable would require an increase in the allowance for doubtful accounts and would result in additional expense of approximately $0.6 million. The Company's concentration of risk is also monitored and as of December 31, 2018, no customer(s) had an account balance greater than 7.4% of receivables and the five largest customer account balances totaled $12.8 million. Additionally, the Company advances funds for certain of its suppliers to purchase raw materials. The Company deducts payment for these raw materials from payments made to the suppliers upon completion of the related finished goods. The Company had a receivables balance from one of its suppliers located in Haiti totaling approximately $1.6 million at December 31, 2018. This amount is included in accounts receivable-other on the consolidated balance sheet.

Inventories

Superior's Uniforms and Related Products segment markets itself to its customers as a "stock house." Therefore, Superior at all times carries substantial inventories of raw materials (principally piece goods) and finished garments. Inventories are stated at the lower of cost or market value. Judgments and estimates are used in determining the likelihood that new goods on hand can be sold to customers. Historical inventory usage and current revenue trends are considered in estimating both excess and obsolete inventories. If actual product demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required, which may be material.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The Company tests goodwill for impairment annually as of December 31st and/or when an event occurs or circumstances change such that it is more likely than not that impairment may exist. Examples of such events and circumstances that the Company would consider include the following:

- macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets;
- industry and market considerations such as a deterioration in the environment in which the Company operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for the Company's products or services, or a regulatory or political development;
- cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;
- overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;
- other relevant entity-specific events such as changes in management, key personnel, strategy, or customers.

Goodwill is tested at a level of reporting referred to as "the reporting unit." The Company's reporting units are defined as each of its three reporting segments with its goodwill included in the Uniforms and Related Products segment of $22.1 million and $11.9 million in the Promotional Products segment.

An entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the impairment test is unnecessary. The Company completed its testing of goodwill as of December 31, 2018 and determined that that the fair value of the reporting units was more than its carrying value.

Insurance

The Company self-insures for certain obligations related to health insurance programs. The Company also purchases stop-loss insurance policies to protect it from catastrophic losses. Judgments and estimates are used in determining the potential value associated with reported claims and for losses that have occurred, but have not been reported. The Company's estimates consider historical claim experience and other factors. The Company's liabilities are based on estimates, and, while the Company believes that the accrual for loss is adequate, the ultimate liability may be in excess of or less than the amounts recorded. Changes in claim experience, the Company's ability to settle claims or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

Pensions

The Company is the sponsor of two noncontributory qualified defined benefit pension plans, providing for normal retirement at age 65, covering all eligible employees (as defined). Periodic benefit payments on retirement are determined based on a fixed amount applied to service or determined as a percentage of earnings prior to retirement. The Company is also the sponsor of an unfunded supplemental executive retirement plan (SERP) in which several of its employees are participants. Pension plan assets for retirement benefits consist primarily of fixed income securities and common stock equities. 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 plans.

The Company's pension obligations are determined using estimates including those related to discount rates and asset values. The discount rates used for the Company's pension plans of 3.45% to 3.53% were determined based on the Citigroup Pension Yield Curve. This rate was selected as the best estimate of the rate at which the benefit obligations could be effectively settled on the measurement date taking into account the nature and duration of the benefit obligations of the plan using high-quality fixed-income investments currently available (rated AA or better) and expected to be available during the period to maturity of the benefits. The 8% expected return on plan assets was determined based on historical long-term investment returns as well as future expectations given target investment asset allocations and current economic conditions.

At December 31, 2018, the Company's projected benefit obligation under its supplemental executive retirement pension plan exceeded the fair value of the plan assets by $8.8 million and thus the plan is underfunded. The fair value of the plans assets for the noncontributory qualified defined benefit pension plans exceeded their projected benefit obligations by $1.7 million and thus the plans are overfunded. In 2018, a reduction in the expected return on plan assets of 0.25% would have resulted in additional expense of approximately $0.1 million, while a reduction in the discount rate of 0.25% would have resulted in additional expense of approximately $0.1 million and would have reduced the funded status by $1.0 million for the Company's defined benefit pension plans. Interest rates and pension plan valuations may vary significantly based on worldwide economic conditions and asset investment decisions. For additional information on our benefit plans, please refer to "*Note 8 – Benefit Plans*" in the notes to the consolidated financial statements included in this Form 10-K.

Income Taxes

The Company is required to estimate and record income taxes payable for federal, state and foreign jurisdictions in which the Company operates. This process involves estimating actual current tax expense and assessing temporary differences resulting from differing accounting treatment between tax and book that result in deferred tax assets and liabilities. In addition, accruals are also estimated for federal and state tax matters for which deductibility is subject to interpretation. Taxes payable and the related deferred tax differences may be impacted by changes to tax laws, changes in tax rates and changes in taxable profits and losses. The Tax Act was enacted on December 22, 2017, and has several key provisions impacting accounting for and reporting of income taxes. The most significant provision reduced the U.S. corporate statutory tax rate from 34% to 21% beginning on January 1, 2018. In addition, the Company no longer intends to permanently reinvest its historical foreign earnings and has recorded an additional deferred tax expense. The Tax Act imposes a U.S. tax on global intangible low taxed income ("GILTI") that is earned by certain foreign affiliates owned by a U.S. shareholder. The computation of GILTI is still subject to interpretation and while clarifying guidance was recently released, more is expected. GILTI is generally intended to impose tax on the earnings of a foreign corporation that are deemed to exceed a certain threshold return relative to the underlying business investment. In accordance with guidance issued by FASB, the Company has made a policy election to treat future taxes related to GILTI as a current period expense in the reporting period in which the tax is incurred. The Company will be impacted by GILTI relative to the earnings of its foreign subsidiaries in 2018 and beyond, which may be material to our consolidated financial statements.

Reserves are also estimated for uncertain tax positions that are currently unresolved. The Company routinely monitors the potential impact of such situations and believes that it is properly reserved. For the year ended December 31, 2018, there was an increase of $0.1 million in total unrecognized tax benefits. As of December 31, 2018, we had an accrued liability of $0.6 million for unrecognized tax benefits. We accrue interest and penalties related to unrecognized tax benefits in income tax expense, and the related liability is included in other long-term liabilities on the accompanying consolidated balance sheet.

Share-Based Compensation

The Company recognizes expense for all share-based payments to employees, including grants of employee stock options, in the financial statements based on their fair values. Share-based compensation expense that was recorded in 2018, 2017 and 2016 includes the compensation expense for the share-based payments granted in those years. In the Company's share-based compensation strategy we utilize a combination of stock options and stock-settled stock appreciation rights ("SARS") that fully vest on the date of grant or over time and restricted shares and performance shares of common stock that vest over time or if performance targets are met. The fair value of the options and SARS granted is recognized as expense on the date of grant or over the service period. The Company used the Black-Scholes-Merton valuation model to value any share-based compensation. Option valuation methods, including Black-Scholes-Merton, require the input of highly complex and subjective assumptions including the risk free interest rate, dividend rate, expected term and common stock price volatility rate. The Company determines the assumptions to be used based upon current economic conditions. While different assumptions may result in materially different stock compensation expenses, changing any one of the individual assumptions by 10% would not have a material impact on the recorded expense. Expense for unvested shares of restricted stock and performance shares is recognized over the required service period. For additional information on share-based compensation and the assumptions we use, please refer to "*Note 12 – Share Based Compensation*" in the notes to the consolidated financial statements included in this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are subject to market risk exposure related to changes in interest rates on our debt. Interest on our term loan and revolving credit facility are based upon the one-month LIBOR rate. In order to reduce the interest rate risk on our debt, the Company entered into an interest rate swap agreement on a portion of its borrowings. A hypothetical increase in the LIBOR rate of 100 basis points as of January 1, 2018 would have resulted in approximately $0.9 million in additional pre-tax interest expense for the year ended December 31, 2018. See Note 6 to our consolidated financial statements.

Foreign Currency Exchange Risk

Sales to clients outside of the United States are subject to fluctuations in foreign currency exchange rates. Approximately 4% of our sales are outside of the United States. As the prices at which we sell our products are not routinely adjusted for exchange rate changes, the gross profit on our orders may be negatively affected. We cannot predict the effect of exchange rate fluctuations on our operating results. In certain cases, we may enter into foreign currency cash flow hedges to reduce the variability of cash flows associated with our sales and expenses denominated in foreign currency. As of December 31, 2018, we were not engaged in foreign currency exchange hedging transactions; however, if and when we do, there can be no assurance that our strategies will adequately protect our operating results from the effect of exchange rate fluctuations.

Our foreign subsidiaries in the Promotional Products segment are denominated in their local currencies which include the Hong Kong dollar, the Chinese renminbi, the British pound, the India rupee, and the Brazilian real. Changes in exchange rates for intercompany payables and receivables not considered to be long-term are reported as transaction gains (losses) in our consolidated statements of comprehensive income. During the year end December 31, 2018, transaction gains were approximately $0.1 million on a pre-tax basis.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Superior Group of Companies, Inc. and Subsidiaries

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Superior Group of Companies, Inc. and Subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its evaluation of, and conclusion on, the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, CID Resources, Inc.'s internal control over financial reporting associated with total assets of $101,642,000 and total revenues of $42,012,000, included in the Company's consolidated financial statements as of and for the year ended December 31, 2018. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018. Accordingly, our audit also excluded an evaluation of CID Resources, Inc.'s internal control over financial reporting. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for revenue from contracts with customers as a result of the adoption of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers effective January 1, 2018, under the modified retrospective method. Our opinion is not modified with respect to this adoption.

/s/ Mayer Hoffman McCann P.C.

We have served as the Company's auditor since 2013.

Clearwater, Florida

February 21, 2019

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SUPERIOR GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31,
(In thousands, except shares and per share data)

	2018	2017	2016
Net sales	$346,350	$266,814	$252,596
Costs and expenses:			
Cost of goods sold	224,653	170,462	165,614
Selling and administrative expenses	96,710	70,592	65,124
Other periodic pension costs	385	1,224	1,272
Interest expense	3,207	802	688
	324,955	243,080	232,698
Gain on sale of property, plant and equipment	-	1,048	-
Income before taxes on income	21,395	24,782	19,898
Income tax expense	4,420	9,760	5,260
Net income	$16,975	$15,022	$14,638
Weighted average number of shares outstanding during the period			
(Basic)	14,937,786	14,510,156	14,082,243
(Diluted)	15,472,133	15,118,768	14,897,489
Per Share Data:			
Basic			
Net earnings	$1.14	$1.04	$1.04
Diluted			
Net earnings	$1.10	$0.99	$0.98
Other comprehensive income (loss), net of tax:			
Defined benefit pension plans:			
Recognition of net losses included in net periodic pension costs	862	652	667
Recognition of settlement loss included in net periodic pension costs	-	272	287

Current period loss	*(1,253)*	*(1,948)*	*(764)*
Gain (loss) on cash flow hedging activities	*203*	*(111)*	*95*
Foreign Currency Translation Adjustment:			
Reclassification of gain on foreign currency transactions included in net income	*-*	*-*	*(170)*
Foreign currency translation adjustments	*(518)*	*20*	*243*
Other comprehensive (loss) income	$*(706)*	$*(1,115)*	$*358*
Comprehensive income	$*16,269*	$*13,907*	$*14,996*
Cash dividends per common share	$*0.390*	$*0.365*	$*0.340*

See accompanying notes to consolidated financial statements.

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SUPERIOR GROUP OF COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
YEARS ENDED DECEMBER 31,
(In thousands, except share and par value data)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$*5,362*	$*8,130*
Accounts receivable, less allowance for doubtful accounts of $2,042 and $1,382, respectively	*64,017*	*50,569*
Accounts receivable - other	*1,744*	*1,848*
Inventories	*67,301*	*64,979*
Contract asset	*49,236*	-
Prepaid expenses and other current assets	*9,552*	*11,011*
TOTAL CURRENT ASSETS	*197,212*	*136,537*
PROPERTY, PLANT AND EQUIPMENT, NET	*28,769*	*26,844*
OTHER INTANGIBLE ASSETS, NET	*66,312*	*29,061*
GOODWILL	*33,961*	*16,032*
DEFERRED INCOME TAXES	-	*2,900*
OTHER ASSETS	*8,832*	*7,564*
	$*335,086*	$*218,938*
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$*24,685*	$*19,752*
Other current liabilities	*14,767*	*12,409*
Current portion of long-term debt	*6,000*	*6,000*
Current portion of acquisition-related contigent liability	*941*	*3,061*
TOTAL CURRENT LIABILITIES	*46,393*	*41,222*
LONG-TERM DEBT	*111,522*	*32,933*
LONG-TERM PENSION LIABILITY	*8,705*	*8,319*
LONG-TERM ACQUISITION-RELATED CONTINGENT LIABILITIES	*5,422*	*7,283*
DEFERRED INCOME TAXES	*8,475*	-
OTHER LONG-TERM LIABILITIES	*3,648*	*4,213*
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
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 - 15,202,387 and 15,081,947, respectively.	*15*	*15*
Additional paid-in capital	*55,859*	*49,103*
Retained earnings	*103,032*	*83,129*

Accumulated other comprehensive income (loss), net of tax:		
Pensions	*(7,673)*	*(7,282)*
Cash flow hedges	*113*	*(90)*
Foreign currency translation adjustment	*(425)*	*93*
TOTAL SHAREHOLDERS' EQUITY	*150,921*	*124,968*
	$*335,086*	$*218,938*

See accompanying notes to consolidated financial statements.

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SUPERIOR GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31,
(In thousands, except shares and per share data)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, net of tax	Total Shareholders' Equity
Balance, January 1, 2016	*13,917,465*	$ *14*	$ *33,806*	$ *65,392*	$ *(6,522)*	$ *92,690*
Common shares issued upon exercise of options, net	*251,996*	*1*	*1,960*	*(457)*		*1,504*
Restricted shares issued	*333,190*		*4,558*			*4,558*
Common shares issued upon exercise of Stock Appreciation Rights (SARs)	*55,656*					-
Share-based compensation expense			*1,638*			*1,638*
Tax withheld on exercise of Stock Appreciation Rights (SARs)			*(405)*			*(405)*
Tax benefit from vesting of acquisition related restricted stock			*990*			*990*
Purchase and retirement of common shares	*(45,100)*		*(131)*	*(583)*		*(714)*
Cash dividends declared ($.034 per share)				*(4,707)*		*(4,707)*
Comprehensive Income (Loss):						
Net earnings				*14,638*		*14,638*
Net change during the period related to:						
Cash flow hedges, net of taxes of $24					*95*	*95*
Pensions, net of taxes of $97					*190*	*190*
Change in currency translation adjustment, net of taxes of $41					*73*	*73*
Comprehensive Income:						*14,996*
Balance, December 31, 2016	*14,513,207*	*15*	*42,416*	*74,283*	*(6,164)*	*110,550*
Common shares issued upon exercise of options	*285,745*		*2,779*	*(907)*		*1,872*

Restricted shares issued	*181,399*		*2,780*			*2,780*
Common shares issued upon exercise of Stock Appreciation Rights (SARs)	*101,596*					-
Share-based compensation expense			*1,664*			*1,664*
Tax withheld on exercise of Stock Appreciation Rights (SARS)			*(1,186*)			*(1,186*)
Tax benefit from vesting of acquisition related restricted stock			*650*			*650*
Cash dividends declared ($ 0.365 per share)				*(5,269*)		*(5,269*)
Comprehensive Income (Loss):						
Net earnings				*15,022*		*15,022*
Net change during the period related to:						
Cash flow hedges, net of taxes of $36					*(111*)	*(111*)
Pensions, net of taxes of $59					*(1,024*)	*(1,024*)
Change in currency translation adjustment, net of taxes of $13					*20*	*20*
Comprehensive Income:						*13,907*
Balance, December 31, 2017	*15,081,947*	$ *15*	$ *49,103*	$ *83,129*	$ *(7,279*)	$ *124,968*

SUPERIOR GROUP OF COMPANIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31,
(In thousands, except shares and per share data)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, net of tax	Total Shareholders' Equity
Balance, December 31, 2017	15,081,947	$ 15	$ 49,103	$ 83,129	$ (7,279)	$ 124,968
ASC 606 adjustment to opening retained earnings				11,245		11,245
Common shares issued upon exercise of options	87,347		878	(151)		727
Restricted shares issued for purchase of business	150,094		3,762			3,762
Common shares issued upon exercise of Stock Appreciation Rights (SARs)	3,428					-
Share-based compensation expense	37,930		2,264			2,264
Tax withheld on exercise of Stock Appreciation Rights (SARS)			(17)			(17)
Tax benefit from vesting of acquisition related restricted stock			445			445
Cash dividends declared ($ 0.39 per share)				(5,836)		(5,836)
Common shares repurchased	(158,359)		(576)	(2,330)		(2,906)
Comprehensive Income (Loss):						
Net earnings				16,975		16,975
Net change during the period related to:						
Cash flow hedges, net of taxes of $68					203	203
Pensions, net of taxes of $123					(391)	(391)
Change in currency translation adjustment, net of taxes of $189					(518)	(518)
Comprehensive Income:						16,269

Balance, December 31, 2018	*15,202,387*	$	*15*	$	*55,859*	$	*103,032*	$	*(7,985*	)	$ *150,921*

See Notes to Consolidated Financial Statements.

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SUPERIOR GROUP OF COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,
(In thousands)

	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$16,975	$15,022	$14,638
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	7,906	5,653	4,935
Provision for bad debts - accounts receivable	867	1,002	512
Share-based compensation expense	2,264	1,664	1,638
Deferred income tax (benefit) provision	(665)	5,114	(1,940)
Gain on foreign currency transactions	-	-	(264)
Gain on disposals of property, plant and equipment	-	(1,048)	-
Change in fair value of acquisition-related contingent liabilities	(1,116)	(89)	(31)
Changes in assets and liabilities, net of acquisition of businesses:			
Accounts receivable - trade	(4,886)	(4,731)	(7,244)
Accounts receivable - other	105	1,237	177
Contract asset	(3,382)	-	-
Inventories	3,501	4,250	(5,427)
Prepaid expenses and other current assets	1,550	(4,151)	2,203
Other assets	(1,257)	(4,504)	(1,029)
Accounts payable and other current liabilties	(1,344)	3,362	2,030
Long-term pension liability	(128)	(2,577)	829
Other long-term liabilities	(526)	2,523	962
Net cash provided from operating activities	19,864	22,727	11,989
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(4,869)	(4,248)	(7,385)
Proceeds from disposals of property, plant and equipment	-	2,858	-
Acquisition of businesses, net of acquired cash	(85,597)	(7,988)	(15,161)
Net cash used in investing activities	(90,466)	(9,378)	(22,546)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	206,025	74,387	125,067
Repayment of long-term debt	(127,439)	(77,573)	(106,827)
Payment of cash dividends	(5,836)	(5,269)	(4,707)
Payment of acquisition-related contingent liabilities	(2,861)	(1,800)	(1,800)
Proceeds received on exercise of stock options	727	1,872	1,504
Tax benefit from vesting of acquisition related restricted stock	445	650	990
Tax withholdings on exercise of stock rights	(17)	(1,186)	(405)
Common stock reacquired and retired	(2,906)	-	(714)
Net cash provided from (used in) financing activities	68,138	(8,919)	13,108

Effect of exchange rates on cash	(304)	51	62
Net (decrease) increase in cash and cash equivalents	(2,768)	4,481	2,613
Cash and cash equivalents balance, beginning of year	8,130	3,649	1,036
Cash and cash equivalents balance, end of year	$5,362	$8,130	$3,649

See accompanying notes to consolidated financial statements.

Superior Group of Companies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE *1* – Summary of Significant Accounting Policies:

a) Business description

Superior's Uniforms and Related Products segment, through its primary signature marketing brands Fashion Seal Healthcare®, HPI™, and WonderWink®, manufactures (through third parties or its own facilities) 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, through the BAMKO, Public Identity and Tangerine brands, services customers that purchase primarily promotional and related products. The segment currently has sales offices in the United States and Brazil with support services in China, Hong Kong and India.

b) Basis of presentation

The consolidated 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; and 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", "Superior", "we", "our", or "us". Effective *May 3, 2108,* Superior Uniform Group, Inc. changed its name to Superior Group of Companies, Inc. Intercompany items have been eliminated in consolidation.

c) Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of *three* months or less at the time of purchase to be cash equivalents.

d) Revenue recognition and allowance for doubtful accounts

The Company recognizes revenue in accordance with ASC 606 effective January 1, 2018. Revenue for our Uniforms and Related Products and Promotional Products segments is recognized when the earnings process is complete, for goods that have no alternative use, and the customer is obligated to purchase the goods under contract termination provisions. Contract termination terms may involve variable consideration clauses such as discounts and rebates. Revenue has been adjusted accordingly for these provisions. Revenue for goods that do have an alternative use for which the customer is not obligated to purchase under the terms of a contract is generally recognized 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. Revenue from our Remote Staffing segment is recognized as services are delivered. 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.

e) Accounts receivable-other

The Company purchases raw materials and has them delivered to certain suppliers of the Company. The Company pays for the raw materials and then deducts the cost of these materials from payments to the suppliers at the time the related finished goods are invoiced to the Company by those suppliers.

f) Advertising expenses

The Company expenses advertising costs as incurred. Advertising costs for of the years ended *December 31, 2018, 2017* and *2016,* respectively, were *$0.7* million, *$0.1* million, and *$0.1* million.

g) Cost of goods sold and shipping and handling fees and costs

Cost of goods sold consists primarily of direct costs of acquiring inventory, including cost of merchandise, inbound freight charges, purchasing, receiving and inspection costs, for our Uniforms and Related Products segment and our Promotional Products segment. Cost of goods sold for our Remote Staffing Solutions segment includes salaries and payroll related benefits for agents. The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with out-bound freight are generally recorded in cost of goods sold. Other shipping and handling costs are included in selling and administrative expenses and totaled *$14.0* million, *$10.9* million and *$10.6* million for the years ended *December 31, 2018, 2017* and *2016,* respectively.

h) Inventories

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

i) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. Major renewals and improvements are capitalized, while replacements, maintenance and repairs which do *not* improve or extend the life of the respective assets are expensed on a current basis. Costs of assets sold or retired and the related accumulated depreciation and amortization are eliminated from accounts and the net gain or loss is reflected in the consolidated statements of comprehensive income within selling and administrative expenses.

j) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The Company tests goodwill for impairment annually as of *December 31st* and/or when an event occurs or circumstances change such that it is more likely than *not* that impairment *may* exist. Examples of such events and circumstances that the Company would consider include the following:

- macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets;
- industry and market considerations such as a deterioration in the environment in which the Company operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for the Company's products or services, or a regulatory or political development;
- cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;
- overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;
- other relevant entity-specific events such as changes in management, key personnel, strategy, or customers.

Goodwill is tested at a level of reporting referred to as "the reporting unit." The Company's reporting units are defined as each of its *three* reporting segments with its goodwill included in the Uniforms and Related Products segment of *$22.1* million and *$11.9* million in the Promotional Products segment.

An entity has the option to *first* assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than *not* (that is, a likelihood of more than *50%*) that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is *not* more likely than *not* that the fair value of a reporting unit is less than its carrying amount, then performing the impairment test is unnecessary. The Company completed its testing of goodwill as of *December 31, 2018* and determined that that the fair value of the reporting units was more than its carrying value.

k) Other intangible assets

Other intangible assets consist of customer relationships, non-compete agreements and trade names acquired in previous business acquisitions.

The cost, amortization and net value of customer relationships and non-compete agreement as of *December 31, 2018* and *2017* were as follows (In thousands):

	Customer Relationships	Weighted Average Life (years)	Non-Compete Agreement	Weighted Average Life (years)	Customer Backlog	Weighted Average Life (years)
December 31, 2018						
Cost	$ 41,530	10.8	$ 1,411	4.1	$ -	-
Accumulated amortization	(7,762)		(326)		-	
Net	$ 33,768		$ 1,085		$ -	
December 31, 2017						
Cost	$ 15,530	8.8	$ 5,551	5.1	$ 122	0.5
Accumulated amortization	(4,782)		(4,619)		(10)	
Net	$ 10,748		$ 932		$ 112	

Amortization expense for other intangible assets was *$3.8* million, *$2.4* million and *$2.3* million for the years ended *December 31, 2018, 2017* and *2016,* respectively. Amortization expense for other intangible assets is expected to be *$3.8* million in each of the years ending *December 31, 2019* through *2022; $3.0* million in *2023; $2.2* million in *2024;* and *$1.7* million in each of the years *2025* through *2034.*

As part of the acquisition of HPI in *2013,* the Company recorded *$4.7* million as the fair value of the acquired trade name in other intangible assets. This asset is considered to have an indefinite life and as such is *not* being amortized.

As part of the acquisition of BAMKO in *2016,* the Company recorded *$8.9* million as the fair value of the acquired trade name in other intangible assets. This asset is considered to have an indefinite life and as such is *not* being amortized.

As part of the acquisitions of Public Identity and Tangerine in *2017,* the Company recorded *$0.5* million and *$3.2* million, respectively as the fair value of the acquired trade names in other intangible assets. These amounts are considered to have an indefinite life and as such are *not* being amortized.

As part of the acquisition of CID Resources in *2018,* the Company recorded *$14.2* million as the fair value of the acquired trade name in other intangible assets. This amount is considered to have an indefinite life and as such is *not* being amortized.

l) Depreciation and amortization

Plant and equipment are depreciated on the straight-line basis at *2.5%* to *5%* for buildings, *2.5%* to *20%* for improvements, *10%* to *33.33%* for machinery, equipment and fixtures and *20%* to *33.33%* for transportation equipment. Leasehold improvements are amortized over the terms of the leases inasmuch as such improvements have useful lives of at least the terms of the respective leases.

m) Employee benefits

Pension plan costs are funded currently based on actuarial estimates, with prior service costs amortized over *20* years. The Company recognizes settlement gains and losses in its consolidated 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.

n) Insurance

The Company self-insures for certain obligations related to employee health programs. The Company also purchases stop-loss insurance policies to protect it from catastrophic losses. Judgments and estimates are used in determining the potential value associated with reported claims and for losses that have occurred, but have *not* been reported. The Company's estimates consider historical claim experience and other factors. The Company's liabilities are based on estimates, and, while the Company believes that the accrual for loss is adequate, the ultimate liability *may* be in excess of or less than the amounts recorded. Changes in claim experience, the Company's ability to settle claims or other estimates and judgments used by management could have a material impact on the amount and timing of expense for any period.

o) Taxes on income

Income taxes are provided for under the liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than *not* that some portion or all of the deferred tax assets will *not* be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The calculation of the Company’s tax liabilities also involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain income tax positions based on estimates of whether, and the extent to which, additional taxes will be required. The Company also reports interest and penalties related to uncertain income tax positions as income taxes. Refer to Note *7*.

p) Impairment of long-lived assets

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset *may not* be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value. There was *no* impairment of long-lived assets for the years ended *December 31, 2018, 2017,* and *2016.*

q) Share-based compensation

The Company awards share-based compensation as an incentive for employees to contribute to the Company's long-term success. The company grants options, stock-settled stock appreciation rights, restricted stock, and performance shares. At *December 31, 2018,* the Company had *3,498,367* 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.

r) 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-settled stock appreciation rights, restricted stock, and performance shares.

s) Comprehensive income

Other comprehensive income (loss) is defined as the change in equity during a period, from transactions and other events, excluding changes resulting from investments by owners (e.g., supplemental stock offering) and distributions to owners (e.g., dividends).

t) Operating segments

The Financial Accounting Standards Board ("FASB") establishes standards for the way that public companies report information about operating segments in annual financial statements and establishes standards for related disclosures about product and services, geographic areas and major customers. The Company has reviewed the standard and determined that it has *three* reportable segments, Uniforms and Related Products, Remote Staffing Solutions and Promotional Products.

u) Risks and concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk include cash in banks in excess of federally insured amounts. The Company manages this risk by maintaining all deposits in high quality financial institutions and periodically performing evaluations of the relative credit standing of the financial institutions. When assessing credit risk the Company considers whether the credit risk exists at both the individual and group level. Consideration is given to the activity, region and economic characteristics when assessing if there exists a group concentration risk. At *December 31, 2018* and *2017,* the Company had *no* customers with an accounts receivable balance greater than *7.4%* of the total accounts receivable. At *December 31, 2018* and *2017,* the top *five* accounts receivable customer balances totaled *$12.8* million and *$14.2* million, respectively, or approximately *20.0%* and *28.0%* of the respective total accounts receivable balances. The Company's largest customer for each of the years ended *December 31, 2018, 2017,* and *2016* had net sales of approximately *$20.1* million, *$20.6* million and *$19.3* million, respectively, or approximately *5.8%, 7.7%* and *7.6%* of the respective total net sales for the Company. The Company's *five* largest customers for the years ended *December 31, 2018, 2017* and *2016* had net sales of approximately *$47.1* million, *$50.7* million and *$57.6* million, respectively, or approximately *13.6%, 19.0%* and *22.8%* of the respective total net sales for the Company.

Included in accounts receivable-other on the Company's consolidated balance sheets at *December 31, 2018* and *2017* are receivable balances from a supplier in Haiti totaling *$1.6* million and *$1.5* million, respectively.

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 products for our Promotional Products segment were sourced from China. Any inability by the Company to continue to obtain its products from these countries could significantly disrupt the Company's business. Because the Company manufactures and sources products in various countries, the Company is affected by economic conditions in those countries, including increased duties, possible employee turnover, labor unrest and lack of developed infrastructure.

v) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximated fair value as of *December 31, 2018* and *2017,* because of the relatively short maturities of these instruments. The carrying amount of the Company's long-term debt approximated fair value as the rates are adjustable based upon current market conditions.

w) 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 materially from those estimates.

x) Recent Accounting Pronouncements

In *February 2016,* the Financial Accounting Standards Board ("FASB") established Topic *842,* Leases, by issuing Accounting Standards Update ("ASU") *No. 2016-02,* which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic *842* was subsequently amended by ASU *No. 2018-01,* Land Easement Practical Expedient for Transition to Topic *842;* ASU *No. 2018-10,* Codification Improvements to Topic *842,* Leases; and ASU *No. 2018-11,* Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than *12* months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The amendments are required to be adopted by the Company on *January 1, 2019.* A modified retrospective transition approach is required, applying the standard to all leases existing at the date of initial application. The Company elects to use its effective date as its date of initial application. Consequently, financial information will *not* be updated, and the disclosures required under the new standard will *not* be provided for dates and periods before *January 1, 2019.* The new standard provides a number of optional practical expedients in transition. The Company expects to elect the 'package of practical expedients', which permits the Company *not* to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The Company does *not* expect to elect the use-of hindsight or the practical expedient pertaining to land easement; the latter *not* being applicable to the Company. The Company expects that this standard will *not* have a material effect on its financial statements. The Company continues to assess all of the effects of adoption, with the most significant effect relating to the recognition of new ROU assets and lease liabilities on our balance sheet for real estate operating leases. The Company expects to recognize additional operating liabilities ranging from *$2.0* million to *$4.0* million, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operation leases.

In *August 2016,* the FASB issued ASU *2016-15,* "Statement of Cash Flows (Topic *230*): Classification of Certain Cash Receipts and Cash Payments". The amendment provides guidance on the classification of contingent consideration payments made after a business combination and other cash receipts and payments. The amendments are effective for annual periods beginning after *December 15, 2017* and must be applied retrospectively. The Company adopted ASU *2017-07* in *2018.* As a result, we have reclassified cash payments in excess of the acquisition date fair values from financing activities to operating activities for all periods presented.

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,* FASB issued ASU *2014-09,* Revenue from Contracts with Customers (Topic *606*) "ASC 606" that superseded previous 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. The new standard has *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 *twelve* months ended *December 31, 2018* was an increase of *$3.5* 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	*3,532*
Adjustment to opening retained earnings	$*11,245*

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

The following table disaggregates our net sales by major source (in thousands):

	As Reported for Twelve Months Ended 12/31/2018	Balances Without Adoption of ASC 606	Effect of Change 12/31/2018
Uniform and Related Products	$ *238,166*	$*237,095*	$ *1,071*
Remote Staffing Solutions	*27,272*	*27,272*	-
Promotional Products	*80,912*	*78,514*	*2,398*
	$ *346,350*	$*342,881*	$ *3,469*

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. Revenues from contracts containing termination provisions are recorded at terminal value if applicable and therefore do *not* represent the selling margins if the sale transaction occurred in the normal course of business. Therefore, revenues recognized under this provision *may not* reflect the gross margins to be realized for transactions *not* affected by a contract termination. Revenue from our Remote Staffing segment is recognized as services are delivered and did *not* generate an ASC *606* adjustment in the *twelve* month period ended *December 31, 2018.*

The Company does not have any remaining performance obligations as defined under ASC 606 related to revenue recorded for the year ended December 31, 2018.

The impact of adoption of ASC *606* on our consolidated balance sheet and statement of comprehensive income as of *December 31, 2018* is as follows (in thousands):

	As Reported 12/31/2018	Balances Without Adoption of ASC 606	Effect of Change 12/31/2018
Balance Sheet:			
Assets:			
Contract assets	$ 49,236	$ -	$ 49,236
Inventory	67,301	95,984	(28,683)
Liabilities:			
Accounts payable	$ 24,685	$ 21,981	$ 2,704
Other current liabilities	14,767	12,798	1,969
Deferred taxes	8,475	5,589	2,886

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In accordance with ASC *606,* the Company has recognized contract assets of *$49.2* million as of *December 31, 2018* for goods produced without an alternative use for which the Company has an enforceable right to payment but which have *not* yet been shipped or invoiced to the customer.

	As Reported for Twelve Months Ended 12/31/2018	Balances Without Adoption of ASC 606	Effect of Change 12/31/2018
Statement of comprehensive income:			
Net sales	$ *346,350*	$ *342,881*	$ *3,469*
Cost of goods sold	*224,653*	*221,920*	*2,733*
Selling and administrative expenses	*96,710*	*96,758*	*(48*)

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* - Allowance for Doubtful Accounts Receivable:

The activity in the allowance for doubtful accounts receivable was as follows (in thousands):

	2018	2017	2016
Balance at the beginning of year	$ *1,382*	$ *1,276*	$ *848*
Provision for bad debts	*867*	*1,002*	*523*
Charge-offs	*(210*)	*(901*)	*(96*)
Recoveries	*3*	*5*	*1*
Balance at the end of year	$ *2,042*	$ *1,382*	$ *1,276*

NOTE *3* - Reserve for Sales Returns and Allowances:

The activity in the reserve for sales returns and allowances was as follows (in thousands):

	2018	2017	2016
Balance at the beginning of year	$*1,125*	$*1,967*	$*1,384*
Provision for returns and allowances	*4,908*	*2,789*	*4,445*
Actual returns and allowances paid to customers	*(4,140)*	*(3,631)*	*(3,862)*
Balance at the end of year	$*1,893*	$*1,125*	$*1,967*

NOTE *4* - Inventories:
(In thousands)

	December 31, 2018	2017
Finished goods	$*58,196*	$*54,354*
Work in process	*650*	*604*
Raw materials	*8,455*	*10,021*
	$*67,301*	$*64,979*

NOTE *5* - Property, Plant and Equipment:
(In thousands)

	December 31, 2018	2017
Land	$*3,635*	$*3,635*
Buildings, improvements and leaseholds	*18,519*	*18,192*
Machinery, equipment and fixtures	*58,111*	*52,594*
	80,265	*74,421*
Accumulated depreciation and amortization	*(51,496*)	*(47,577*)
	$*28,769*	$*26,844*

Depreciation and amortization charges were approximately *$4.1* million, *$3.3* million and *$2.6* million in *2018, 2017,* and *2016* respectively.

NOTE *6* - Long-Term Debt:

(In thousands)	December 31, 2018	December 31, 2017
Note payable to BB&T, pursuant to revolving credit agreement, maturing May 2023	$*1,193*	$ *1,475*
Term loan payable to BB&T maturing February 26, 2024	$*31,500*	$ *37,500*
Term loan payable to BB&T maturing May 2020	$*85,000*	$ -
	$*117,693*	$ *38,975*
Less:		
Payments due within one year included in current liabilities	$*6,000*	$ *6,000*
Debt issuance costs	$*171*	$ *42*

Long-term debt less current maturities	$ *111,522*	$ *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. The amounts outstanding under this credit agreement was paid in full on *February 28, 2017* with the proceeds from a new loan agreement with 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 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 pays a commitment fee of *0.10%* per annum on the average unused portion of the commitment under the 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 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 were 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 with the original 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: *2019* 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%* (*3.14%* at *December 31, 2018).* Obligations outstanding under the *$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 (*3.39%* at *December 31, 2018), 1.5%* for the period from *thirteen* months through *eighteen* months after the effective date, and *1.75%* thereafter. The Company is obligated to pay a commitment fee of *0.10%* per annum on the averaged 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 *December 31, 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 maintain a fixed charge coverage ratio of at least *1.25:1* and a funded debt to EBITDA ratio *not* to exceed *4.0:1.* As of *December 31, 2018,* the Company was in compliance with these ratios. 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.

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.

On *January 22, 2019,* the Company entered into a First Amendment to the Amended and Restated Credit Agreement pursuant to which the existing *$85* million term loan was restructured. The Company used *$20* million borrowed under its existing revolving credit facility to reduce the principal amount to *$65* million. The maturity date on the loan was extended to *January 22, 2026* and the interest rate was lowered to a variable interest rate of LIBOR plus *$0.85%.* The scheduled amortization for the *$65* million term loan is as follows: *2019 - $8.5* million, *2020* through *2025 - $9.3* million per year; and *2026* - *$0.8* million. The Company incurred approximately *$0.2* million of debt financing costs, which primarily consisted of a loan commitment fee and legal fees. These costs will be amortized over the life of the agreement 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 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 was *$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. As of *December 31, 2018,* there was *$0.1* million related to the original swap recorded within OCI. Changes to the fair value of the amended swap will be recorded as interest expense. As of *December 31 2018,* the fair value of the amended swap was *$0.1* million and was included in prepaid expenses and other current assets.

NOTE 7 – Taxes on Income:

Aggregate income tax provisions consist of the following (in thousands):

	2018	2017	2016
Current:			
Federal	$3,613	$2,846	$5,642
Tax Cut and Jobs Act	-	265	-
State and local	643	647	628
Foreign	789	338	-
	5,045	4,096	6,270
Long Term:			
Tax Cut and Jobs Act	-	1,336	-
Deferred Taxes:			
Deferred tax (benefit) provision	(625)	1,899	(1,010)
Tax Cut and Jobs Act re-measurement	-	2,429	-
	(625)	4,328	(1,010)
	$4,420	$9,760	$5,260

The significant components of the deferred income tax (liability) asset are as follows (in thousands):

	2018	2017
Deferred income tax assets:		
Pension accruals	$*2,729*	$*2,606*
Operating reserves and other accruals	*1,984*	*2,174*
Tax carrying value in excess of book basis of intangibles	-	*866*
Tax credits	*748*	*255*
Valuation allowance on tax credits	*(748)*	*(255)*
Deferred income tax liabilities:		
Book carrying value in excess of tax basis of property	*(1,495)*	*(937)*
Book carrying value in excess of tax basis of intangibles	*(6,906)*	-
Tax effect of revenue recognition standard ASC 606	*(2,657)*	-
Deferred expenses	*(2,130)*	*(1,809)*
Net deferred income tax (liability) asset	$*(8,475)*	$*2,900*

The difference between the total statutory Federal income tax rate and the actual effective income tax rate is accounted for as follows:

	2018	2017	2016
Statutory Federal income tax rate	21.0%	34.0%	34.0%
State and local income taxes, net of Federal income tax benefit	2.0	1.5	1.9
Current year untaxed foreign income	(8.3)	(6.5)	(5.1)
Foreign Taxes	2.6	1.4	-
GILTI Tax	2.7	-	-
Contingent liability adjustments	(1.4)	-	-
Non-deductible share-based employee compensation expense	0.6	1.1	1.2
Excess tax benefit from stock compensation	(0.3)	(7.2)	