SUPERIOR UNIFORM GROUP INC
Form 10-K
February 24, 2012

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, 2011

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

Commission File Number 001-05869

SUPERIOR UNIFORM GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

10055 Seminole Blvd.

Seminole, Florida 33772

(Address of Principal Executive Offices, including Zip Code)

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	Listed on the NASDAQ Stock Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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. x

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	x

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, 2011, the aggregate market value of the registrant s common shares held by non-affiliates, computed by reference to the last sales price ($11.70) as reported by the NASDAQ Stock Market, was approximately $45 million.

The number of shares of common stock outstanding as of February 20, 2012 was 6,015,280 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, 2011, relating to its Annual Meeting of Shareholders to be held May 4, 2012, 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 Page 43.

PART I

Special Note Regarding Forward-Looking Statements

References in this report to the Company, Superior, we, our, or us mean Superior Uniform Group, Inc. together with its subsidiaries, except where the context otherwise requires. 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 as such because the context of the statement will include words such as we believe, anticipate, expect or words of similar import. Similarly, statements that describe our future plans, objectives, strategies or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that may materially adversely affect the anticipated results. Such risks and uncertainties include, but are not limited to, the following: general economic conditions in the areas of the United States in which the Company s customers are located; changes in the healthcare, resort and commercial industries where uniforms and service apparel are worn; the impact of competition; our ability to successfully integrate operations following consummation of acquisitions; the availability of manufacturing materials 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

Superior Uniform Group, Inc. was organized in 1920 and was incorporated in 1922 as a New York company under the name Superior Surgical Mfg. Co., Inc. In 1998, the Company changed its name to Superior Uniform Group, Inc. and its state of incorporation to Florida. Superior is comprised of two reportable business segments: uniforms and related products and remote staffing solutions.

Superior s Uniforms and Related Products segment, through its Signature marketing brands Fashion Seal®, Fashion Seal Healthcare®, Martin s®, Worklon®, UniVogue® and Blade manufactures and sells a wide range of uniforms, career apparel and accessories for the hospital and healthcare fields; hotels; fast food and other restaurants; and public safety, industrial, and commercial markets. In excess of 95% of Superior s uniforms and related products segments net sales are from the sale of uniforms and service apparel, and miscellaneous products directly related thereto.

Refer to Note 18, Operating segment information under Item 8 of this Form 10-K for financial information relating to our reportable business segments.

Superior services its Remote Staffing Solutions segment through its The Office Gurus subsidiaries in El Salvador and Costa Rica (TOG). TOG is a near-shore premium provider of cost effective bilingual telemarketing and total office support solutions.

Products

Superior manufactures and sells a wide range of uniforms, corporate identity apparel, career apparel and accessories for the medical and health fields as well as for the industrial, commercial, leisure, and public safety markets in its Uniforms and Related Products segment. Its principal products are:

- Uniforms and service apparel for personnel of:
  - Hospitals and health facilities;
  - Hotels, commercial buildings, residential buildings, and food service facilities;
  - Retail stores;
  - General and special purpose industrial uses;
  - Commercial enterprises (career apparel for banks, airlines, etc.);
  - Public and private safety and security organizations; and
  - Miscellaneous service uses.
- Miscellaneous products directly related to:
  - Uniforms and service apparel specified above (e.g. boots and sheets); and
  - Linen suppliers and industrial launderers, to whom a substantial portion of Superior s uniforms and service apparel are sold; such products being primarily industrial laundry bags.

Uniforms and service apparel account for in excess of 95% of net sales; no other single class of product listed above accounts 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.

- Remote staffing solutions

TOG provides near-shore remote staffing solutions.

Competition

Superior competes in its Uniforms and Related Products segment with more than three dozen firms, including divisions of larger corporations. Superior competes with national and regional manufacturers which include publicly held companies such as Cintas Corporation, Unifirst Corporation and G&K Services, as well as ARAMARK a division of privately-held ARAMARK Corporation. Superior also competes with local firms in most major metropolitan areas. The nature and degree of competition varies with the customer and the market where it occurs. Industry statistics are not available, but we believe that Superior is one of the leading suppliers of garments to hospitals and industrial clean rooms, hotels and motels, food service establishments and uniforms to linen suppliers. Superior experiences competition primarily in the areas of product development, 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 is competitive and highly fragmented. TOG s competitors in the Remote Staffing Solutions segment range in size from very small firms offering specialized applications or short-term projects, to very large independent firms as well as the in-house operations of many customers and potential customers. We compete directly and indirectly with various companies that provide contact center and other business process outsourcing solutions on an outsourced basis. These include, but are not limited to, U.S.-based providers, such as APAC Customer Services, Convergys, Sitel, Startek, Sykes, TechTeam Global, TeleTech, and West. TOG also competes with local entities in other offshore geographies, such as TIVIT and the Philippine Long Distance Telephone Company; small niche providers, such as Alpine Access, Arise, VIPDesk, and Working Solutions; and large global companies that offer outsourced services within their portfolios, such as IBM, HP, CapGemini, Accenture and Fujitsu. The list of potential competitors includes both publicly traded and privately held companies.

Customers

Superior has a substantial number of customers, the largest of which accounted for approximately 6.2% of its 2011 net sales.

Backlog

Although Superior at all times has a substantial backlog of orders, we do not consider this significant since our backlog of orders at any time consists primarily of recurring firm orders being processed and filled.

Superior normally completes shipments of orders from stock within one week after their receipt. As of February 20, 2012, the backlog of all orders that we believe to be firm was approximately $4.0 million, compared to approximately $5.5 million as of February 21, 2011.

Inventory

Superior markets itself to its customers as a stock house. Therefore, Superior at all times carries substantial inventories of raw materials (principally piece goods) and finished garments which requires substantial working capital. Superior s principal raw materials are textile products. In 2011 and 2010, approximately 52% and 54%, respectively, of our products were obtained from suppliers located in Central America. 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 is unable to continue to obtain its products from Central America it could significantly disrupt Superior s business.

Intellectual Property

Superior owns and uses several trademarks and service marks relating to its brands that have significant value and are instrumental to its ability to market its products. Superior s most significant trademark is its mark Fashion Seal Uniforms (presently registered with the United States Patent and Trademark Office until August 8, 2017). The Fashion Seal Uniforms trademark is critically important to the marketing and operation of Superior s business, as more than 50% of Superior s products are sold under that name.

Environmental Matters

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

Employees

Superior employed 647 persons, of which 640 were full-time employees, as of December 31, 2011.

Securities Exchange Act Reports

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

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission (the SEC) in accordance with the Securities Exchange Act of 1934, as amended (the Exchange Act). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and Section 16 filings. We make this information available on our website free of charge as soon as reasonably practicable after we 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, and you should take these risks into account in evaluating us or any investment decision involving us. Additional risks and uncertainties not presently known or that we currently believe to be less significant may also adversely affect us.

Risks Relating To Our Industry

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

Customers in the uniform and corporate identity apparel industry choose suppliers primarily based upon the quality, price and breadth of products offered. We encounter competition from a number of companies in the geographic areas we serve. Major competitors include publicly held companies such as Cintas Corporation, Unifirst Corporation and G&K Services, as well as ARAMARK a division of privately-held ARAMARK Corporation. We also compete with a multitude of 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**.** In addition, our competitors generally compete with us for acquisition candidates, which can increase the price for acquisitions and reduce the number of acquisition candidates available to us.

Regional or national economic slowdowns and high unemployment levels will likely have an adverse effect on our revenues and operating results.

National or regional economic slowdowns or certain industry specific slowdowns resulting in higher unemployment levels and overall weak economic conditions generally result in reductions of customers employees in uniform that, in turn, adversely affect our revenues. If we are unable to offset this effect through the addition of new customers (through acquisition or otherwise) or the penetration of existing customers with a broader mix of product and service offerings, our revenue growth rates will be negatively impacted. Events or conditions in a particular geographic area, such as adverse weather and other factors, could also hurt our operating results. While we do not believe that our exposure is greater than that of our competitors, we could be adversely affected by increases in the prices of fabric, natural gas, gasoline, wages, employee benefits, insurance costs and other components of product cost unless we can recover such increases through increases in the prices for our products and services. Competitive and general economic conditions might limit our ability and that of our competitors to increase prices to cover such increases in our product cost.

Volatility in the global economy could adversely affect results.

Global financial markets have been experiencing an extreme disruption, including, among other things, volatility in security prices, diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. However, there can be no assurance that there will not be further change, which could lead to challenges in our business and negatively impact our financial results. The current 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 the current 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 industry is subject to pricing pressures that may cause us to lower the prices we charge for our products and adversely affect our financial performance.

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

Increases in the price of raw materials used to manufacture our products could materially increase our costs and decrease our profitability.

The principal fabrics used in our business are made from cotton, wool, silk, synthetic and cotton-synthetic blends. The prices we pay for these fabrics are dependent on the market price for the raw materials used to produce them, primarily cotton and chemical components of synthetic fabrics. These raw materials are subject to price volatility caused by weather, supply conditions, government regulations, economic climate, currency exchange rates, and other unpredictable factors. Fluctuations in petroleum prices may also influence the prices of related items such as chemicals, dyestuffs and polyester yarn. Any raw material price increase could increase our cost of sales and decrease our profitability unless we are able to pass higher prices on to our customers. 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.

Changing international trade regulation and the elimination of quotas on imports of textiles and apparel may increase competition in our industry. Future quotas, duties or tariffs may increase our costs or limit the amount of products that we can import.

A portion of our operations are subject to quotas imposed by bilateral textile agreements between the countries from which we procure raw materials and the countries where our products are manufactured. These quotas limit the amount of products that may be imported from a particular country.

In addition, the countries in which our products are manufactured or into which they are imported may from time to time impose additional new quotas, duties, tariffs and requirements as to where raw materials must be purchased, additional workplace regulations, or other restrictions on our imports or adversely modify existing restrictions. Adverse changes in these costs and restrictions could harm our business. We cannot assure you that future trade agreements will not provide our competitors an advantage over us, or increase our costs, either of which could have a material adverse effect on our business, results of operations or financial condition.

Our operations are also subject to various international trade agreements and regulations such as the North American Free Trade Agreement and the Caribbean Basin Initiative, and the activities and regulations of the World Trade Organization (WTO). Generally, these trade agreements benefit our business by reducing or eliminating the duties and/or quotas assessed on products manufactured in a particular country. However, trade agreements can also impose requirements that negatively affect our business, such as limiting the countries from which we can purchase raw materials and setting quotas on products that may be imported into the United States from a particular country. In addition, increased competition from developing countries could have a material adverse effect on our business, results of operations or financial condition.

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

We believe our products are, in general, less subject to fashion trends compared to many other apparel manufacturers because we manufacture and sell uniforms, corporate identity apparel and other accessories. However, 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.

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 registered and common law trademarks, as well as certain of our licensed trademarks, have significant value and are instrumental to our ability to market our products. While we own and use several trademarks, our mark Fashion Seal Uniforms (presently registered until August 8, 2017) is important to our business, as more than 50% of our products are sold under that name. We cannot assure you that third parties will not assert claims against any such intellectual property or that we will be able to successfully resolve all such claims. In addition, although we seek international protection of our intellectual property, the laws of some foreign countries may not allow us to protect, defend or enforce our intellectual property rights to the same extent as the laws of the United States. We could also incur substantial costs to defend legal actions relating to use of our intellectual property, which could have a material adverse effect on our business, results of operations or financial condition. In addition, some of our license agreements with third parties will expire by their terms over the next several years. There can be no assurance that we will be able to negotiate and conclude extensions of such 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 several of our major customers could have a material adverse effect on our business, results of operations or financial condition.

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

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

A portion of our active and retired employees participate in defined benefit pension plans under which we are obligated to provide prescribed levels of benefits regardless of the value of the underlying assets, if any, of the applicable pension plan. If our obligations under a plan are unfunded or underfunded, we will have to use cash flow from operations and other sources to pay our obligations either as they become due or over some shorter funding period. As of December 31, 2011, we had approximately $8.1 million in unfunded or underfunded obligations related to our pension plans.

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

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

We are subject to local laws and regulations.

We are subject to federal, state and local laws and regulations affecting our business, including those promulgated under the Occupational Safety and Health Act, the Consumer Product Safety Act, the Flammable Fabrics Act, the Textile Fiber Product Identification Act, the rules and regulations of the Consumer Products Safety Commission and various labor, workplace and related laws, as well as environmental laws and regulations. Failure to comply with such laws may expose us to potential liability and have an adverse effect on our results of operations.

Shortages of supply of sourced goods from suppliers or interruptions in our manufacturing 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 2011 and 2010 approximately 52% and 54%, respectively, of our products were obtained from suppliers located in Central America. If we are unable to continue to obtain our products from Central America, it could significantly disrupt our business. Because we source products in Central America, we are affected by economic conditions in Central America, including increased duties, possible employee turnover, labor unrest and lack of developed infrastructure.

Our business may be impacted by adverse weather.

Our corporate headquarters and a substantial number of our customers are located in Florida. During fiscal 2005, four hurricanes made land-fall in Florida, with Hurricane Wilma moving directly through South Florida and causing significant infrastructure damage and disruption to the area. Sales of our products were adversely affected by these and

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the other Gulf Coast hurricanes during fiscal 2005. While we were not impacted by any hurricane related events during fiscal 2010 or 2011, because we are located in Florida, which is a hurricane-sensitive area, we are particularly susceptible to the risk of damage to, or total destruction of, our headquarters and surrounding transportation infrastructure caused by a hurricane. In addition, similar disruptions to the business of our customers located in areas affected by hurricanes may adversely impact sales of our products.

Our remote staffing solutions business may not develop in ways that we currently anticipate due to negative public reaction to outsourcing and recently proposed legislation.

We have based our growth strategy on certain assumptions regarding our industry, services and future demand in the market for our services. However, the trend to outsource business processes may not continue and could reverse. Outsourcing is a politically sensitive topic in the United States and elsewhere due to a perceived association between outsourcing providers and the loss of jobs in the United States. A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing services outside the United States. For example, public figures have supported legislation that they contend will generate new jobs in the United States, including limiting income tax benefits for companies that offshore American jobs. Because all of our current customers are U.S. companies, any expansion of existing laws or the enactment of new legislation restricting offshore outsourcing could harm our business, results of operations and financial condition. It is possible that legislation could be adopted that would restrict U.S. private sector companies that have federal or state government contracts from outsourcing their services to off-shore service providers. This would also negatively affect our ability to attract or retain customers that have these contracts.

Certain of our existing shareholders have significant control.

At December 31, 2011, our executive officers and certain of their family members collectively beneficially owned 35.8% 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.

The success of our business depends on our ability to attract and retain qualified employees.

We need talented and experienced personnel in a number of areas including our core business activities. An inability to retain and attract qualified personnel, especially our key executives, could harm our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company has an ongoing program designed to maintain and improve its facilities. Generally, all properties are in satisfactory condition. The Company s properties are currently fully utilized (none noted as not fully utilized) and have aggregate productive capacity to meet the Company s present needs as well as those of the foreseeable future. The material manufacturing and distribution locales are rented for nominal amounts due to cities providing incentives for businesses to locate in their area all such properties may be purchased for nominal amounts. As a result, it is believed that the subject lease expirations and renewal terms thereof are not material. Set forth below are the locations of our facilities:

Seminole, Florida Plant of approximately 60,000 square feet owned by the Company; used as principal administrative office and for warehousing and shipping, as well as the corporate design center.

Eudora, Arkansas Plant of approximately 217,000 square feet, partially leased from the City of Eudora requiring payment of only a nominal rental fee; used for manufacturing, warehousing, and shipping; lease expiring November 30, 2016.

McGehee, Arkansas Plant of approximately 26,000 square feet, leased from the City of McGehee requiring payment of only a nominal rental fee; used for storage; lease expiring in 2014.

San Salvador, El Salvador Office space of approximately 23,200 square feet; owned by The Office Gurus, a subsidiary of Superior Office Solutions and Fashion Seal Corp., wholly-owned subsidiaries of the Company; used as office space for our remote staffing solutions business.

Costa Rica   Office space of approximately 1,115 square feet; leased by Superior Office Solutions S.A., wholly-owned subsidiary of Superior Office Solutions; lease expiring in 2013.

Miscellaneous   Lexington, Mississippi: facility used for warehousing and shipping, approximately 40,000 square feet   owned by the Company; Dallas, Texas: leased sales office of approximately 2,055 square feet   lease expiring in 2014.

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 ; said shares have also been admitted to unlisted trading on the Chicago Stock Exchange.

The following table sets forth the high and low sales prices and cash dividends declared on our common stock by quarter for 2011 and 2010 as reported in the consolidated transaction reporting system of the NASDAQ Stock Market.

	QUARTER ENDED							
	2011				2010			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Common Shares:								
High	$ 11.74	$ 11.89	$ 12.15	$ 12.85	$ 10.40	$ 10.30	$ 10.20	$ 11.35
Low	$ 10.50	$ 9.88	$ 10.00	$ 10.28	$ 8.60	$ 9.00	$ 8.88	$ 9.30
Dividends (total for 2011-$0.54; 2010-$0.54)	$ 0.135	$ 0.135	$ 0.135	$ 0.135	$ 0.135	$ 0.135	$ 0.135	$ 0.135

We declared cash dividends of $0.135 per share in each of the quarters during the fiscal years ended December 31, 2010 and 2011. We intend to pay regular quarterly distributions to our common shareholders, the amount of which may change from time to time. 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 Fifth Third Bank, 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 20, 2012, we had 161 shareholders of record and the closing price for our common shares on the NASDAQ Stock Market was $12.53 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 report under the section entitled   Equity Compensation Plan Information.

Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases made by or on behalf of Superior Uniform Group, 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, 2011.

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, 2011 to October 31, 2011)	5,825	$ 11.43	5,825	
Month #2 (November 1, 2011 to November 30, 2011)	2,478	$ 12.22	2,478	
Month #3 (December 1, 2011 to December 31, 2011)	742	$ 12.40	742	
TOTAL	9,045	$ 11.73	9,045	311,456

(1) On August 1, 2008, the Company s Board of Directors reset the common stock repurchase program 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.

Item 6. Selected Financial Data

The following selected data is derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto incorporated into Item 8, and with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Superior Uniform Group, Inc. and Subsidiaries

Consolidated Statements of Earnings

Years Ended December 31,

	2011	2010	2009	2008	2007
Net sales	$ 112,373,000	$ 105,878,000	$ 102,802,000	$ 123,745,000	$ 120,458,000
Costs and expenses:					
Cost of goods sold	72,114,000	68,411,000	69,583,000	83,403,000	80,837,000
Selling and administrative expenses	34,646,000	31,697,000	30,402,000	34,264,000	33,785,000
Goodwill impairment loss				1,617,000	
Interest expense	27,000	23,000	120,000	321,000	330,000
	106,787,000	100,131,000	100,105,000	119,605,000	114,952,000
Earnings from continuing operations before taxes on income	5,586,000	5,747,000	2,697,000	4,140,000	5,506,000
Taxes on income	1,450,000	1,940,000	730,000	1,850,000	1,810,000
Earnings from continuing operations	4,136,000	3,807,000	1,967,000	2,290,000	3,696,000
Loss from discontinued operations, net of taxes				(156,000)	(1,147,000)
Net earnings	$ 4,136,000	$ 3,807,000	$ 1,967,000	$ 2,134,000	$ 2,549,000
Per Share Data:					
Basic					
Earnings from continuing operations	$ 0.69	$ 0.64	$ 0.33	$ 0.35	$ 0.56
Loss from discontinued operations, net of taxes	0.00	0.00	0.00	(0.02)	(0.18)
Net earnings	$ 0.69	$ 0.64	$ 0.33	$ 0.33	$ 0.38
Diluted					
Earnings from continuing operations	$ 0.68	$ 0.64	$ 0.33	$ 0.35	$ 0.55
Loss from discontinued operations, net of taxes	0.00	0.00	0.00	(0.02)	(0.17)
Net earnings	$ 0.68	$ 0.64	$ 0.33	$ 0.33	$ 0.38
Cash dividends per common share	$ 0.54	$ 0.54	$ 0.54	$ 0.54	$ 0.54
At year end:					
Total assets	$ 80,947,000	$ 74,194,000	$ 73,568,000	$ 79,591,000	$ 87,904,000
Long-term debt	$ 640,000	$	$	$ 3,379,000	$ 2,446,000
Working capital	$ 55,784,000	$ 53,148,000	$ 51,475,000	$ 55,802,000	$ 59,252,000

Shareholders equity	$ 61,046,000	$ 61,100,000	$ 60,119,000	$ 60,695,000	$ 72,446,000

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

BUSINESS OUTLOOK: The current economic environment in the United States remains very challenging. Our primary products are provided to workers employed by our customers and, as a result, our business prospects are dependent upon levels of employment among other factors. Our revenues are impacted by the opening and closing of locations by our customers and reductions and increases in headcount by our customers. Additionally, voluntary employee turnover has been reduced significantly as a result of fewer alternative jobs available to employees of our customers. Fewer available jobs coupled with less attrition results in decreased demand for our uniforms and service apparel. Our focus is geared towards mitigating these factors in the current economic environment and has included the following strategies. We are actively pursuing acquisitions to increase our market share in the image apparel business and it is our intention to continue to seek additional acquisitions that fit into our image apparel business in the future. Secondly, we have diversified our business model to include a sector providing remote staffing solutions to other businesses. This business segment was initially started to provide these services for the Company at a lower cost structure in order to improve our own operating results. This remote staffing operation, located in El Salvador and Costa Rica, has enabled us to reduce our operating expenses and to more effectively service our customers needs. We began selling these services to other companies at the end of 2009 and as a result, we have grown this business from approximately $1 million in annual revenues in 2010 to approximately $2.9 million in net sales to outside customers in 2011. We are aggressively marketing this service to others at this point and see this area as a growth sector in 2012 and beyond. Finally, we are pursuing new product lines to enhance our market position in the image apparel business. Toward this end, we entered into a new licensing agreement in January of 2011. This new licensing agreement provides us with access to patented technology which will allow us to market image apparel to our customers that will provide them with the ability to turn their uniforms from an expense item into point of sale advertisements that will, in turn, give them the ability to generate advertising revenues for their businesses. We believe that this new product line will provide us with the opportunity for significant growth in our image apparel business in the future. We are in the initial stages of marketing this concept to customers and have not generated any revenues of significance at this point. We have customers in test programs at this point and expect to begin generating meaningful revenues from this new product line in the first half of 2012.

During the latter part of 2010, cotton prices began increasing dramatically and reached historical highs during 2011 due to weather-related and other supply disruptions, which when combined with robust global demand, particularly in Asia, created concerns about availability in addition to increased costs for our products. While we were able to pass on a portion of these price increases to our customers during most of 2011, we began to see a negative impact on our gross margins in the fourth quarter of 2011 and we expect that this will continue to negatively impact our gross margins in 2012.

OPERATIONS:

Net Sales

	2011	**2010**	% Change
Uniforms and Related Products	$ 109,442,000	$ 104,863,000	4.4%
Remote Staffing Solutions	6,610,000	4,022,000	64.3%
Net intersegment eliminations	(3,679,000)	(3,007,000)	22.3%
Consolidated Net Sales	$ 112,373,000	$ 105,878,000	6.1%

Net sales increased 6.1% from $105,878,000 in 2010 to $112,373,000 in 2011. The increase in net sales is split between growth in our Uniforms and Related Products Segment (4.3%) and increases in net sales after intersegment eliminations from our Remote Staffing Solutions Segment (1.8%). Intersegment eliminations reduce total net sales for sales of remote staffing solutions to the Uniforms and Related Products segment by the Remote Staffing Solutions segment.

Uniforms and Related Products net sales increased 4.4% in 2011. This increase is attributed to increased market penetration primarily in the healthcare market offset by continued softness in our other markets as the economic environment has remained challenging in 2011.

Remote Staffing Solutions net sales increased 64.3% before intersegment eliminations and 188.8% after intersegment eliminations in 2011. This growth is attributed to additional market penetration in 2011.

As a percentage of net sales, cost of goods sold for our Uniforms and Related Products Segment was 64.7% in 2011, and 64.8% in 2010. The percentage decrease in 2011 as a percentage of net sales is attributed primarily to an increase in direct product costs as a percentage of net sales during the current year (0.1%) due to higher raw material costs primarily related to shortages of cotton offset by lower indirect costs as a percentage of net sales due to the increased volume to cover such costs.

As a percentage of net sales, cost of goods sold for our Remote Staffing Solutions Segment was 38.5% in 2011, and 32.8% in 2010. The percentage increase in 2011 as compared to 2010 is primarily attributed to start up costs associated with taking on new programs to support the substantial growth in this segment in 2011.

As a percentage of net sales, selling and administrative expenses for our Uniforms and Related Products Segment approximated 30.5% in 2011 and 29.9% in 2010. The increase as a percentage of sales is attributed primarily to higher amortization of intangible assets associated with the licensing rights we acquired in January of 2011 (0.7%) and expense incurred for a major consulting project completed in the current period to study customer markets and to refine our strategic plan to capitalize on the opportunities identified (0.5%) and various other minor increases (0.7%) partially offset by the impact of higher net sales to cover operating expenses (1.3%).

As a percentage of net sales, selling and administrative expenses for our Remote Staffing Solutions Segment approximated 33.6% in 2011 and 30.1% in 2010. The increase as a percentage of sales is attributed primarily to higher salaries and benefits associated with increased hiring to provide infrastructure to support the rapid growth of this business segment (5.7%) and an increase in the provision for doubtful accounts (2.3%), partially offset by the impact of higher net sales to cover operating expenses (4.5%).

The effective income tax rate in 2011 was 26.0% and in 2010 was 33.8%. The 7.8% decrease in the effective tax rate is attributed primarily to the following: an increase in the benefit for untaxed foreign income (5.4%), a decrease in the state income tax rate (0.9%), a decrease in the accrual for uncertain tax positions (1.2%), and the impact of other items (1.4%), offset by an increase in the rate from the impact of permanent differences between book and tax basis earnings related to share-based compensation (1.1%). The increase in the benefit for untaxed foreign income is attributed to the amount of untaxed foreign income earned by the Company in 2011. During the years ended December 31, 2011 and 2010, the Company did not recognize deferred income taxes on foreign income of $1,952,000 and $1,015,000, respectively, due to the fact that these amounts are considered to be reinvested indefinitely in the foreign subsidiaries. Based upon our current expectations, the benefit from untaxed foreign income in 2012 will be significantly lower unless we determine that our expected investment levels in our foreign subsidiaries will need to be accelerated to handle future growth in these markets. Therefore, we expect our effective tax rate will increase in 2012.

LIQUIDITY AND CAPITAL RESOURCES: The Company uses a number of standards for its own purposes in measuring its liquidity, such as: working capital, profitability ratios, long-term debt as a percentage of long-term debt and equity, and activity ratios. The Company s balance sheet is very strong at this point and provides the ability to pursue acquisitions, to invest in new product lines and technologies, and to invest in additional working capital as necessary. We have a $15 million revolving credit facility available for use in the event we should need it, under which, $640,000 of debt is outstanding at December 31, 2011. Approximately $2,465,000 of our cash is held in our foreign subsidiaries and cannot be repatriated without recognizing and paying Federal income taxes on this amount.

Accounts receivable decreased 3.5% from $16,523,000 on December 31, 2010 to $15,942,000 as of December 31, 2011. The decrease is primarily attributed to improvement in the overall aging of our receivables. Accounts receivable other increased 194.0% from $1,274,000 on December 31, 2010 to $3,745,000 as of December 31, 2011 as a result of increased advances to our suppliers to fund higher raw material levels maintained at their facilities.

Inventories increased 32.8% from $31,030,000 on December 31, 2010 to $41,208,000 as of December 31, 2011. This increase is due to a decision by management to increase certain inventory levels in order to better capitalize on potential opportunities for sales growth.

Accounts payable increased 16.4% from $5,104,000 on December 31, 2010 to $5,941,000 on December 31, 2011. This increase is primarily due to increased levels of inventory purchases in 2011.

Other current liabilities increased 21.2% from $3,713,000 on December 31, 2010 to $4,499,000 on December 31, 2011, due primarily to increased accruals for sales commissions and other incentive compensation attributed to better operating results in 2011.

Long-term pension liability increased 128.7% from $3,535,000 on December 31, 2010 to $8,086,000 on December 31, 2011. The Company contributed $550,000 to its benefit plans in 2011. The contribution was offset by the impact of a reduction in the year end discount rate used to calculate the year-end liability for the plans from a range of 5.28% to 5.49% at December 31, 2010 to a range of 4.23% to 4.35% at December 31, 2011. This change in the discount rates increased the year-end liability by approximately $3,800,000. The majority of the remainder of the increase is attributed to normal service costs of $559,000 and lower than projected performance on the plans assets in the current year.

At December 31, 2011, the working capital of the Company was approximately $55,784,000 and the working capital ratio was 6.3:1. The working capital of the Company at December 31, 2010 was approximately $53,148,000 and the working capital ratio was 7.0:1. The Company has operated without hindrance or restraint with its present working capital, believing that income generated from operations and outside sources of credit, both trade and institutional, are more than adequate to fund the Company s operations.

The Company has an on-going capital expenditure program designed to maintain and improve its facilities. Capital expenditures were approximately $913,000 and $771,000 in 2011 and 2010, respectively.

During the years ended December 31, 2011 and 2010, the Company paid cash dividends of approximately $3,235,000 and $3,196,000, respectively, resulting from quarterly dividends of $.135 per share. On August 1, 2008, the Company s Board of Directors reset the common stock repurchase program authorization to allow for the repurchase of 1,000,000 additional shares of the Company s outstanding shares of common stock. The Company reacquired and retired 76,693 shares and 52,995 shares of its common stock in the years ended December 31, 2011 and 2010, respectively, with approximate costs of $882,000 and $534,000, respectively. At December 31, 2011, the Company had 311,456 shares remaining for purchase under its common stock repurchase authorization. Shares purchased under the share 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.

In 2011, cash and cash equivalents decreased by approximately $6,303,000. The Company used $855,000 in cash from operating activities, $2,929,000 in investing activities consisting of the acquisition of intangible assets of $2,061,000 and $868,000 in net capital expenditures, and used $2,519,000 in financing activities. Financing activities included the payment of cash dividends, as discussed above and $882,000 paid for common stock reacquired and retired, offset by proceeds received from the exercise of stock options of $958,000 and net borrowings of $640,000.

On June 25, 2010, the Company entered into a 3-year credit agreement with Fifth Third Bank that made available to the Company up to $15,000,000 on a revolving credit basis. Interest is payable at LIBOR (rounded up to the next 1/8th of 1%) plus 0.90% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.275% at December 31, 2011). The Company pays an annual commitment fee of 0.15% on the average unused portion of the commitment. The available balance under the credit agreement is reduced by outstanding letters of credit. As of December 31, 2011, there were no balances outstanding under letters of credit. The revolving credit agreement expires on June 24, 2013. At the option of the Company, any outstanding balance on the agreement at that date will convert to a one-year term loan. On June 30, 2010, the Company s previous revolving credit agreement with Wachovia Bank expired.

The credit agreement with Fifth Third Bank contains restrictive provisions concerning liabilities to tangible net worth ratios (.75:1), other borrowings, and a fixed charges coverage ratio (2.5:1). The Company is in full compliance with all terms, conditions and covenants of the credit agreement.

With funds from the credit agreement, anticipated cash flows generated from operations and other credit sources readily available, the Company believes that its liquidity is satisfactory, its working capital adequate and its capital resources sufficient for funding its ongoing capital expenditure program and its operations, including planned expansion for 2012.

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 include 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 Annual Report on 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 are those that we believe require our most significant judgments 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

These allowances are based on both recent trends of certain customers estimated to be a greater credit risk as well as general trends of the entire customer pool. 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 $159,000. The Company s concentration of risk is also monitored and at year-end 2011, one customer had an account balance greater than 10% of receivables and the five largest customer account balances totaled $5,800,000. 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 $3,722,000 at December 31, 2011. This amount is included in accounts receivable-other on the consolidated balance sheet.

Inventories

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

Insurance

The Company self-insures for certain obligations related to health 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 s pension obligations are determined using estimates including those related to discount rates, asset values and changes in compensation. The discount rates used for the Company s pension plans of 4.23% to 4.35% 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.

The 3.5% rate of compensation increase represents the long-term assumption for expected increases in salaries among continuing active participants accruing benefits under the plans. In 2011, a reduction in the expected return on plan assets of 0.25% would have resulted in additional expense of approximately $40,000, while a reduction in the discount rate of 0.25% would have resulted in additional expense of approximately $119,000 and would have reduced the funded status by $974,000 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.

Income Taxes

The Company is required to estimate and record income taxes payable for federal and state 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. Federal income taxes are not provided on that portion of unremitted earnings of foreign subsidiaries that are expected to be reinvested indefinitely. 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 ending December 31, 2011, we recognized a net decrease in total unrecognized tax benefits of approximately $7,000. As of December 31, 2011, we had an accrued liability of $735,000 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 the total liability for unrecognized tax benefits.

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 2011 and 2010 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 appreciation rights (SARS) that fully vest on the date of grant. Therefore, the fair value of the options and SARS granted is recognized as expense on the date of grant. 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 assumptions including the risk free interest rate, dividend rate, expected term and volatility rate. The Company determines the assumptions to be used based upon current economic conditions. The impact of changing any of the individual assumptions by 10% would not have a material impact on the recorded expense.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

Superior Uniform Group, Inc. and Subsidiaries

Consolidated Statements of Earnings

Years Ended December 31,

	2011	2010
Net sales	**$ 112,373,000**	$ 105,878,000
Costs and expenses:		
Cost of goods sold	**72,114,000**	68,411,000
Selling and administrative expenses	**34,646,000**	31,697,000
Interest expense	**27,000**	23,000
	106,787,000	100,131,000
Earnings before taxes on income	**5,586,000**	5,747,000
Taxes on income	**1,450,000**	1,940,000
Net earnings	**$ 4,136,000**	$ 3,807,000

Per Share Data:				
Basic				
Net earnings	$	**0.69**	$	0.64
Diluted				
Net earnings	$	**0.68**	$	0.64
Cash dividends per common share	$	**0.54**	$	0.54

See Notes to Consolidated Financial Statements.

Superior Uniform Group, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 2,804,000**	$ 9,107,000
Accounts receivable, less allowance for doubtful accounts of $758,000 and $600,000, respectively	**15,942,000**	16,523,000
Accounts receivable - other	**3,745,000**	1,274,000
Inventories	**41,208,000**	31,030,000
Prepaid expenses and other current assets	**2,525,000**	4,031,000
TOTAL CURRENT ASSETS	**66,224,000**	61,965,000
PROPERTY, PLANT AND EQUIPMENT, NET	**8,412,000**	9,464,000
OTHER INTANGIBLE ASSETS	**2,749,000**	911,000
DEFERRED INCOME TAXES	**3,455,000**	1,680,000
OTHER ASSETS	**107,000**	174,000
	$ 80,947,000	$ 74,194,000
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 5,941,000**	$ 5,104,000
Other current liabilities	**4,499,000**	3,713,000
TOTAL CURRENT LIABILITIES	**10,440,000**	8,817,000
LONG-TERM DEBT	**640,000**	
LONG-TERM PENSION LIABILITY	**8,086,000**	3,535,000
OTHER LONG-TERM LIABILITIES	**735,000**	742,000
COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)		
SHAREHOLDERS EQUITY:		
Preferred stock, $1 par value - authorized 300,000 shares (none issued)		
Common stock, $.001 par value - authorized 50,000,000 shares, issued and outstanding - 5,993,062 and 5,959,975, respectively.	**6,000**	6,000
Additional paid-in capital	**19,347,000**	16,753,000
Retained earnings	**48,590,000**	48,403,000
Accumulated other comprehensive loss, net of tax:		
Pensions	**(6,897,000)**	(4,062,000)
TOTAL SHAREHOLDERS EQUITY	**61,046,000**	61,100,000
	$ 80,947,000	$ 74,194,000

See Notes to Consolidated Financial Statements.

Superior Uniform Group, Inc. and Subsidiaries

Consolidated Statements of Shareholders Equity and Comprehensive Income

Years Ended December 31,

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, net of tax	Total Shareholders Equity
Balance, January 1, 2010	5,915,878	$ 6,000	$ 15,437,000	$ 48,484,000	$ (3,808,000)	$ 60,119,000
Common shares issued upon exercise of options	125,505		1,025,000			1,025,000
Common shares issued upon exercise of Stock Appreciation Rights	9,189					
Share-based compensation expense			532,000			532,000
Common shares received as payment for stock options	(37,602)		(100,000)	(299,000)		(399,000)
Purchase and retirement of common shares	(52,995)		(141,000)	(393,000)		(534,000)
Cash dividends declared ($.54 per share)				(3,196,000)		(3,196,000)
Comprehensive Income (Loss):						
Net earnings				3,807,000		3,807,000
Net change during the period related to:						
Pensions, net of tax benefit of $125,000					(254,000)	(254,000)
Comprehensive Income:						3,553,000
Balance, December 31, 2010	5,959,975	$ 6,000	$ 16,753,000	$ 48,403,000	$ (4,062,000)	$ 61,100,000
Common shares issued upon exercise of options	117,846		1,056,000			1,056,000
Common shares issued upon exercise of Stock Appreciation Rights	425					
Share-based compensation expense			1,005,000			1,005,000
Warrants issued			800,000			800,000
Common shares received as payment for stock options	(8,491)		(26,000)	(73,000)		(99,000)
Purchase and retirement of common shares	(76,693)		(241,000)	(641,000)		(882,000)
Cash dividends declared ($.54 per share)				(3,235,000)		(3,235,000)
Comprehensive Income (Loss):						
Net earnings				4,136,000		4,136,000
Net change during the period related to:						
Pensions, net of tax benefit of $1,458,000					(2,835,000)	(2,835,000)
Comprehensive Income:						1,301,000
Balance, December 31, 2011	5,993,062	$ 6,000	$ 19,347,000	$ 48,590,000	$ (6,897,000)	$ 61,046,000

See Notes to Consolidated Financial Statements.

Superior Uniform Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 4,136,000	$ 3,807,000
Adjustments to reconcile net earnings to net cash (used in) provided from operating activities:		
Depreciation and amortization	2,982,000	2,554,000
Provision for bad debts - accounts receivable	239,000	114,000
Provision for bad debts - notes receivable		107,000
Share-based compensation expense	1,005,000	532,000
Deferred income tax (benefit) provision	(317,000)	505,000
Gain on sale of property, plant and equipment	(40,000)	(54,000)
Changes in assets and liabilities:		
Accounts receivable - trade	342,000	(337,000)
Accounts receivable - other	(2,471,000)	370,000
Inventories	(10,178,000)	1,024,000
Prepaid expenses and other current assets	1,506,000	(1,320,000)
Other assets	67,000	(112,000)
Accounts payable	837,000	(323,000)
Accrued expenses	786,000	1,486,000
Pension liability	258,000	(1,960,000)
Other long-term liabilities	(7,000)	62,000
Net cash (used in) provided from operating activities	(855,000)	6,455,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(913,000)	(771,000)
Disposals of property, plant and equipment	45,000	61,000
Acquisition of intangible assets	(2,061,000)	
Proceeds from notes receivable collections		101,000
Net cash used in investing activities	(2,929,000)	(609,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	24,930,000	3,415,000
Repayment of long-term debt	(24,290,000)	(3,415,000)
Payment of cash dividends	(3,235,000)	(3,196,000)
Proceeds received on exercise of stock options	958,000	625,000
Common stock reacquired and retired	(882,000)	(533,000)
Net cash used in financing activities	(2,519,000)	(3,104,000)
Net (decrease) increase in cash and cash equivalents	(6,303,000)	2,742,000
Cash and cash equivalents balance, beginning of year	9,107,000	6,365,000
Cash and cash equivalents balance, end of year	$ 2,804,000	$ 9,107,000

See Notes to Consolidated Financial Statements.

Superior Uniform Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Years Ended December 31, 2011 and 2010

NOTE 1 Summary of Significant Accounting Policies:

a) Business description
Superior Uniform Group®, through its Signature marketing brands Fashion Seal®, Fashion Seal Healthcare®, Martin's®, Worklon®, UniVogue® and Blade manufactures and sells a wide range of uniforms, image apparel and accessories, primarily in domestic markets. Superior specializes in managing comprehensive uniform programs, and is dedicated to servicing the Healthcare, Hospitality, Restaurant/Food Services, Retail Employee I.D., Governmental/Public Safety, Entertainment, Commercial, and Cleanroom markets. The Company also provides remote staffing solutions through its indirect subsidiaries The Office Gurus, Ltda, De C.V., The Office Gurus, LLC and The Office Gurus, Ltda.

b) Basis of presentation
The consolidated interim financial statements include the accounts of Superior Uniform Group, Inc. and its wholly owned subsidiaries, The Office Gurus, LLC, Fashion Seal Corporation, Superior Office Solutions, and their jointly owned subsidiaries, The Office Gurus, Ltda, De C.V. and The Office Masters. They also include The Office Gurus, Ltda and Scratt Kit S.R.L., wholly owned subsidiaries of Superior Office Solutions, collectively, the Company . 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 as products are shipped and title passes. The Company collects sales tax for various taxing authorities. It is the Company s policy to record these amounts on a net basis. Therefore, these amounts are not included in net sales for the Company. A provision 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. 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. 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 the years ended December 31, 2011 and 2010, respectively, were $84,000 and $58,000.

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 and receiving costs, inspection costs, and warehousing costs. 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 $5,721,000 and $6,084,000 for the years ended December 31, 2011 and 2010, respectively.

h) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market 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 currently. 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 statement of earnings within selling and administrative expenses.

j) Other intangible assets

Other intangible assets consists of customer lists acquired in previous business acquisitions and a license agreement.

The breakdown of intangible assets as of December 31, 2011 and 2010 was as follows:

	Customer Relationships	Weighted Average Life	License Agreement	Weighted Average Life
December 31, 2011				
Cost	$ 1,021,000	7 years	$ 2,861,000	3.5 years
Accumulated amortization	(316,000)		(817,000)	
Net	$ 705,000		$ 2,044,000	
December 31, 2010				
Cost	$ 2,690,000	7 years	$ 0	
Accumulated amortization	(1,779,000)		0	
Net	$ 911,000		$ 0	

Amortization expense for other intangible assets was $1,023,000 and $385,000 for the years ended December 31, 2011 and 2010, respectively. Amortization expense for other intangible assets is expected to be $963,000 in each of the years ended December 31, 2012 and 2013; $555,000 in 2014; $146,000 in 2015 and $122,000 in 2016.

k) Depreciation and amortization

Plant and equipment are depreciated on the straight-line basis at 2-1/2% to 5% for buildings, 2-1/2% to 20% for improvements, 10% to 33-1/3% for machinery, equipment and fixtures and 20% to 33-1/3% 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.

l) 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 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.

m) 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.

n) 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 8.

o) 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, 2011 or 2010.

p) Share-based compensation

The Company awards share-based compensation as an incentive for employees to contribute to the Company s long-term success. Historically, the Company has issued options and stock-settled stock appreciation rights. At December 31, 2011, the Company had 1,419,700 shares of common stock authorized for awards of share-based compensation under its 2003 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. 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.

q) 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 and stock-settled stock appreciation rights.

r) 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).

s) Operating segments

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 two reportable segments, uniforms and related products and remote staffing solutions.

t) 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, 2011 the Company had one customer with an accounts receivable balance greater than 10% of the total accounts receivable. This customer owed approximately $2,369,000 or approximately 14.9% of the total accounts receivable balance. At December 31, 2010 the Company had one customer with an accounts receivable balance greater than 10% of the total accounts receivable. This customer owed approximately $1,675,000 or approximately 10.0% of the total accounts receivable balance. At December 31, 2011 and 2010 the accounts receivable balances for the Company s five largest customers totaled $5,800,000 and $5,600,000, respectively or approximately 36.4% and 33.9% of the respective total accounts receivable balances. The Company s largest customer for each of the years ended December 31, 2011 and 2010 had net sales of approximately $6,963,000 and $5,702,000, respectively, or approximately 6.2% and 5.4% of the respective total net sales for the Company. The Company s five largest customers for the year ended December 31, 2011 and 2010 had net sales of approximately $25,987,000 and $23,668,000, respectively, or approximately 23.1% and 22.4% of the respective total net sales for the Company.

Included in accounts receivable-other on the Company s consolidated balance sheets at December 31, 2011 and 2010 are receivable balances from a supplier in Haiti totaling $3,722,000 and $1,201,000, respectively.

In 2011 and 2010, approximately 52% and 54%, respectively, of the Company s products were obtained from suppliers located in Central America. Any inability by the Company to continue to obtain its products from Central America could significantly disrupt the Company s business. Because the Company manufactures and sources products in Central America, the Company is affected by economic conditions in those countries, including increased duties, possible employee turnover, labor unrest and lack of developed infrastructure.

u) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximated fair value as of December 31, 2011 and 2010, because of the relatively short maturities of these instruments.

v) 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.

w) Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to

present components of other comprehensive income as part of the changes in stockholders equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. The adoption of ASU 2011-05 will only impact presentation and will not have any effect on the Company s condensed consolidated financial statements or on its financial condition.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12: *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). The Update defers the specific requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. As part of this update, the FASB did not defer the requirement to report comprehensive income either in a single continuous statement or in two separate but consecutive financial statements. ASU 2011-12 is effective for annual periods beginning after December 15, 2011.

NOTE 2 Allowance for Doubtful Accounts Receivable:

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

	00000000 2011	00000000 2010
Balance at the beginning of year	$ 600,000	$ 570,000
Provision for bad debts	239,000	114,000
Charge-offs	(90,000)	(107,000)
Recoveries	9,000	23,000
Balance at the end of year	$ 758,000	$ 600,000

NOTE 3 Reserve for Sales Returns and Allowances:

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

	2011	2010
Balance at the beginning of year	$ 218,000	$ 331,000
Provision for returns and allowances	2,419,000	2,413,000
Actual returns and allowances paid to customers	(2,365,000)	(2,526,000)
Balance at the end of year	$ 272,000	$ 218,000

NOTE 4 Inventories:

	December 31, 2011	December 31, 2010
Finished goods	$ 29,030,000	$ 23,828,000
Work in process	49,000	67,000
Raw materials	12,129,000	7,135,000
	$ 41,208,000	$ 31,030,000

NOTE 5 Property, Plant and Equipment:

	December 31, 2011	December 31, 2010
Land	$ 1,561,000	$ 1,561,000
Buildings, improvements and leaseholds	8,414,000	8,365,000
Machinery, equipment and fixtures	46,202,000	46,557,000
	56,177,000	56,483,000
Accumulated depreciation and amortization	(47,765,000)	(47,019,000)
	$ 8,412,000	$ 9,464,000

Depreciation and amortization charges were approximately $1,959,000 and $2,170,000 in 2011 and 2010, respectively.

NOTE 6 License Agreement:

On January 4, 2011 , the Company entered into a License and Distribution Agreement (the License Agreement) with EyeLevel Interactive, LLC (Licensor), a leading technology company, pursuant to which the Company was granted a license to market, promote, sell and distribute garments utilizing certain intellectual property of Licensor (the Products) to the Company s current and potential clients. The License Agreement expires three years and 180 days following the Effective Date (the Term). The Company may renew the License Agreement for additional three year terms by giving written notice to Licensor at least 90 days prior to the expiration of the then current term, provided the Company has met certain sales requirements relating to the Products and is not otherwise in default under the License Agreement or any manufacturing agreement with Licensor. Any renewal of the License Agreement will be on Licensor s then current form, provided that the license fee, the restrictive covenants and certain other provisions of the License Agreement will be incorporated into the new form of agreement. The License Fee shall be payable on the first day of the renewal term.

In conjunction with the execution of the License Agreement, the Company paid Licensor a license fee (the License Fee) equal to (1) $2.0 million cash, plus (2) a warrant to acquire 360,000 shares of the Company s common stock (the Warrant) at the greater of the Company s closing price as quoted on the Nasdaq Stock Market or the book value per share of the Company s common stock as of the Effective Date. This Warrant will be exercisable until January 4, 2016, and has an exercise price of $10.63 per share. In the event the Company achieves a specified level of Gross Sales (as calculated pursuant to the License Agreement), during the initial Term, from the sale of Products, the Company will be required to pay Licensor an additional cash license fee. If the Company does not attain such level of Gross Sales during the initial Term, the Company may terminate the License Agreement. In addition to the License Fee, the Company shall pay Licensor a monthly royalty fee based upon Gross Sales from the sale of Products for the immediately preceding month of operation, subject to a minimum required annual payment if the License Agreement is not terminated prior to the end of the then current term.

NOTE 7 Long-Term Debt:

	December 31, 2011	December 31, 2010
Note payable to Fifth Third Bank, pursuant to revolving credit agreement, maturing June 24, 2013	$ 640,000	$

On June 25, 2010, the Company entered into a 3-year credit agreement with Fifth Third Bank that made available to the Company up to $15,000,000 on a revolving credit basis. Interest is payable at LIBOR (rounded up to the next 1/8th of 1%) plus 0.90% based upon the one-month LIBOR rate for U.S. dollar based borrowings (1.275% at December 31, 2011). The Company pays an annual commitment fee of 0.15% on the average unused portion of the commitment. The

available balance under the credit agreement is reduced by outstanding letters of credit. As of December 31, 2011, there were no balances outstanding under letters of credit. The revolving credit agreement expires on June 24, 2013. At the option of the Company, any outstanding balance on the agreement at that date will convert to a one-year term loan. On June 30, 2010, the Company s previous revolving credit agreement with Wachovia Bank expired.

The credit agreement with Fifth Third Bank contains restrictive provisions concerning liabilities to tangible net worth ratios (.75:1), other borrowings, and fixed charges coverage ratio (2.5:1). The Company is in full compliance with all terms, conditions and covenants of the credit agreement.

NOTE 8 Taxes on Income:

Aggregate income tax provisions consist of the following:

	2011	2010
Current:		
Federal	$ 1,594,000	$ 1,105,000
State and local	173,000	330,000
	1,767,000	1,435,000
Deferred tax (benefit) provision	(317,000)	505,000
	$ 1,450,000	$ 1,940,000

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

	2011	2010
Deferred income tax assets:		
Pension accruals	$ 3,751,000	$ 2,293,000
Operating reserves and other accruals	1,190,000	1,019,000
Tax carrying value in excess of book basis of goodwill	506,000	681,000
Deferred income tax liabilities:		
Book carrying value in excess of tax basis of property	(703,000)	(1,036,000)
Deferred expenses	(1,289,000)	(1,277,000)
Net deferred income tax asset	$ 3,455,000	$ 1,680,000

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

	2011	2010
Statutory Federal income tax rate	34.0%	34.0%
State and local income taxes, net of Federal income tax benefit	2.0	2.9
Effect of change in unrecognized tax benefit	(1.3)	(0.1)
Untaxed foreign income	(11.9)	(6.5)
Non-deductible share-based employee compensation expense	3.6	2.5
Other items	(0.4)	1.0
Effective income tax rate	26.0%	33.8%

Only tax positions that meet the more-likely-than-not recognition threshold are recognized in the consolidated financial statements.

As of December 31, 2011 and 2010, respectively, we have $735,000 and $742,000 of unrecognized tax benefits, all of which, if recognized, would favorably affect the annual effective income tax rate. None of this liability is expected to be paid in the next twelve months. Accordingly, the balance of $735,000 is included in other long-term liabilities.

Changes in the Company s gross liability for unrecognized tax benefits, excluding interest and penalties, were as follows:

	2011	2010
Balance at January 1,	$ 586,000	$ 541,000
Additions based on tax positions related to the current year	79,000	73,000
Additions for tax positions of prior years		11,000
Reductions due to lapse of statute of limitations	(83,000)	(39,000)
Balance at December 31,	$ 582,000	$ 586,000

We recognize interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes. During 2011 and 2010, we recorded $41,000 and $39,000 respectively, for interest and penalties, net of tax benefits. During 2011 and 2010, we reduced the liability by $44,000 and $22,000, respectively, of interest and penalties due to lapse of statute of limitations. At December 31, 2011 and 2010, we had $153,000 and $156,000, respectively, accrued for interest and penalties, net of tax benefit.

We anticipate that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by approximately $69,000 within the next 12 months due to the closure of tax years by expiration of the statute of limitations and audit settlements related to various state tax filing positions. The earliest year open to federal examinations is 2008 and significant state examination is 2002.

We have not provided deferred taxes on undistributed earnings attributable to foreign operations that have been considered to be reinvested indefinitely. These earnings relate to ongoing operations and were $4,141,000 and $2,189,000 at December 31, 2011 and 2010, respectively. It is not practical to determine the income tax liability that would be payable if such earnings were not indefinitely reinvested.

NOTE 9 Benefit Plans:

Defined Benefit Plans

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.

The Company recognizes the funded status of its defined benefit post retirement plan in the Company s consolidated balance sheets.

At December 31, 2011, the Company s projected benefit obligation under its pension plans exceeded the fair value of the plans assets by $8,086,000 and thus the plans are underfunded.

It is our policy to make contributions to the various plans in accordance with statutory funding requirements and any additional funding that may be deemed appropriate.

The following tables present the changes in the benefit obligations and the various plan assets, the funded status of the plans, and the amounts recognized in the Company s consolidated balance sheets at December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Changes in benefit obligation		
Benefit obligation at beginning of year	$ 20,277,000	$ 17,790,000
Service cost	559,000	632,000
Interest cost	1,092,000	1,027,000
Actuarial loss	3,215,000	1,378,000
Benefits paid	(1,246,000)	(550,000)
Benefit obligation at end of year	23,897,000	20,277,000
Changes in plan assets		
Fair value of plan assets at beginning of year	16,742,000	12,674,000
Actual return on assets	(235,000)	1,618,000
Employer contributions	550,000	3,000,000
Benefits paid	(1,246,000)	(550,000)
Fair value of plan assets at end of year	15,811,000	16,742,000
Funded status at end of year	$ (8,086,000)	$ (3,535,000)
Amounts recognized in consolidated balance sheet		
Long-term pension liability	$ (8,086,000)	$ (3,535,000)
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss	$ 10,597,000	$ 6,279,000
Prior service cost	30,000	55,000
	$ 10,627,000	$ 6,334,000

Information for pension plans with projected benefit obligation in excess of plan assets

	December 31, 2011	December 31, 2010
Projected benefit obligation	$ 23,897,000	$ 20,277,000
Fair value of plan assets	(15,811,000)	(16,742,000)
	$ 8,086,000	$ 3,535,000

Components of net periodic benefit cost

	2011	2010
Net periodic benefits cost		
Service cost - benefits earned during the period	$ 559,000	$ 632,000
Interest cost on projected benefit obligation	1,092,000	1,027,000
Expected return on plan assets	(1,347,000)	(1,080,000)

Amortization of prior service cost	25,000	30,000
Recognized actuarial loss	479,000	431,000
Net periodic pension cost after settlements	$ 808,000	$ 1,040,000

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $957,000 and $17,000, respectively.

The table below presents various assumptions used in determining the benefit obligation for each year and reflects the percentages for the various plans.

Weighted-average assumptions used to determine benefit obligations at December 31,

	Discount Rate		Long Term Rate of Return		Salary Scale	
	Corp.	Plants	Corp.	Plants	Corp.	Plants
2010	5.49%	5.28%	8.00%	8.00%	4.50%	N/A
2011	4.35%	4.23%	8.00%	8.00%	3.50%	N/A

Weighted-average assumptions used to determine net periodic benefit cost for years ending December 31,

	Discount Rate		Long Term Rate of Return		Salary Scale	
	Corp.	Plants	Corp.	Plants	Corp.	Plants
2010	5.87%	5.87%	8.00%	8.00%	4.50%	N/A
2011	5.49%	5.28%	8.00%	8.00%	4.50%	N/A

The methodology used to determine the expected rate of return on the pension plan assets was based on a review of actual returns in the past and consideration of projected returns based upon our projected asset allocation. Our strategy with respect to our investments in pension plan assets is to be invested with a long-term outlook. Therefore, the risk and return balance of our asset portfolio should reflect a long-term horizon. Our pension plan asset allocation at December 31, 2010, 2011 and target allocation for 2012 are as follows:

Investment description	**Percentage of Plan Assets at December 31, 2011**	**2010**	**Target Allocation 2012**
Equity securities	66%	65%	65%
Fixed income	31%	33%	30%
Other	3%	2%	5%
Total	100%	100%	100%

The Company plans to contribute $550,000 to our defined benefit pension plans in 2012.

The following table includes projected benefit payments for the years indicated:

Year	**Projected Benefit Payments**
2012	$ 411,000
2013	$ 496,000
2014	$ 563,000
2015	$ 763,000
2016	$ 927,000
2017-2021	$ 6,379,000

Defined Contribution Plan

The Company provides a defined contribution plan covering qualified employees. The plan includes a provision that allows employees to make pre-tax contributions under Section 401(k) of the Internal Revenue Code. The plan provides for the Company to make a guaranteed match equal to 25% of each employee s eligible contributions. The plan also provides the Company with the option of making an additional discretionary contribution to the plan each year. The Company contributions for the years ended December 31, 2011 and 2010 were approximately $112,000 and $105,000, respectively.

NOTE 10 Quarterly Results for 2010 and 2011 (Unaudited):

	Quarter Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Net sales	$ 25,980,000	$ 26,629,000	$ 27,301,000	$ 25,968,000
Gross profit	$ 8,932,000	$ 9,384,000	$ 9,944,000	$ 9,207,000
Earnings before taxes on income	$ 808,000	$ 1,533,000	$ 1,982,000	$ 1,424,000
Net earnings	$ 508,000	$ 983,000	$ 1,372,000	$ 944,000
Per Share Data:				
Basic				
Net earnings	$ 0.09	$ 0.17	$ 0.23	$ 0.16
Diluted				
Net earnings	$ 0.09	$ 0.17	$ 0.23	$ 0.16
Average Outstanding Shares (Basic)	5,908,054	5,901,723	5,900,595	5,945,827
Average Outstanding Shares (Diluted)	5,960,009	5,957,641	5,954,578	6,007,123

	Quarter Ended			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
Net sales	$ 26,899,000	$ 27,505,000	$ 30,731,000	$ 27,238,000
Gross profit	$ 9,851,000	$ 9,928,000	$ 11,196,000	$ 9,284,000
Earnings before taxes on income	$ 939,000	$ 1,432,000	$ 2,600,000	$ 615,000
Net earnings	$ 599,000	$ 932,000	$ 1,880,000	$ 725,000
Per Share Data:				
Basic				
Net earnings	$ 0.10	$ 0.16	$ 0.31	$ 0.12
Diluted				
Net earnings	$ 0.10	$ 0.15	$ 0.31	$ 0.12
Average Outstanding Shares (Basic)	5,978,828	5,995,147	5,986,676	5,987,598
Average Outstanding Shares (Diluted)	6,070,970	6,092,118	6,079,430	6,137,137

NOTE 11 Rentals:

Aggregate rent expense, including month-to-month rentals, approximated $176,000 and $296,000 for the years ended December 31, 2011 and 2010, respectively. Long-term lease commitments totaling $194,000 are as follows: 2012 - $111,000; 2013 - $63,000; and 2014 - $20,000.

NOTE 12 Contingencies:

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

During 2005, the Company entered into severance protection agreements with senior management. The terms of these agreements require the Company to potentially make certain payments to members of senior management in the event of a change in control of the Company.

NOTE 13 Share-Based Compensation:

In 1993, the Company adopted an Incentive Stock Option Plan (the 1993 Plan) under which options on 1,500,000 shares were reserved for grant. The 1993 Plan provided for the issuance of incentive stock options. This plan expired in February of 2003. In May, 2003, the stockholders of the Company approved the 2003 Incentive Stock and Awards Plan (the 2003 Plan), authorizing the granting of incentive stock options, non-qualified stock options, stock-settled stock appreciation rights (SARS), restricted stock, performance stock and other share-based compensation. A total of 2,500,000 shares of common stock (subject to adjustment for expirations and cancellations of options outstanding from the 1993 Plan subsequent to its termination) have been reserved for issuance under the 2003 Plan. All awards under both plans have been granted at prices at least equal to the fair market value of the shares on the date of grant. Awards (all of which are exercisable at each respective year end) granted to date under both plans are exercisable in part or in full within five years of grant date with the exception of annual grants to outside directors which are exercisable in part or in full within ten years of grant date. Proceeds from the exercise of awards are credited to common stock to the extent of par value, and the balance is credited to additional paid-in capital. A summary of option transactions during the two years ended December 31, 2011 follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2009	745,650	$ 10.65
Granted	199,970	9.76
Exercised	(125,505)	8.17
Lapsed	(105,875)	14.41
Cancelled	(14,450)	10.23
Outstanding December 31, 2010	699,790	$ 10.29
Granted	211,631	11.43
Exercised	(117,846)	8.97
Lapsed	(93,025)	11.65
Cancelled	(29,050)	10.84
Outstanding December 31, 2011	671,500	$ 10.66

At December 31, 2011, options outstanding, all of which were fully vested and exercisable, had an intrinsic value of $1,161,000.

Options exercised during the years ended December 31, 2011 and 2010, had intrinsic values of $256,000 and $134,000, respectively.

The weighted average fair value of options granted for each of the years ended December 31, 2011 and 2010, was $2.97 and $2.25, respectively.

The following table summarizes information about stock options outstanding as of December 31, 2011:

Range of Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$7.63 - $9.80	319,238	2.95	$ 9.23
$11.02 - $12.84	339,762	3.28	$ 11.81
$16.00	12,500	2.33	$ 16.00
$7.63 - $16.00	671,500	3.10	$ 10.66

A summary of stock-settled stock appreciation rights transactions during the two years ended December 31, 2011 follows:

	No. of Shares	Weighted Average Exercise Price
Outstanding December 31, 2009	297,030	$ 12.08
Granted	35,980	9.80
Exercised	(43,630)	8.47
Lapsed	(82,000)	14.95
Cancelled		
Outstanding December 31, 2010	207,380	$ 11.30
Granted	127,144	11.24
Exercised	(2,100)	9.16
Lapsed	(75,000)	11.20
Cancelled		
Outstanding December 31, 2011	257,424	$ 11.32

At December 31, 2011 SARS outstanding, all of which were fully vested and exercisable, had an aggregate intrinsic value of $280,000.

There were 2,100 SARS exercised during the year ended December 31, 2011. SARS exercised during the year ended December 31, 2011 had an intrinsic value of $5,000. There were 43,630 SARS exercised during the year ended December 31, 2010. SARS exercised during the year ended December 31, 2010 had an intrinsic value of $87,000.

The weighted average fair value of SARS granted for each of the years ended December 31, 2011 and 2010 was $2.96 and $2.29, respectively.

The following table summarizes information about stock appreciation rights outstanding as of December 31, 2011:

Range of Exercise Price	SARS	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$9.16 - $9.80	55,280	2.39	$ 9.58
$11.24 - $12.74	202,144	2.60	$ 11.80
$9.16 - $12.74	257,424	2.55	$ 11.32

At December 31, options and SARS available to issue were 1,419,700 for 2011 and 1,561,400 for 2010. Options and SARS have never been repriced by the Company in any year.

The following table summarizes significant assumptions utilized to determine the fair value of share-based compensation awards:

	SARS	Options
Exercise price		
2011	$ 11.24	$ 11.10-$11.95
2010	$ 9.80	$ 9.41-$9.80
Market price		
2011	$ 11.24	$ 11.10-$11.95
2010	$ 9.80	$ 9.41-$9.80
Risk free interest rate (1)		
2011	2.3%	1.2%-3.2%
2010	2.2%	1.5%-3.6%
Expected award life (2)	5 years	5-10 years
Expected volatility (3)		
2011	43.5%	35.5%-43.9%
2010	41.7%	35.3%-42.1%
Expected dividend yield (4)		
2011	4.8%	4.5%-4.9%
2010	5.5%	5.5%-5.7%

(1) The risk-free interest rate is based on the yield of a U.S. treasury bond with a similar maturity as the expected life of the awards.
(2) The expected life in years for awards granted was based on the historical exercise patterns experienced by the Company when the award is made.
(3) The determination of expected stock price volatility for awards granted in each of the two years ended December 31, was based on historical Superior common stock prices over a period commensurate with the expected life.
(4) The dividend yield assumption is based on the history and expectation of the Company s dividend payouts.

For the years ended December 31, 2011 and 2010, the Company recognized $1,005,000 and $532,000, respectively, of pre-tax share-based compensation expense, recorded in selling and administrative expense in the consolidated statements of earnings. These expenses were offset by $145,000 and $38,000, respectively, of deferred tax benefits for non-qualified share based compensation. As of December 31, 2011, the Company had no unrecognized compensation cost for share-based awards based upon the Company s standard vesting policies, which provide for immediate vesting at the date of grant.

During the years ended December 31, 2011 and 2010, the Company received $958,000 and $625,000, respectively, in cash from stock option exercises. Current tax benefits of $55,000 and $40,000, respectively, were recognized for these exercises. Additionally, during the years ended December 31, 2011 and 2010, the Company received 8,491 and 37,602 shares, respectively, of its common stock as payment for the issuance of 10,900 and 50,696 shares, respectively, of its common stock related to the exercise of stock option agreements.

NOTE 14 Earnings Per Share:

The following table represents a reconciliation of basic and diluted earnings per share:

	2011	2010
Net earnings used in the computation of basic and diluted earnings per share	$ 4,136,000	$ 3,807,000
Weighted average shares outstanding - basic	5,987,062	5,914,050
Common stock equivalents	107,852	55,788
Total weighted average shares outstanding - diluted	6,094,914	5,969,838
Per Share Data:		
Basic		
Net earnings	$ 0.69	$ 0.64
Diluted		
Net earnings	$ 0.68	$ 0.64

Awards to purchase an average of 384,556 shares of common stock with a weighted average exercise price of $12.19 per share were outstanding during 2011 but were not included in the computation of diluted EPS because the awards exercise prices were greater than the average market price of the common shares. Awards to purchase an average of 504,438 shares of common stock with a weighted average exercise price of $11.84 per share were outstanding during 2010, but were not included in the computation of diluted EPS because the awards exercise prices were greater than the average market price of the common shares.

NOTE 15 Accrued Expenses:

	December 31, 2011	December 31, 2010
Salaries, wages, commissions and vacation pay	$ 3,642,000	$ 2,691,000
Other accrued expenses	857,000	1,022,000
	$ 4,499,000	$ 3,713,000

NOTE 16 Supplemental Cash Flow Information:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Income taxes paid	$ 9.5%	

Calculation of Return on Average Debt and Equity		
Numerator [1]		
Net earnings	$ 2,370	$ 1,972
Denominator		
Average debt and equity [3]	$ 22,245	$ 23,554
Return on average debt and equity	10.7 %	8.4 %

[1] Amounts used in the calculation of the numerator are based on the trailing four quarters.
[2] Income tax adjustment is defined as earnings before interest and taxes multiplied by the effective tax rate.
[3] Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.

Net Sales – Net sales increased 2.4% to $13.4 billion in the first quarter of 2014. Comparable sales increased 0.9% over the same period, driven by a 0.8% increase in comparable average ticket, and a 0.1% increase in comparable customer transactions.

For the first quarter, seven of our 12 product categories had comparable sales increases. Overall, indoor product categories, which accounted for approximately 65% of sales, experienced solid performance with a comparable sales increase of

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approximately 2% and mid-single digit increases in areas of the country where weather was more cooperative. However, comparable sales in outdoor product categories declined approximately 1.5% overall, with Outdoor Power Equipment, Lumber & Building Materials, and Lawn & Garden having experienced the greatest impact of unfavorable weather. Although the prolonged winter in many areas of the country reduced demand for outdoor products, we were able to mitigate the impact in seasonal categories by positioning weather relevant products at our regional distribution centers, which enabled quick deliveries to our stores in areas hardest hit by winter weather.

During the quarter, we experienced comparable sales increases above the company average in the following categories: Kitchens & Appliances, Fashion Fixtures, Rough Plumbing & Electrical, Tools & Hardware, and Millwork. Comparable sales increases in Kitchens & Appliances were primarily driven by our extensive offering of major appliance brands. In Fashion Fixtures, we experienced particular strength in light bulbs driven by LED and other energy-efficient products, as well as in fashion plumbing products where we are providing compelling new styles and coordinated sets for customers refreshing or remodeling their bathrooms. Likewise, in Rough Plumbing & Electrical we were able to generate strong sales by ensuring that stores had ample supplies of products customers needed to repair pipes damaged by the severe cold, as well as to prepare their HVAC systems for spring.

Gross Margin – For the first quarter of 2014, gross margin increased 70 basis points as a percentage of sales. Gross margin was positively impacted by 40 basis points resulting from our Value Improvement program. In addition, the mix of products sold during the quarter positively impacted gross margin by 20 basis points primarily due to lower sales of seasonal products.

SG&A – For the first quarter of 2014, SG&A expense deleveraged 14 basis points as a percentage of sales compared to the first quarter of 2013. This was driven by deleverage of 18 basis points in employee insurance primarily due to the Affordable Care Act, which drove a 10% increase in enrollment. In addition, we experienced 17 basis points of deleverage associated with long-lived asset impairments. These were partially offset by 23 basis points of leverage associated with our proprietary credit program due to continued growth in the program and lower operating costs.

Depreciation – Depreciation expense deleveraged nine basis points for the first quarter of 2014 compared to the prior year due to information technology assets being placed in service. Property, less accumulated depreciation, decreased to $20.6 billion at May 2, 2014 compared to $21.3 billion at May 3, 2013. As of May 2, 2014 and May 3, 2013, we owned 86% and 89% of our stores, respectively, which included stores on leased land.

Interest – Net – Interest expense was $124 million and deleveraged seven basis points as a percentage of sales for the first quarter compared to the prior year primarily due to the issuance of $1 billion of unsecured notes in September 2013.

Income Tax Provision – Our effective income tax rates were 33.8% and 37.8% for the first quarters of 2014 and 2013, respectively. The lower effective income tax rate for the three months ended May 2, 2014, was attributable to the favorable settlement of certain federal tax matters during the quarter. Our effective income tax rate was 37.8% for fiscal 2013.

LOWE'S BUSINESS OUTLOOK

As of May 21, 2014, the date of our first quarter 2014 earnings release, our fiscal year 2014 guidance expected total sales to increase approximately 5% and comparable sales to increase approximately 4%. We expected to open approximately 10 home improvement and five Orchard stores during 2014. Earnings before interest and taxes as a percentage of sales (operating margin) were expected to increase approximately 65 basis points, and the effective income tax rate was expected to be approximately 37.2%. Diluted earnings per share of approximately $2.63 were expected for fiscal 2014.

We repurchased 17.9 million shares for $850 million under our share repurchase program in the first three months of fiscal 2014. Our guidance assumed a total of $3.4 billion of share repurchases for the fiscal year, spread evenly across the quarters.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash flows from operating activities continued to provide the primary source of our liquidity. The increase in net cash used in investing activities for the three months ended May 2, 2014, versus the three months ended May 3, 2013, was primarily driven by an increase in contributions to equity method investments. The increase in net cash used in financing activities for the three months ended May 2, 2014, versus the three months ended May 3, 2013, was driven primarily by an increase in repayments of short-term borrowings, partially offset by a decrease in share repurchase activity, which included shares repurchased under our

share repurchase program and shares withheld from employees to satisfy statutory tax withholding liabilities upon vesting of restricted stock awards.

Sources of Liquidity

In addition to our cash flows from operations, liquidity is provided by our short-term borrowing facilities. We have a $1.75 billion senior credit facility that expires in October 2016. The senior credit facility supports our commercial paper program and has a $500 million letter of credit sublimit. Letters of credit issued pursuant to the senior credit facility reduce the amount available for borrowing under its terms. Borrowings made are unsecured and are priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the senior credit facility. The senior credit facility contains certain restrictive covenants, which include maintenance of a debt leverage ratio as defined by the senior credit facility. We were in compliance with those covenants at May 2, 2014. Thirteen banking institutions are participating in the senior credit facility. There were no outstanding borrowings or letters of credit under the senior credit facility and no outstanding borrowings under our commercial paper program at May 2, 2014.

We expect to continue to have access to the capital markets on both short- and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of June 3, 2014, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Although we currently do not expect a downgrade in our debt ratings, our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

Debt Ratings	S&P	Moody's
Commercial Paper	A-2	P-2
Senior Debt	A-	A3
Senior Debt Outlook	Stable	Stable

We believe that net cash provided by operating and financing activities will be adequate not only for our operating requirements, but also for investments in our existing stores, investments in information technology, expansion plans, acquisitions, if any, and to return cash to shareholders through both dividends and share repurchases over the next 12 months. There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not have a significant amount of cash held in foreign affiliates that would not be available to fund domestic operations.

Cash Requirements

Capital expenditures
Our fiscal 2014 capital forecast is approximately $1.2 billion. Investments in our existing stores are expected to account for approximately 45% of net cash outflow including investments in store equipment, resets and remerchandising. Approximately 30% of the planned net cash outflow is for investments to enhance the customer experience, including enhancements in information technology. In addition, approximately 20% of the planned net cash outflow is for store expansion. Our expansion plans for 2014 consist of approximately 10 new home improvement stores, approximately half of which will be leased, and five new Orchard stores, all of which will be leased. Other planned capital expenditures, accounting for 5% of planned net cash outflow, are for investments in our distribution network.

Debt and capital
We have an ongoing share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the share repurchase program are retired and returned to authorized and unissued status. As of May 2, 2014, we had a remaining repurchase authorization of $5.4 billion with no expiration date. Our Business Outlook included above assumed approximately $3.4 billion in share repurchases for 2014, spread evenly across the quarters. See Note 6 to the consolidated financial statements included in this report for additional information regarding share repurchases.

On May 30, 2014, the Board of Directors declared a quarterly cash dividend of $0.23 per share, which represents a 27.8% increase over previously declared quarterly dividends of $0.18 per share.

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OFF-BALANCE SHEET ARRANGEMENTS

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a material, current or future effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As of May 2, 2014, there were no material changes to our contractual obligations and commercial commitments outside the ordinary course of business since the end of 2013. Refer to the Annual Report on Form 10-K for additional information regarding our contractual obligations and commercial commitments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 to the consolidated financial statements presented in our Annual Report. Our critical accounting policies and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report. Our significant and critical accounting policies have not changed significantly since the filing of our Annual Report.

FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). Statements of the company's expectations for sales growth, comparable sales, earnings and performance, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, the Company's strategic initiatives and any statement of an assumption underlying any of the foregoing, constitute "forward-looking statements" under the Act.   Although we believe that the expectations, opinions, projections, and comments reflected in these forward-looking statements are reasonable, we can give no assurance that such statements will prove to be correct. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to, changes in general economic conditions, such as the rate of unemployment, interest rate and currency fluctuations, higher fuel and other energy costs, slower growth in personal income, changes in consumer spending, changes in the rate of housing turnover, the availability and increasing regulation of consumer credit and of mortgage financing, inflation or deflation of commodity prices, and other factors which can negatively affect our customers, as well as our ability to: (i) respond to adverse trends in the housing industry, such as the psychological effects of lower home prices, and in the level of repairs, remodeling, and additions to existing homes, as well as a general reduction in commercial building activity; (ii) secure, develop, and otherwise implement new technologies and processes designed to enhance our efficiency and competitiveness; (iii) attract, train, and retain highly-qualified associates; (iv) manage our business effectively as we adapt our traditional operating model to meet the changing expectations of our customers; (v) maintain, improve, upgrade and protect our critical information systems; (vi) respond to fluctuations in the prices and availability of services, supplies, and products; (vii) respond to the growth and impact of competition; (viii) address changes in existing or new laws or regulations that affect consumer credit, employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax or environmental issues; and (ix) respond to unanticipated weather conditions that could adversely affect sales. In addition, we could experience additional impairment losses if the actual results of our operating stores are not consistent with the assumptions and judgments we have made in estimating future cash flows and determining asset fair values. For more information about these and other risks and uncertainties that we are exposed to, you should read the "Risk Factors" and "Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K to the United States Securities and Exchange Commission (the SEC) and the description of material changes therein or updated version thereof, if any, included in our Quarterly Reports on Form 10-Q.

The forward-looking statements contained in this Form 10-Q are based upon data available as of the date of this release or other specified date and speak only as of such date. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf about any of the matters covered in this release are qualified by these cautionary statements and the “Risk Factors” included in our Annual Report on Form 10-K to the SEC and the description of material changes, if any, therein included in our Quarterly Reports on Form 10-Q. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, change in circumstances, future events, or otherwise.

Item 3. - Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk has not changed materially from that disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2014.

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Item 4. - Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s “disclosure controls and procedures,” (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of May 2, 2014, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In addition, no change in the Company’s internal control over financial reporting occurred during the quarter ended May 2, 2014, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Part II – OTHER INFORMATION

Item 1. - Legal Proceedings

We are a defendant in legal proceedings considered to be in the normal course of business, none of which, individually or collectively, including the matters described below, are believed to have a risk of having a material adverse effect on the Company's financial statements as a whole.

In our Report on Form 10-Q for the quarterly period ended August 2, 2012, we disclosed that one of the Company’s principal operating subsidiaries, Lowe’s Home Centers, LLC, formerly known as Lowe’s HIW, Inc., received a subpoena in April 2012 from the District Attorney of the County of Alameda, along with other environmental prosecutorial offices in the State of California (the California Regulatory Authorities), seeking documents and information relating to the subsidiary’s handling, storage and disposal of hazardous materials and hazardous wastes. We have recently resolved this matter, without admitting any issue of law or fact or any violation of law, by entering into a stipulation with the California Regulatory Authorities for entry of final judgment and permanent injunction effective April 1, 2014, whereby we paid approximately $14.9 million upon entry of final judgment and agreed to spend over the next five years a total of approximately $3.2 million on various remedial measures to minimize hazardous waste generation in California.

In our Report on Form 10-Q for the quarterly period ended May 3, 2013, we disclosed that the Company’s principal operating subsidiaries, now known as Lowe’s Home Centers, LLC, and the U.S. Environmental Protection Agency (the EPA) had reached an agreement in principle to resolve allegations of non-compliance with the EPA’s rules regarding lead-based paint renovation activities. We have recently resolved this matter, without admitting any liability or wrongdoing, by consent decree which was filed in the U.S. District Court for the Southern District of Illinois on April 17, 2014. The consent decree requires us to pay a civil settlement amount of $500,000 and also imposes various future compliance requirements related to the EPA's lead renovation rule.

Item 1A. - Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2014.

Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company’s common stock made during the first quarter of 2014:

(In millions, except average price paid per share)	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
February 1, 2014 - February 28, 2014	6.5	$46.33	6.5	$5,968
March 1, 2014 - April 4, 2014	6.6	49.43	5.8	5,682
April 5, 2014 - May 2, 2014	5.7	46.74	5.6	5,418
As of May 2, 2014	18.8	$47.54	17.9	$5,418

[1] During the first quarter of fiscal 2014, the Company repurchased an aggregate of 18.8 million shares of its common stock. The total number of shares purchased included 0.9 million shares withheld from employees to satisfy either the exercise price of stock options or their statutory withholding tax liability upon the vesting of restricted share-based awards.

[2] On February 1, 2013, the Company's Board of Directors authorized a $5.0 billion share repurchase program with no expiration. On January 31, 2014, the Company's Board of Directors authorized an additional $5.0 billion of share repurchases with no expiration. As of May 2, 2014, the Company had total share repurchase authorization remaining available of $5.4 billion. In fiscal 2014, the Company expects to repurchase shares totaling $3.4 billion through purchases made from time to time either in the open market, including through pre-set trading plans, or through private off market transactions in accordance with SEC regulations.

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Item 5. - Other Information

Submission of Matters to a Vote of Security Holders - The Company held its annual meeting of shareholders on May 30, 2014. For more information on the proposals, see the Company's Proxy Statement. Set forth below are the final voting results for each of the proposals included in the proxy statement on which a vote was taken at the annual meeting.

(1) Election of Director Nominees

	VOTES FOR	VOTES WITHHELD	BROKER NON-VOTES
Raul Alvarez	763,222,540	10,121,317	122,440,171
David W. Bernauer	767,537,753	5,806,104	122,440,171
Leonard L. Berry, Ph.D.	761,234,159	12,109,698	122,440,171
Angela F. Braly	768,478,382	4,865,475	122,440,171
Richard W. Dreiling	769,711,456	3,632,401	122,440,171
Dawn E. Hudson	762,421,574	10,922,283	122,440,171
Robert L. Johnson	696,671,730	76,672,127	122,440,171
Marshall O. Larsen	767,064,668	6,279,189	122,440,171
Richard K. Lochridge	761,686,136	11,657,721	122,440,171
Robert A. Niblock	750,814,001	22,529,856	122,440,171
Eric C. Wiseman	754,209,535	19,134,322	122,440,171

(2) Proposal to Approve the Lowe's Companies, Inc. 2006 Long Term Incentive Plan, as Amended and Restated Effective March 21, 2014

VOTES FOR	VOTES AGAINST	ABSTENTIONS	BROKER NON-VOTES
739,776,178	31,738,486	1,829,193	122,440,171

(3) Proposal to Approve the Company's Executive Compensation

VOTES FOR	VOTES AGAINST	ABSTENTIONS	BROKER NON-VOTES
748,208,845	22,806,403	2,328,609	122,440,171

(4) Ratify the Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal Year 2014

VOTES FOR	VOTES AGAINST	ABSTENTIONS
885,507,806	8,769,011	1,507,211

(5) Proposal Regarding Report on Impact of Sustainability Policy

VOTES FOR	VOTES AGAINST	ABSTENTIONS	BROKER NON-VOTES
15,254,457	707,614,190	50,475,210	122,440,171

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Item 6. - Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit(s)	Filing Date
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated.	8-K	001-07898	3.1	August 27, 2012
12.1	Statement Re Computation of Ratio of Earnings to Fixed Charges.‡				
15.1	Deloitte & Touche LLP Letter Re Unaudited Interim Financial Information.‡				
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				

* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form.
‡ Filed herewith.

† Furnished herewith.

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SIGNATURE

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

LOWE'S COMPANIES, INC.

June 3, 2014	/s/ Matthew V. Hollifield
Date	Matthew V. Hollifield Senior Vice President and Chief Accounting Officer

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