

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1995-07-28 | Period of Report: 1995-06-30
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FILER

SUPERIOR SURGICAL MANUFACTURING CO INC

CIK: 95574 | IRS No.: 111385670 | State of Incorporation: NY | Fiscal Year End: 1231
Type: 10-Q | Act: 34 | File No.: 001-05869 | Film No.: 95556792
SIC: 2300 Apparel & other finished products of fabrics & similar materials

Mailing Address
10099 SEMINOLE BLVD
PO BOX 4002
SEMINOLE FL 34642-0002

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10099 SEMINOLE BLVD
P O BOX 4002
SEMINOLE FL 34642
8133979611

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.
20549

(Mark One)

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

For the quarter ended June 30, 1995

OR

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

Commission file number 1-5869-1

SUPERIOR SURGICAL MFG. CO., INC.

Incorporated - New York

Employer Identification No.
11-138567010099 Seminole Boulevard
Post Office Box 4002
Seminole, Florida 34642-0002
Telephone No.: 813-397-9611

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

Yes No

As of the date of this report, the registrant had 8,363,552 common shares outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

SUPERIOR SURGICAL MFG. CO., INC.
CONDENSED SUMMARY OF OPERATIONS<TABLE>
<CAPTION>

	Three Months Ended June 30,	
	1995	1994
	(Unaudited)	
<S>	<C>	<C>
Net sales	\$33,045,056	\$35,873,454
Costs and expenses:		
Cost of goods sold	\$22,075,331	\$23,822,608
Selling and administrative expenses	7,494,238	7,238,773
Interest expense	231,861	213,420
	-----	-----
	\$29,801,430	\$31,274,801
	-----	-----
Earnings before taxes on income	\$ 3,243,626	\$ 4,598,653
Taxes on income	1,230,000	1,745,000
	-----	-----

Net earnings	\$ 2,013,626 =====	\$ 2,853,653 =====
Weighted average number of shares out- standing during the period	8,363,552 Shs.	8,897,552 Shs.
Net earnings per common share	\$ 0.24 =====	\$ 0.32 =====
Cash dividends declared per common share	\$ 0.09 =====	\$ 0.08 =====

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	Six Months Ended June 30,	
	1995	1994
	(Unaudited)	
<S>	<C>	<C>
Net sales	\$67,161,977 -----	\$67,780,895 -----
Costs and expenses:		
Cost of goods sold	\$44,762,126	\$45,138,655
Selling and administrative expenses	15,107,935	14,347,210
Interest expense	446,973	486,755
	-----	-----
	\$60,317,034	\$59,972,620
	-----	-----
Earnings before taxes on income	\$ 6,844,943	\$ 7,808,275
Taxes on income	2,600,000	2,965,000
	-----	-----
Net earnings	\$ 4,244,943 =====	\$ 4,843,275 =====
Weighted average number of shares out- standing during the period	8,363,552 Shs.	8,858,271 Shs.
Net earnings per common share	\$ 0.51 =====	\$ 0.55 =====
Cash dividends declared per common share	\$ 0.18 =====	\$ 0.16 =====

</TABLE>

The results of the six months ended June 30, 1995 are not necessarily indicative of results to be expected for the full year ending December 31, 1995.

SUPERIOR SURGICAL MFG. CO., INC.
CONDENSED BALANCE SHEETS

<TABLE>
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	ASSETS	
	June 30, 1995 (Unaudited)	December 31, 1994
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and certificates of deposit	\$ 10,384,673	\$ 11,233,700
Accounts receivable and other current assets	23,175,880	24,231,606
Inventories*	44,863,132	40,991,963
	-----	-----
TOTAL CURRENT ASSETS.	\$ 78,423,685	\$ 76,457,269
PROPERTY, PLANT AND EQUIPMENT	26,799,879	26,234,749
EXCESS OF COST OVER FAIR VALUE OF ASSETS ACQUIRED	825,252	827,577

OTHER ASSETS	1,538,346	1,344,790
	-----	-----
	\$107,587,162	\$104,864,385
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 7,926,284	\$ 7,471,452
Other current liabilities	3,613,454	4,090,013
Current portion of long-term debt	600,000	600,000
	-----	-----
TOTAL CURRENT LIABILITIES	\$ 12,139,738	\$ 12,161,465
LONG-TERM DEBT	18,300,000	18,600,000
LIABILITY FOR DISPUTE SETTLEMENT	2,250,000	2,250,000
DEFERRED INCOME TAXES	1,220,000	915,000
SHAREHOLDERS' EQUITY	73,677,424	70,937,920
	-----	-----
	\$107,587,162	\$104,864,385
	=====	=====

</TABLE>

* Inventories consist of the following:

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	June 30, 1995 (Unaudited)	December 31, 1994
	-----	-----
<S>	<C>	<C>
Finished goods	\$ 25,984,967	\$ 23,887,026
Work in process	4,042,039	4,306,872
Raw materials	14,836,126	12,798,065
	-----	-----
	\$ 44,863,132	\$ 40,991,963
	=====	=====

</TABLE>

(1) The balance sheet as of December 31, 1994 has been taken from the audited financial statement as of that date and has been condensed.

SUPERIOR SURGICAL MFG. CO., INC.
SUMMARY OF CASH FLOWS

<TABLE>
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	Six Months Ended June 30,	
	1995	1994
	-----	-----
	(Unaudited)	
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 4,244,943	\$ 4,843,275
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,712,053	1,278,958
Deferred income taxes	305,000	115,000
Changes in assets and liabilities:		
Accounts receivable and other current assets	1,055,726	(3,700,995)
Inventories	(3,871,169)	693,060
Accounts payable	454,832	635,607
Other current liabilities	(476,559)	1,389,219
	-----	-----
Net cash flows provided from operating activities	\$ 3,424,826	\$ 5,254,124
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	\$ (2,274,858)	\$ (5,638,299)
Other assets	(193,556)	75,644
	-----	-----
Net cash (used) in investing activities	\$ (2,468,414)	\$ (5,562,655)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	\$ -	\$15,000,000
Reduction in long-term debt	(300,000)	(455,000)
Declaration of cash dividends	(1,505,439)	(1,423,608)
Proceeds received on exercise of stock options	-	1,663,694
	-----	-----
Net cash (used) provided in financing activities	\$ (1,805,439)	\$14,785,086
	-----	-----
Net (decrease) increase in cash and certificates of deposit	\$ (849,027)	\$14,476,555
Cash and certificates of deposit balance, beginning of year	11,233,700	3,030,013
	-----	-----
Cash and certificates of deposit balance, end of period	\$10,384,673	\$17,506,568
	=====	=====

</TABLE>

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SUPERIOR SURGICAL MFG. CO., INC.
NOTES TO SUMMARIZED INTERIM FINANCIAL STATEMENTS

Note 1 - Summary of Significant Interim Accounting Policies:

a) Recognition of costs and expenses

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

b) Inventories

Inventories at interim dates are determined by using both perpetual records and gross profit calculations.

c) Accounting for income taxes

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

d) Earnings per share

Earnings per share have been computed based on the weighted average number of shares outstanding during each period. The exercise of outstanding stock options would not have a significant effect on earnings per share.

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Note 2 - Dispute with Governmental Agency:

The Company has been advised that it is a target of a Federal criminal investigation relating to a previously reported dispute involving alleged false statements and false claims purportedly made in connection with contracts ostensibly awarded by the U.S. Department of Veterans Affairs. A former vice president of the Company has entered into a plea agreement with Federal

authorities in connection with this matter; the specific terms and conditions of which are not known to the Company. Federal authorities are also pursuing a civil investigation of the Company relating to these matters. The dispute does not involve the integrity of the Company's products.

The Company is cooperating with these investigations, and settlement discussions are continuing. The Company previously offered to settle all potential charges relating to these matters and in 1993 recorded a liability in that amount which is reflected in its financial statements. That offer, however, was rejected by Federal authorities. While the Company has further concluded that it possesses specific defenses which will be vigorously asserted in the event the parties are unable to arrive at a negotiated settlement, the Company is unable to estimate the outcome of this uncertainty.

Additionally, in the event the Company is indicted or convicted on criminal charges, or if significant civil damages are pursued, certain collateral consequences are likely to result, such as suspension or debarment from the award of future Federal government contracts. The Company believes that a suspension or debarment in connection with Federal government contracts would not have a material adverse effect on the Company; however, such action may also impede the Company's ability to receive certain contracts awarded under various Federal grant and other non-procurement programs. The precise impact of any potential exclusion under various Federal grant and other non-procurement programs is not clear.

The interim information contained above is not certified or audited; it reflects all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements.

The financial information included in this form has been reviewed by Deloitte & Touche LLP, independent certified public accountants; such review was made in accordance with established professional standards and procedures for such a review.

All financial information has been prepared in accordance with the accounting principles or practices reflected in the financial statements for the year ended December 31, 1994, filed with the Securities and Exchange Commission. Reference is hereby made to registrant's Financial Statements for 1994, heretofore filed with registrant's Form 10-K.

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DELOITTE & TOUCHE LLP (LOGO)

BOARD OF DIRECTORS
Superior Surgical Mfg. Co., Inc.
Seminole, Florida

We have reviewed the accompanying condensed balance sheet of Superior Surgical Mfg. Co., Inc. (the "Company") as of June 30, 1995, and the condensed summaries of operations for the three-months and six-months ended June 30, 1995 and 1994 and cash flows for the six-months ended June 30, 1995 and 1994. This condensed financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed financial information for them to be in conformity with generally accepted accounting principles.

As discussed in Note 2 to the condensed financial statements, the Company is engaged in a dispute with an agency of the U.S. Government.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet as of December 31, 1994, and the related statements of earnings, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 24, 1995, we

expressed an unqualified opinion with two explanatory paragraphs relating to an uncertainty of a dispute with an agency of the U.S. Government and a change in the Company's method of accounting for income taxes on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1994 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Deloitte & Touche LLP

July 21, 1995

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ITEM 2. Management's Discussion And Analysis of Financial Condition and Results of Operations

Results of Operations

Net sales of the registrant increased by approximately 7% in the first quarter of 1995 compared to the first quarter of 1994 due to new customers and new uniform programs. For the second quarter of 1995 compared to the second quarter of 1994, sales decreased by approximately 8% due to a general slowdown in the economic activities in the marketplaces served by the registrant. Accordingly, for the six months ended June 30, 1995, sales were approximately 1% less than the six months ended June 30, 1994.

Cost of goods sold approximated 66.6% for the six months ended June 30, 1995 and 1994.

Selling and administrative expenses, as a percentage of sales, were approximately 21.9% for the first six months of 1995 and 1994.

Interest expense of \$446,973 for the six month period ended June 30, 1995 decreased 8% from \$486,755 for the similar period ended June 30, 1994 due to repayment of debt.

Net earnings decreased 29% to \$2,013,626 for the three months ended June 30, 1995 as compared to net earnings of \$2,853,653 for the same period ended June 30, 1994 as a result of decreased sales and higher costs.

Accounts receivable and other current assets decreased 4% from \$24,231,606 on December 31, 1994 to \$23,175,880 as of June 30, 1995 primarily due to decreased sales.

Inventories as of June 30, 1995 increased 9% to \$44,863,132 from \$40,991,963 on December 31, 1994 mainly to support expected future customer demand.

Accounts payable increased 6% from \$7,471,452 on December 31, 1994 to \$7,926,284 on June 30, 1995 primarily due to increases in purchases of inventories.

The registrant's current portion of long-term debt of \$600,000 and long-term debt of \$18,300,000 for June 30, 1995 is \$300,000 less than it was at December 31, 1994, due to scheduled repayments of debt.

See Note 2 of Notes to Summarized Interim Financial Information for a contingency resulting from a dispute which may have an effect on future operating results.

The provision for dispute settlement in the amount of \$2,250,000 in 1993 involves certain sales by the Company to an agency of the Federal government as previously reported. The government has yet to make any claim in connection with the dispute. While management continues to believe that the Company has complied with the terms and conditions of its obligations with the government, the Company sought resolution of the dispute by offering \$2,250,000 (\$1,415,000 net of tax effect) for full and complete settlement of the matter. The Company elected to accrue the offered amount for the fourth quarter of 1993 which represents an after tax charge against earnings of approximately \$.16 per share. The offer of settlement has been rejected by the government. While the future impact is unclear, the dispute and Federal investigation concerning the dispute may have an adverse effect on future sales and a material, one-time payment may be necessary to resolve this matter.

Liquidity and Capital Resources

Cash and certificates of deposit decreased by \$849,027 from \$11,233,700 on December 31, 1994 to \$10,384,673 as of June 30, 1995. The change is primarily a result of normal operations. Additionally, as of June 30, 1995, under its existing revolving Credit Agreement, the registrant had \$9,000,000 available to it. The registrant has

Liquidity and Capital Resources (CON'T)

operated without hindrance or restraint with its present working capital, as income generated from operations and outside sources of credit, both trade and institutional, has been more than adequate.

In the foreseeable future, the registrant will continue its ongoing capital expenditure program designed to maintain and improve its facilities. The registrant at all times evaluates its capital expenditure program in light of prevailing economic conditions. The registrant believes that its cash flow from operating activities together with other capital resources and funds from credit sources will be adequate to meet its funding requirements for the foreseeable future.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Company has been advised that it is a target of a Federal criminal investigation relating to a previously reported dispute involving alleged false statements and false claims purportedly made in connection with contracts ostensibly awarded by the U.S. Department of Veterans Affairs. The investigation is also evaluating actions by agents of the Company in connection with the matter, including those of Gerald M. Benstock, a Director of the Company. A former vice president of the Company has entered into a plea agreement with Federal authorities in connection with this matter, the specific terms and conditions of which are not known to the Company. Federal authorities are also pursuing a civil investigation of the Company relating to these matters. The dispute does not involve the integrity of the Company's products.

The Company is cooperating with these investigations, and settlement discussions are continuing. The Company previously offered to settle all potential charges relating to these matters and in 1993 recorded a liability in that amount which is reflected in its financial statements. That offer, however, was rejected by Federal authorities. While the Company has further concluded that it possesses specific defenses which will be vigorously asserted in the event the parties are unable to arrive at a negotiated settlement, the Company is unable to estimate the outcome of this uncertainty.

Additionally, in the event the Company is indicted or convicted on criminal charges, or if significant civil damages are pursued, certain collateral consequences are likely to result, such as suspension or debarment from the award of future Federal government contracts. The Company believes that a suspension or debarment in connection with Federal government contracts would not have a material adverse effect on the Company; however, such action may also impede the Company's ability to receive certain contracts awarded under various Federal grant and other non-procurement programs. The precise impact of any potential exclusion under various Federal grant and other non-procurement programs is not clear.

ITEM 2. Changes in Securities

None.

ITEM 3. Defaults Upon Senior Securities

Inapplicable.

ITEM 4. Submission of matters to a vote of security-holders

The Annual Meeting of Shareholders was held on May 1, 1995. Of the 8,363,552 shares outstanding and entitled to vote at the meeting, 7,230,783 shares were present at the meeting, in person or by proxy. At the meeting the shareholders:

- a) Voted for the nomination of all proposed Directors being, Messrs. G.M. Benstock, A.D. Schwartz, M. Benstock, S. Schechter, P. Benstock, T.K. Riden and M. Gaetan, PhD. The votes on all directors nominated were as follows:

<TABLE>			
<CAPTION>			
	Nominee	Votes For:	Votes Withheld:
	-----	-----	-----

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Gerald M. Benstock	7,149,913	80,870
	-----	-----
Saul Schechter	7,152,453	78,330
	-----	-----
Alan D. Schwartz	7,153,313	77,470
	-----	-----
Michael Benstock	7,150,453	80,330
	-----	-----
Peter Benstock	7,151,414	79,369
	-----	-----
Manuel Gaetan	7,140,254	90,529
	-----	-----
Thomas K. Riden	7,134,654	96,129
	-----	-----

</TABLE>

- b) Ratified the appointment of Deloitte & Touche LLP, independent certified public accountants, as auditors for the Company's financial statements for the year ending December 31, 1995 with 7,179,352 votes for the motion, 32,415 votes against and 19,016 votes abstaining.

ITEM 5. Other Information

Inapplicable.

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits

15 Letter re: Unaudited Interim Financial Information
 27 Financial Data Schedule (for SEC use only)

b) Reports on Form 8-K

None.

SIGNATURES

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.

Date: July 28, 1995

SUPERIOR SURGICAL MFG. CO., INC.

By /s/ Gerald M. Benstock

 Gerald M. Benstock
 Chairman and Chief Executive Officer

By /s/ John W. Johansen

 John W. Johansen
 Chief Financial Officer and Principal
 Accounting Officer, Sr. Vice President
 and Treasurer

LETTER RE: UNAUDITED INTERIM FINANCIAL INFORMATION

BOARD OF DIRECTORS
Superior Surgical Mfg. Co., Inc.
Seminole, Florida

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of Superior Surgical Mfg. Co., Inc. for the periods ended June 30, 1995 and 1994, as indicated in our report dated July 21, 1995 (which includes an explanatory paragraph relating to a dispute with an agency of the U.S. Government); because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, is incorporated by reference in Registration Statement No. 2-85796 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Deloitte & Touche LLP

Deloitte & Touche LLP

July 21, 1995

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