LAKELAND INDUSTRIES INC
Form 10-Q
September 09, 2009

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended July 31, 2009

OR

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

For the transition period from _______________ to _______________

Commission File Number: 0-15535

LAKELAND INDUSTRIES, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State of incorporation)	13-3115216 (IRS Employer Identification Number)
701 Koehler Avenue, Suite 7, Ronkonkoma, New York (Address of principal executive offices)	11779 (Zip Code)

(631) 981-9700
(Registrant's telephone number, including area code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o 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 Exchange Act.

Yes o 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 o

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-Accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes o No x

As of July 31, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $32,361,028 based on the closing price of the common stock as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 4, 2009
Common Stock, $0.01 par value per share	5,437,534

LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES

FORM 10-Q

The following information of the Registrant and its subsidiaries is submitted herewith:

LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements:

Introduction

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This 10-Q may contain certain forward-looking statements. When used in this 10-Q or in any other presentation, statements which are not historical in nature, including the words “anticipate,” “estimate,” “should,” “expect,” “believe,” “int “project” and similar expressions are intended to identify forward-looking statements. They also include statements containing a projection of sales, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this 10-Q are based upon our management’s beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to us. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

- Our ability to obtain fabrics and components from suppliers and manufacturers at competitive prices or prices that vary from quarter to quarter;
- Risks associated with our international manufacturing and start up sales operations;
- Potential fluctuations in foreign currency exchange rates;
- Our ability to respond to rapid technological change;
- Our ability to identify and complete acquisitions or future expansion;
- Our ability to manage our growth;
- Our ability to recruit and retain skilled employees, including our senior management;
- Our ability to accurately estimate customer demand;
- Competition from other companies, including some with greater resources;
- Risks associated with sales to foreign buyers;
- Restrictions on our financial and operating flexibility as a result of covenants in our credit facilitates;
- Our ability to obtain additional funding to expand or operate our business as planned;
- The impact of a decline in federal funding for preparations for terrorist incidents;
- The impact of potential product liability claims;
- Liabilities under environmental laws and regulations;
- Fluctuations in the price of our common stock;
- Variations in our quarterly results of operations;
- The cost of compliance with the Sarbanes-Oxley Act of 2002 and rules and regulations relating to corporate governance and public disclosure;
- The significant influence of our directors and executive officer on our company and on matters subject to a vote of our stockholders;
- The limited liquidity of our common stock;
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The other factors referenced in this 10-Q, including, without limitation, in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business."

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Furthermore, forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements after the date of this 10-Q, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 10-Q might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2009 (Unaudited)	January 31, 2009
ASSETS		
Current assets:		
Cash	$ 4,494,053	$ 2,755,441
Accounts receivable; net of allowance for doubtful accounts of $30,800 at July 31, 2009 and $104,500 at January 31, 2009	14,724,197	13,353,430
Inventories, net of allowances of $855,000 at July 31, 2009 and $657,000 at January 31, 2009	49,188,854	57,074,028
Deferred income taxes	2,001,956	2,578,232
Prepaid income tax and other current assets	3,703,120	2,602,292
Total current assets	74,112,180	78,363,423
Property and equipment, net of accumulated depreciation of $9,888,096 at July 31, 2009 and $8,929,669 at January 31, 2009	14,121,415	13,736,326
Intangibles and other assets, net	5,580,499	4,405,833
Goodwill	5,833,717	5,109,136
	$ 99,647,811	$ 101,614,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,233,323	$ 3,853,890
Accrued expenses	3,570,202	3,504,218
Borrowing under revolving credit facility expiring July 7, 2010	17,684,466	—
Current maturity of long-term debt	92,984	94,000
Total current liabilities	26,580,975	7,452,108
Canadian warehouse loan payable (net of current maturity)	1,619,478	1,368,406
Borrowings under revolving credit facility	—	24,408,466
Other liabilities	92,284	74,611
Deferred income tax	122,414	—
Total Liabilities	28,415,151	33,303,591
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $.01 par; authorized 1,500,000 shares (none issued)		
Common stock $.01 par; authorized 10,000,000 shares; issued and outstanding 5,562,856 and 5,523,288 shares at July 31, 2009 and at January 31, 2009, respectively	55,629	55,233
Less treasury stock, at cost, 125,322 shares at July 31, 2009 and 107,317 shares at January 31, 2009	(1,353,247)	(1,255,459)
Additional paid-in capital	49,594,452	49,511,896
Accumulated other comprehensive (loss)	(1,360,618)	(4,191,801)
Retained earnings	24,296,444	24,191,258
Stockholders' equity	71,232,660	68,311,127
	$ 99,647,811	$ 101,614,718

The accompanying notes are an integral part of these consolidated financial statements.

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LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED July 31,		SIX MONTHS ENDED July 31,	
	2009	2008	2009	2008
Net sales	$ 23,048,759	$ 27,565,036	$ 47,024,654	$ 54,845,193
Cost of goods sold	16,811,889	19,209,787	34,777,346	39,811,346
Gross profit	6,236,870	8,355,249	12,247,308	15,033,847
Operating expenses	6,023,378	6,161,511	11,355,311	11,391,995
Operating profit	213,492	2,193,738	891,997	3,641,852
Interest and other income, net	14,138	55,816	54,252	85,890
Interest expense	(226,770)	(253,976)	(420,249)	(353,496)
Income before income taxes	860	1,995,578	526,000	3,374,246
Provision (benefit) for income taxes	(7,007)	371,061	420,814	856,590
Net income	$ 7,867	$ 1,624,517	$ 105,186	$ 2,517,656
Net income per common share:				
Basic	$ 0.00	$ 0.30	$ 0.02	$ 0.46
Diluted	$ 0.00	$ 0.30	$ 0.02	$ 0.46
Weighted average common shares outstanding:				
Basic	5,415,391	5,421,520	5,410,938	5,454,209
Diluted	5,436,309	5,459,191	5,452,560	5,490,690

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(UNAUDITED)
Six months ended July 31, 2009

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive (loss)	Total
	Shares	Amount		Shares	Amount			
Balance February 1, 2009	5,523,288	$ 55,233	$ 49,511,896	(107,317)	$ (1,255,459)	$ 24,191,258	$ (4,191,801)	$ 68,311,127
Net Income	—	—	—	—	—	105,186	—	105,186
Stock Repurchase Program	—	—	—	(18,005)	(97,788)	—	—	(97,788)
Other Comprehensive Income	—	—	—	—	—	—	2,831,183	2,831,183
Stock-Based Compensation:								
Restricted Stock	—	—	132,444	—	—	—	—	132,444
Director options granted at fair market value	—	—	47,068	—	—	—	—	47,068
Director stock options exercised	3,267	33	23,529	—	—	—	—	23,562
Shares issued from Restricted Stock Plan	36,301	363	—	—	—	—	—	363
Return of shares in lieu of payroll tax withholding	—	—	(102,005)	—	—	—	—	(102,005)
Cash paid in lieu of issuing shares	—	—	(18,480)	—	—	—	—	(18,480)
Balance July 31, 2009	5,562,856	$ 55,629	$ 49,594,452	(125,322)	$ (1,353,247)	$ 24,296,444	$ (1,360,618)	$ 71,232,660
Total Comprehensive Income:								
Net Income								$ 105,186
Foreign Exchange								2,620,183

translation adjustments	
Interest rate swap – change in unrealized accruals	211,000
Net other comprehensive income adjustments	2,831,183
Total Comprehensive Income	$ 2,936,369

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED July 31, 2009	2008
Cash Flows from Operating Activities:		
Net income	$ 105,186	$ 2,517,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	138,649	158,356
Allowance for doubtful accounts	(73,333)	26,317
Allowance for inventory obsolescence	198,486	(100)
Depreciation and amortization	820,735	826,644
Deferred income tax	698,689	(28,000)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(1,297,434)	(1,179,837)
Decrease in inventories	7,686,688	3,028,909
(Increase) in other assets	(2,401,822)	(361,735)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	3,027,601	(270,954)
Net cash provided by operating activities	8,903,445	4,717,256
Cash Flows from Investing Activities:		
Acquisition of Qualytextil, SA	—	(13,640,450)
Purchases of property and equipment	(681,405)	(702,162)
Net cash used in investing activities	(681,405)	(14,342,612)
Cash Flows from Financing Activities:		
Purchases of stock under stock repurchase program	(97,787)	(1,201,005)
Director options granted at fair market value	47,068	—
Proceeds from exercise of director stock options	23,562	—
Borrowing to fund Qualytextil acquisition	—	13,344,466
Payments under loan agreements	(6,456,271)	(1,680,425)
Net cash provided by (used in) financing activities	(6,483,428)	10,463,036
Net increase in cash	1,738,612	837,680
Cash and cash equivalents at beginning of period	2,755,441	3,427,672
Cash and cash equivalents at end of period	$ 4,494,053	$ 4,265,352

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business

Lakeland Industries, Inc. and Subsidiaries (the "Company"), a Delaware corporation, organized in April 1982, manufactures and sells a comprehensive line of safety garments and accessories for the industrial protective clothing and homeland security markets. The principal market for our products is the United States. No customer accounted for more than 10% of net sales during the six month periods ended July 31, 2009 and 2008, respectively.

2. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments (consisting of only normal and recurring adjustments) which are, in the opinion of management, necessary to present fairly the consolidated financial information required therein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended January 31, 2009. We have evaluated subsequent events through the time of filing on September 9, 2009, the date of issuance of our financial statements.

The results of operations for the three and six month periods ended July 31, 2009 are not necessarily indicative of the results to be expected for the full year.

3. Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

4. Inventories:

Inventories consist of the following:

	July 31, 2009	January 31, 2009
Raw materials	$ 23,684,520	$ 26,343,875
Work-in-process	1,822,001	2,444,160
Finished Goods	23,682,333	28,285,993
	$ 49,188,854	$ 57,074,028

Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost (on a first-in-first-out basis) or market.

5. Earnings Per Share:

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of common stock equivalents. Diluted earnings per share are based on the weighted average number of common and common stock equivalents. The diluted earnings per share calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the period.

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended July 31, 2009 and 2008.

	Three Months Ended July 31,		Six Months Ended July 31	
	2009	2008	2009	2008
Numerator				
Net Income	$ 7,867	$ 1,624,517	$ 105,186	$ 2,517,656
Denominator				
Denominator for basic earnings per share	5,415,391	5,421,520	5,410,938	5,454,209
(Weighted-average shares which reflect 125,322 and 121,159 weighted average common shares in the treasury as a result of the stock repurchase program) for the three and six months ended July 31, 2009, respectively.				
- Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options	20,918	37,671	41,622	36,481
Denominator for diluted earnings per share. (adjusted weighted average shares)	5,436,309	5,459,191	5,452,560	5,490,690
Basic earnings per share	$ 0.00	$ 0.30	$ 0.02	$ 0.46
Diluted earnings per share	$ 0.00	$ 0.30	$ 0.02	$ 0.46

6. Revolving Credit Facility

At July 31, 2009, the balance outstanding under our five year revolving credit facility amounted to $17.7 million. In May 2008 the facility was increased from $25 million to $30 million. The credit facility is collateralized by substantially all of the assets of the Company. The credit facility contains financial covenants, including, but not limited to, fixed charge ratio, funded debt to EBITDA ratio, inventory and accounts receivable collateral coverage ratio, with respect to which the Company was in compliance at July 31, 2009 and for the period then ended except for the ratio of debt to EBITDA. Such exception has been waived by the lender for the quarter ended July 31, 2009. The weighted average interest rate for the six month period ended July 31, 2009 was 3.15%.

The Company's revolving credit facility with Wachovia Bank, N.A. by its terms expires July 7, 2010. Since this date is less than 12 months from the balance sheet date of July 31, 2009, the balance outstanding as of July 31, 2009 has been included as a current liability.

Management believes it will be able to secure adequate financing in July 2010.

7. Major Supplier

We purchased 14% of our raw materials from one supplier during the six month period ended July 31, 2009. We normally purchase approximately 75% of our raw material from this suppler. We carried higher inventory levels in Q3 and Q4 FY09 and limited our material purchases in Q1 and Q2 of FY10. We expect this relationship to continue for the foreseeable future. If required, similar raw materials could be purchased from other sources; however, our competitive position in the marketplace could be adversely affected.

8. Director Stock Compensation

The Company's Director's Plan permits the grant of share options and shares to its Directors for up to 60,000 shares of common stock as stock compensation. All stock options under this Plan are granted at the fair market value of the common stock at the grant date. This date is fixed only once a year upon a Board Member's re-election to the Board at the Annual Shareholders' meeting which is the third Wednesday in June pursuant to the Director's Plan and our Company By-Laws. Directors' stock options vest ratably over a 6 month period and generally expire 6 years from the grant date.

The following table represents our stock options granted, exercised, and forfeited during the six months ended July 31, 2009.

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 31, 2009	20,567	$ 13.42	2.27 years	$ 1,594
Granted in the six months ended July 31, 2009	8,000	$ 6.88	6.00 years	$ 6,950
Exercised in the six months ended July 31, 2009	(3,267)	$ 7.22	—	—
Outstanding at July 31, 2009	25,300	$ 11.20	3.28 years	$ 6,950
Exercisable at July 31, 2009	17,300	$ 14.59	2.13 years	$ 0

Restricted Stock Plan and Performance Equity Plan

On June 21, 2006, the shareholders of the Company approved a restricted stock plan (The "2006 Equity Incentive Plan"). A total of 253,000 shares of restricted stock were authorized under this plan. On June 17, 2009, the shareholders of the Company authorized 253,000 shares under the restricted stock plan (The "2009 Equity Incentive Plan"). Under the restricted stock plan, eligible employees and directors are awarded performance-based restricted shares of the Corporation's common stock. The amount recorded as expense for the performance-based grants of restricted stock are based upon an estimate made at the end of each reporting period as to the most probable outcome of this plan at the end of the three year performance period. (e.g., baseline, maximum or zero). In addition to the grants with vesting based solely on performance, certain awards pursuant to the plan have a time-based vesting requirement, under which awards vest from two to three years after grant issuance, subject to continuous employment and certain other conditions. Restricted stock has the same voting rights as other common stock. Restricted stock awards do not have voting rights, and the underlying shares are not considered to be issued and outstanding until vested.

Under the 2009 Equity Incentive Plan, the Company has granted up to a maximum of 230,555 restricted stock awards as of July 31, 2009. All of these restricted stock awards are non-vested at July 31, 2009 (165,725 shares at "baseline") and have a weighted average grant date fair value of $8.00. Under the 2006 Equity Incentive Plan, there are outstanding as of July 31, 2009 unvested grants of 5,558 shares under the stock purchase match program and 23,311 shares under the bonus in stock program. The Company recognizes expense related to performance-based awards over the requisite service period using the straight-line attribution method based on the outcome that is probable.

As of July 31, 2009, unrecognized stock-based compensation expense related to restricted stock awards totaled $1,356,809, consisting of $73,634 remaining under the 2006 Equity Incentive Plan and $1,283,175 under the 2009

Equity Incentive Plan, before income taxes, based on the maximum performance award level, less what has been charged to expense on a cumulative basis through July 31, 2009, which was set at zero. Such unrecognized stock-based compensation expense related to restricted stock awards totaled $997,414 at the baseline performance level. The cost of these non-vested awards is expected to be recognized over a weighted-average period of three years. The board has estimated its current performance level to be at the zero level and expenses have been recorded accordingly. The performance based awards are not considered stock equivalents for EPS purposes.

Stock-Based Compensation

The Company recognized total stock-based compensation costs of $138,649 and $137,345 for the six months ended July 31, 2009 and 2008, respectively, of which $113,966 results from the 2006 Equity Incentive Plan, $0 results from the 2009 Equity Incentive Plan, and $24,683 results from the Director Option Plan in 2009. $126,812 results from the 2006 Equity Incentive Plan and $10,533 results from the Director Option Plan in 2008. These amounts are reflected in selling, general and administrative expenses. The total income tax benefit recognized for stock-based compensation arrangements was $49,913 and $49,447 for the six months ended July 31, 2009 and 2008, respectively.

Directors Sale of Stock

The Company is in the process of setting up a Rule 10-b-5 plan for directors to sell stock.

9. Manufacturing Segment Data

Domestic and international sales are as follows in millions of dollars:

	Three Months Ended July 31,				Six Months Ended July 31,			
	2009		2008		2009		2008	
Domestic	$ 14.4	62.8%	$ 20.1	72.7%	$ 31.7	67.4%	$ 42.5	77.6%
International	8.6	37.2%	7.5	27.3%	15.3	32.6%	12.3	22.4%
Total	$ 23.0	100%	$ 27.6	100%	$ 47.0	100%	$ 54.8	100%

We manage our operations by evaluating each of our geographic locations. Our North American operations include our facilities in Decatur, Alabama (primarily the distribution to customers of the bulk of our products and the manufacture of our chemical, glove and disposable products), Jerez, Mexico (primarily disposable, glove and chemical suit production) St. Joseph, Missouri and Shillington, Pennsylvania (primarily fire, hi-visibility and woven products production). We also maintain four manufacturing facilities in China (primarily disposable and chemical suit production) and a glove manufacturing facility in New Delhi, India. On May 13, 2008 we acquired Qualytextil S.A. which manufactures primarily fire protective apparel for the Brazilian market. Our China facilities and our Decatur, Alabama facility produce the majority of the Company's products. The accounting policies of these operating entities are the same as those described in Note 1 to our Annual Report on Form 10-K for the year ended January 31, 2009. We evaluate the performance of these entities based on operating profit which is defined as income before income taxes, interest expense and other income and expenses. We have sales forces in the U.S.A., Brazil, Canada, Europe, Chile, Argentina, China and India which sell and distribute products shipped from the United States, Mexico, Brazil, China, and recently India.