

LAKELAND INDUSTRIES INC  
Form 10-Q  
September 07, 2006

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended **July 31, 2006**

OR

**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 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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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

YES  NO

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 7, 2006
Common Stock, \$0.01 par value per share	5,521,824 shares.

**LAKELAND INDUSTRIES, INC.  
AND SUBSIDIARIES**

**FORM 10-Q**

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

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**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,” “inter” “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 facilities;
  - 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;
- 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.

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**LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

ASSETS	July 31, 2006 (Unaudited)	January 31, 2006
Current assets:		
Cash	\$ 2,304,902	\$ 1,532,453
Accounts receivable, net of allowance for doubtful accounts of \$85,000 at July 31, 2006 and \$323,000 at January 31, 2006	12,527,091	14,221,281
Inventories, net of reserves of \$372,000 at July 31, 2006 and \$365,000 at January 31, 2006	46,934,020	45,243,490
Deferred income taxes	917,684	917,684
Other current assets	2,320,946	1,804,552
<b>Total current assets</b>	<b>65,004,643</b>	<b>63,719,460</b>
Property and equipment, net of accumulated depreciation of \$6,702,000 at July 31, 2006 and \$6,201,000 January 31, 2006	7,628,881	7,754,765
Goodwill	871,297	871,297
Other assets	272,586	118,330
	<b>\$ 73,777,407</b>	<b>\$ 72,463,852</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 1,845,254	\$ 2,536,756
Accrued expenses and other current liabilities	693,265	1,302,544
<b>Total current liabilities</b>	<b>2,538,519</b>	<b>3,839,300</b>
Pension liability	473,700	469,534
Deferred income taxes	86,982	86,982
Borrowings under revolving credit facility	7,054,000	7,272,000
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 5,521,824 shares at July 31, 2006 and 5,017,046 shares at January 31, 2006	55,219	50,170
Additional paid-in capital	48,824,964	42,431,221
Retained earnings (1)	14,744,023	18,314,645
<b>Stockholders' equity</b>	<b>63,624,206</b>	<b>60,796,036</b>
	<b>\$ 73,777,407</b>	<b>\$ 72,463,852</b>

(1) A cumulative total of \$17,999,739 has been transferred from retained earnings to additional paid-in-capital and par value of common stock due to four separate stock dividends paid in 2002, 2003, 2005 and 2006. As reflected in the Condensed Consolidated Statement of Stockholders' Equity, \$6,386,916 was included in the six months ended July 31, 2006.

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

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	July 31,		July 31,	
	2006	2005	2006	2005
Net sales	\$ 24,086,862	\$ 25,089,146	\$ 51,308,887	\$ 50,798,074
Cost of goods sold	17,621,040	19,293,516	38,310,335	38,835,565
Gross profit	6,465,822	5,795,630	12,998,552	11,962,509
Operating expenses	4,384,931	3,589,281	8,750,845	7,210,126
Operating profit	2,080,891	2,206,349	4,247,707	4,752,383
Interest and other income, net	18,184	65,562	32,985	89,024
Interest expense	(116,080)	(3,582)	(186,773)	(4,102)
Income before income taxes	1,982,995	2,268,329	4,093,919	4,837,395
Provision for income taxes	628,476	620,119	1,277,625	1,476,208
Net income	\$ 1,354,519	\$ 1,648,210	\$ 2,816,294	\$ 3,361,187
Net income per common share*:				
Basic	\$ .25	\$ .30	\$ .51	\$ .61
Diluted	\$ .25	\$ .30	\$ .51	\$ .61
Weighted average common shares outstanding*:				
Basic	5,520,981	5,518,751	5,519,938	5,518,751
Diluted	5,524,110	5,523,164	5,524,093	5,523,394

\*Adjusted for the 10% stock dividend to shareholders of record on April 30, 2005 and August 1, 2006.

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

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**LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

Six months ended July 31, 2006

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	
Balance, January 31, 2006	5,017,046	\$ 50,170	\$ 42,431,221	\$ 18,314,645	\$ 60,796,036
Net Income				2,816,294	2,816,294
Exercise of Stock Options	2,662	27	11,849	----	11,876
10% Stock Dividend	502,116	5,022	6,381,894	(6,386,916)	---
Balance July 31, 2006	5,521,824	\$ 55,219	\$ 48,824,964	\$ 14,744,023	\$ 63,624,206

(Reflects four separate 10% stock dividends issued on July 31, 2002, 2003, April 30, 2005 and August 1, 2006, which resulted in a cumulative transfer of \$17,999,739 from retained earnings to additional paid-in capital and par value of common stock).

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

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

	SIX MONTHS ENDED	
	July 31,	
	2006	2005
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 2,816,294	\$ 3,361,187
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock based compensation	42,451	----
Reserve for doubtful accounts	69,474	----
Reserve for inventory obsolescence	25,347	(4,601)
Depreciation and amortization	501,466	467,000
Increase in accounts receivable	1,624,716	109,600
Increase in inventories	(1,715,877)	(4,425,529)*
Increase in other assets	(670,651)	(87,522)
(Decrease) Increase in accounts payable, accrued expenses and other liabilities	(1,339,065)	450,547
Net cash provided by (used in) operating activities	1,354,155	(129,318)
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(375,582)	(3,821,157)
Net cash used in investing activities	(375,582)	(3,821,157)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from exercise of stock options	11,876	----
(Repayments) Borrowing under loan agreements	(218,000)	1,881,933
Net cash (used in) provided by financing activities	(206,124)	1,881,933
Net increase (decrease) in cash	772,449	(2,068,542)
Cash and cash equivalents at beginning of period	1,532,453	9,185,382
Cash and cash equivalents at end of period	\$ 2,304,902	\$ 7,116,840

\*Inventory increased as production increased for the second half demand and accelerated purchases made on raw materials in anticipation of the July 1, 2005 price increase.

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

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**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, 2006 and 2005, 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 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, 2006.

Certain reclassifications between cost of goods sold and operating expenses were made to the first quarter of fiscal year 2006, in order to be consistent with the second quarter and year to date of fiscal 2006 classifications for the Mexico and China subsidiaries.

The results of operations for the three and six month periods ended July 31, 2006 is 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, Laidlaw Adams & Peck, Inc., a Delaware Corporation and its Subsidiary MeiYang Protective Products Co., Ltd., (a Chinese corporation), Lakeland Protective Wear, Inc. (a Canadian corporation), Weifang Lakeland Safety Products Co. Ltd. (a Chinese corporation), Qing Dao Maytung Healthcare Co., Ltd. (a Chinese corporation), Lakeland Industries Europe Ltd. (a British corporation), Lakeland de Mexico S.A. de C.V (a Mexican corporation), Mifflin Valley, Inc. (a Delaware corporation) Lakeland Industries, Inc. Agencia en Chile (A Chilean corporation), RFB Lakeland Private Ltd. (an Indian corporation) and Lakeland Protective Real Estate (a Canadian Corporation). All significant inter-company accounts and transactions have been eliminated.