

LAKELAND INDUSTRIES INC
Form 10-Q
September 09, 2009

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, 2009

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

Yes No

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 No

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

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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

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

Yes No

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 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 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:

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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,” “intend,” “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;
-

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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.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	July 31,		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 Qalytextil, 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 Qalytextil 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 supplier. 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.

The table below represents information about reported manufacturing segments for the three months and six month periods noted therein:

	Three Months Ended July 31, (in millions of dollars)		Six Months Ended July 31, (in millions of dollars)	
	2009	2008	2009	2008
Net Sales:				
North America and other foreign	\$ 18.5	\$ 24.1	\$ 39.2	\$ 51.3
Brazil	3.2	3.1	5.8	3.1
China	4.8	6.1	9.4	11.4
India	0.2	0.1	0.3	0.2
Less inter-segment sales	(3.7)	(5.8)	(7.7)	(11.2)
Consolidated sales	\$ 23.0	\$ 27.6	\$ 47.0	\$ 54.8
Operating Profit:				
North America and other foreign	\$ (.15)	\$.69	\$.04	\$ 1.77
Brazil	(.16)	.79	(.07)	.79
China	.70	.97	1.47	1.75
India	(.25)	(.19)	(1.49)	(.41)
Less inter-segment profit	.07	(.07)	.94	(.26)
Consolidated operating profit	\$.21	\$ 2.19	\$.89	\$ 3.64
Identifiable Assets (at Balance Sheet date):				
North America and other foreign	—	—	66.5	\$ 71.4
Brazil	—	—	18.5	13.9
China	—	—	14.0	11.6
India	—	—	0.7	4.2
Consolidated assets	—	—	99.7	\$ 101.1
Depreciation and Amortization Expense:				
North America and other foreign	\$.21	\$.28	\$.41	\$.43
Brazil	.03	.00	.05	.07
China	.08	.07	.16	.14
India	.10	.09	.20	.18
Consolidated depreciation expense	\$.42	\$.44	\$.82	\$.82

10.

FIN 48

UNCERTAIN TAX POSITIONS. Effective February 1, 2007, the first day of fiscal 2008, the Company adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” (“FIN 48”). FIN 48 prescribes recognition thresholds that must be met before a tax position is recognized in the financial statements and provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a “more likely than not” threshold.

The Company’s policy is to recognize interest and penalties related to income tax issues as components of income tax expense. The Company has no accrued interest as of July 31, 2009.

The Company is subject to U.S. federal income tax, as well as income tax in multiple U.S. state and local jurisdictions and a number of foreign jurisdictions. The Company’s federal income tax returns for the fiscal year ended January 31, 2007 have been audited by the Internal Revenue Service. Such audit is complete with a final “No Change Letter”

received by the Company.

Our three major foreign tax jurisdictions are China, Canada and Brazil. According to China tax regulatory framework, there is no statute of limitation on fraud or any criminal activities to deceive tax authorities. However, the general practice is going back five years, and general practice for records maintenance is fifteen years. Our China subsidiaries were audited during the tax year 2007 for the tax years through 2006, 2005 and 2004, respectively. Those audits are associated with ordinary course of business. China tax authorities did not perform tax audits associated with ordinary course of business during tax year 2008 or during current year as of current filing date. China tax authority performed a fraud audit but the scope was limited to the fraud activities found in late tax year 2008 in late FY09.

This audit covered tax years from 2003 through 2008. We have reached a settlement with the Chinese Government in January 2009. Please see Note 17 of our Annual Report on Form 10-K for further details on the fraud issue. China tax authorities have performed limited reviews on all China subsidiaries as of tax year 2008, with no significant issues noted. As a result, we can reasonably conclude that we do not anticipate any foreseeable future liabilities.

Lakeland Protective Wear, Inc., our Canadian subsidiary, follows Canada tax regulatory framework recording its tax expense and tax deferred assets or liability. The company has been audited once by the Canada tax authority. As of this statement filing date, we believe the company's tax situation is reasonably stated and we do not anticipate future tax liability.

Qualytextil, S.A. has never been audited under Brazilian Federal tax authorities, but by law in Brazil they are allowed to audit the five most recent years. We do not anticipate significant tax liability upon any future tax audits in Brazil.

Effective with the six months ended July 31, 2009, management changed its estimates for the deferred tax asset to be realized upon the final restructuring of its Indian operations. Accordingly, management has recorded an allowance of \$350,000 against the ultimate realization of the \$750,000 included in Deferred Income Taxes on the accompanying balance sheet.

11. Related Party Transactions

In connection with the asset purchase agreement, dated August 1, 2005, between the Company and Mifflin Valley, Inc., the Company entered into a five year lease agreement with the seller (now an employee of the Company) to rent the manufacturing facility in Shillington, Pennsylvania at an annual rental of \$57,504, or a per square foot rental of \$3.25. This amount was obtained prior to the acquisition from an independent appraisal of the fair market rental value per square feet. In addition the Company has, starting January 1, 2006 rented a second 12,000 sq ft of warehouse space in Blandon, Pennsylvania from this employee, on a month-to-month basis, for the monthly amount of \$3.00 per square foot.

On March 1, 1999, we entered into a one year (renewable for four additional one year terms) lease agreement with Harvey Pride, Jr., our Vice President of Manufacturing, for a 2,400 sq. ft. customer service office located next to our existing Decatur, Alabama facility at an annual rent of \$18,900. This lease was renewed on March 1, 2004 through March 31, 2009 at the same rental rate and resigned on April 1, 2009 for a continuation through 2011, with a 5% increase each year.

12. Derivative Instruments and Foreign Currency Exposure

The Company has foreign currency exposure, principally through its investment in Brazil, sales in Canada, Chile and the UK and production in Mexico and China. Management has commenced a hedging program to offset this risk by purchasing forward contracts to sell the Canadian Dollar, Chilean Peso, Euro and Great Britain Pound. Such contracts are largely timed to expire with the last day of the fiscal quarter, with a new contract purchased on the first day of the following quarter, to match the operating cycle of the company. Management has decided not to hedge its long position in the Chinese Yuan or the Brazilian Real.

Effective January 1, 2009, the Company adopted the provisions of SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company accounts for its foreign exchange derivative instruments under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 161. This standard requires recognition of all derivatives as either assets or liabilities at fair value and may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses from changes in the fair value of derivative

instruments. The Company had no derivative instruments outstanding at July 31, 2009 for foreign exchange.

Interest Rate Risk Management

We are exposed to interest rate risk from debt. We have hedged against the risk of changes in the interest rate associated with our variable rate Revolving Credit by entering into a variable-to-fixed interest rate swap agreement, designated as fair value hedge, with a total notional amount of \$18 million as of July 31, 2009. We assume no hedge ineffectiveness as each interest rate swap meets the short-cut method requirements under SFAS 133 for fair value hedges of debt instruments. As a result, changes in the fair value of the interest rate swaps are offset by changes in the fair value of the debt, both are reported in interest and other income and no net gain or loss is recognized in earnings.

The fair value of the interest rate swap in a net liability position is included in Other Liabilities on the balance sheet.

The fair values of all derivatives recorded on the consolidated balance sheet are as follows:

	July 31, 2009	January 31, 2009
Unrealized Gains:		
Unrealized (Losses):		
Interest rate swaps	\$ (416,380)	\$ (627,380)

The Brazilian financial statements, when translated into USD pursuant to FAS 52, “Foreign Currency Translation” resulted in a Currency Translation Adjustment (CTA) of \$(926,537), which is included in Other Comprehensive Loss on the Balance Sheet.

13. Reclassifications

Certain reclassifications were made in the previous year’s statement of income to conform with current classifications.

Item Management’s Discussion and Analysis of Financial Condition and Results of Operations

2.

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appeared in our Form 10-K and Annual Report and in the documents that were incorporated by reference into our Form 10-K for the year ended January 31, 2009. This Form 10-Q may contain certain “forward-looking” information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements.

Overview

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial protective clothing and homeland security markets. Our products are sold by our in-house sales force and independent sales representatives to a network of over 1,000 safety and mill supply distributors. These distributors in turn supply end user industrial customers such as chemical/petrochemical, automobile, steel, glass, construction, smelting, janitorial, pharmaceutical and high technology electronics manufacturers, as well as hospitals and laboratories. In addition, we supply federal, state and local governmental agencies and departments such as fire and police departments, airport crash rescue units, the Department of Defense, the Centers for Disease Control, and numerous other agencies of the federal, state and local governments.

We have operated manufacturing facilities in Mexico since 1995, in China since 1996, in India since 2006 and in Brazil since May 2008. Beginning in 1995, we moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to China and Mexico. Our facilities and capabilities in China, Mexico, India and Brazil allow access to a less expensive labor pool than is available in the United States and permit us to purchase certain raw materials at a lower cost than they are available domestically. As we have increasingly moved production of our products to our facilities in Mexico and China, we have seen improvements in the profit margins for these products. We continue to move production of our reusable woven garments and gloves to these facilities and expect to continue this process through fiscal 2010. As a result, we expect to see continuing profit margin improvements for these product lines over time.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses, and disclosure of contingent assets and liabilities. We base estimates on our past experience and on various other assumptions that we believe to be reasonable under the circumstances and we periodically evaluate these estimates.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. The Company derives its sales primarily from its limited use/disposable protective clothing and secondarily from its sales of high-end chemical protective suits, fire fighting and heat protective apparel, gloves and arm guards, and reusable woven garments. Sales are recognized when goods are shipped at which time title and the risk of loss passes to the customer. Sales are reduced for sales returns and allowances. Payment terms are generally net 30 days for United States sales and net 90 days for international sales.

Substantially all the Company's sales outside Latin America are made through distributors. There are no significant differences across product lines or customers in different geographical areas in the manner in which the Company's sales are made.

Rebates are offered to a limited number of our distributors, who participate in a rebate program. Rebates are predicated on total sales volume growth over the previous year. The Company accrues for any such anticipated rebates on a pro-rata basis throughout the year.

Our sales are generally final; however requests for return of goods can be made and must be received within 90 days from invoice date. No returns will be accepted without a written authorization. Return products may be subject to a restocking charge and must be shipped freight prepaid. Any special made-to-order items are not returnable. Customer

returns have historically been insignificant.

Customer pricing is subject to change on a 30-day notice; exceptions based on meeting competitors pricing are considered on a case by case basis.

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Inventories. 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. Provision is made for slow-moving, obsolete or unusable inventory.

Allowance for Doubtful Accounts. We establish an allowance for doubtful accounts to provide for accounts receivable that may not be collectible. In establishing the allowance for doubtful accounts, we analyze the collectability of individual large or past due accounts customer-by-customer. We establish allowances for accounts that we determine to be doubtful of collection.

Income Taxes and Valuation Allowances. We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of preparing our consolidated financial statements. This involves estimating the actual current tax in addition to assessing temporary differences resulting from differing treatments for tax and financial accounting purposes. These differences, together with net operating loss carry forwards and tax credits, are recorded as deferred tax assets or liabilities on our balance sheet. A judgment must then be made of the likelihood that any deferred tax assets will be realized from future taxable income. A valuation allowance may be required to reduce deferred tax assets to the amount that is more likely than not to be realized. In the event we determine that we may not be able to realize all or part of our deferred tax asset in the future, or that new estimates indicate that a previously recorded valuation allowance is no longer required, an adjustment to the deferred tax asset is charged or credited to net income in the period of such determination.

Valuation of Goodwill and Other Intangible Assets. Goodwill and other intangible assets are no longer amortized, but are assessed for impairment annually and upon occurrence of an event that indicates impairment may have occurred. Goodwill impairment is evaluated utilizing a two-step process as required by SFAS No. 142. Factors that we consider important that could identify a potential impairment include: significant underperformance relative to expected historical or projected future operating results; significant changes in the overall business strategy; and significant negative industry or economic trends. When we determine that the carrying value of intangibles and goodwill may not be recoverable based upon one or more of these indicators of impairment, we measure any potential impairment based on a projected discounted cash flow method. Estimating future cash flows requires our management to make projections that can differ materially from actual results.

Self-Insured Liabilities. We have a self-insurance program for certain employee health benefits. The cost of such benefits is recognized as expense based on claims filed in each reporting period, and an estimate of claims incurred but not reported during such period. Our estimate of claims incurred but not reported is based upon historical trends. If more claims are made than were estimated or if the costs of actual claims increases beyond what was anticipated, reserves recorded may not be sufficient and additional accruals may be required in future periods. We maintain separate insurance to cover the excess liability over set single claim amounts and aggregate annual claim amounts.

Significant Balance Sheet Fluctuations July 31, 2009 as compared to January 31, 2009

Cash increased by \$1.7 million as borrowings under the revolving credit facility decreased by \$6.7 million at July 31, 2009, mainly due to the reduction in inventory levels. Accounts receivable increased by \$1.3 million mainly resulting from a government agency receivable in Brazil. Inventory decreased by \$7.9 million, mainly due to lower levels of raw material purchasing and lower production in its china plants. Accounts payable increased by \$1.4 million due to increase in Brazil payables and a large vendor credit at January 31, 2009 which was subsequently applied. Other assets increased by \$1.2 million, mainly due to currency exchange fluctuation in Brazil.

At July 31, 2009 the Company had an outstanding loan balance of \$17.7 million under its facility with Wachovia Bank, N.A. compared with \$24.4 million at January 31, 2009, with the decrease mainly due to reductions in the Company's inventory levels. Total stockholders equity increased principally due to the net income for the period of \$0.1 million, and the foreign exchange gains from the Brazilian o