

LAKELAND INDUSTRIES INC
Form 10-Q
September 12, 2013

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, 2013**

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 13-3115216
(State of incorporation) (IRS Employer Identification Number)

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701 Koehler Avenue, Suite 7, Ronkonkoma, New York 11779
(Address of principal executive offices) (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 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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated 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
Nonaccelerated 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

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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 10, 2013
Common Stock, \$0.01 par value per share	5,352,511 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 Form 10-Q may contain certain forward-looking statements. When used in this Form 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 Form 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 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:

- Covenants in our credit facilities may restrict our financial and operating flexibility.
- We may need additional funds and, if we are unable to obtain these funds, we may not be able to expand or operate our business as planned.
- We incurred significant losses in FY13, and there can be no assurance that such losses will not continue.
- We are required to make substantial quarterly cash payments over six years in respect of the settlement agreement, as described in Note 13 herein.
- We are subject to risk as a result of our international manufacturing operations.
- Our results of operations could be negatively affected by potential fluctuations in foreign currency exchange rates.
- Our results of operations may vary widely from quarter to quarter.

Rapid technological change could negatively affect sales of our products and our performance. Because we do not have long-term commitments from many of our customers, we must estimate customer demand, and errors in our estimates could negatively impact our inventory levels and net sales.

Our operations are substantially dependent upon key personnel. We rely on a limited number of suppliers and manufacturers for specific fabrics, and we may not be able to obtain substitute suppliers and manufacturers on terms that are as favorable, or at all, if our supplies are interrupted. We deal in countries where corruption is an obstacle. Particularly in Brazil, in the industry in which we operate, corruption is an obstacle.

We face competition from other companies, a number of which have substantially greater resources than we do.

Some of our sales are to foreign buyers, which exposes us to additional risks. A significant reduction in government funding for preparations for terrorist incidents could adversely affect our net sales.

We may be subject to product liability claims, and insurance coverage could be inadequate or unavailable to cover these claims.

Environmental laws and regulations may subject us to significant liabilities.

The market price of our common stock may fluctuate widely. Our directors and executive officers have the ability to exert significant influence on our Company and on matters subject to a vote of our stockholders.

Provisions in our restated certificate of incorporation and by-laws and Delaware law could make a merger, tender offer or proxy contest difficult.

If we fail to maintain proper and effective internal controls or are unable to remediate a material weakness in our internal controls, our ability to produce accurate and timely financial statements could be impaired, and investors' views of us could be harmed.

Acquisitions could be unsuccessful.

Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information and adversely impact our reputation and results of operations.

The other factors referenced in this Form 10-Q, including, without limitation, in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the factors described under "Risk Factors" disclosed in our fiscal 2013 Form 10-K.

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 Form 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 STATEMENTS OF OPERATIONS

(UNAUDITED)

Three and Six months ended July 31, 2013 and 2012

	Three Months Ended		Six Months Ended	
	July 31, 2013	2012	July 31, 2013	2012
Net sales	\$24,639,006	\$23,499,324	\$46,375,996	\$47,480,035
Cost of goods sold	17,176,817	16,368,100	32,834,191	33,037,451
Gross profit	7,462,189	7,131,224	13,541,805	14,442,584
Operating expenses	6,165,451	6,979,251	12,481,698	14,265,673
Operating profit	1,296,738	151,973	1,060,107	176,911
Foreign Exchange loss Brazil	(360,269)	(375,741)	(387,411)	(691,528)
Arbitration judgment in Brazil	—	2,126,153	—	(7,873,847)
Other expense and income (loss), net	91,528	(26,385)	(36,592)	32,989
Interest expense	(467,293)	(259,453)	(741,187)	(495,846)
Income (loss) before income taxes	560,704	1,616,547	(105,083)	(8,851,321)
Benefit for income taxes	3,610,695	27,283	3,432,002	373,684
Net Income (loss)	\$4,171,399	\$1,643,830	\$3,326,919	\$(8,477,637)
Net Income (loss) per common share				
Basic	\$0.75	\$0.31	\$0.61	\$(1.62)
Diluted	\$0.74	\$0.30	\$0.60	\$(1.62)
Weighted average common shares outstanding:				
Basic	5,559,573	5,271,997	5,445,348	5,235,957
Diluted	5,668,236	5,441,167	5,519,073	5,235,957

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three and Six months ended July 31, 2013 and 2012

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2013	2012	2013	2012
Net income (loss)	\$4,171,399	\$1,643,830	\$3,326,919	\$(8,477,637)
Other comprehensive income (loss):				
Cash flow hedge in China	(84,364)	(127,094)	(33,792)	(230,866)
Foreign currency translation adjustments:				
Lakeland Brazil, S.A.	\$(895,528)	\$(1,613,795)	\$(801,660)	\$(3,429,066)
Canada	(21,929)	(8,938)	(29,989)	(3,405)
United Kingdom	(144,303)	(150,809)	(182,643)	(128,954)
China	24,154	(31,688)	45,460	(22,082)
Russia/Kazakhstan	(39,590)	(51,179)	(63,384)	(60,048)
Other comprehensive loss	(1,161,560)	(1,983,503)	(1,066,008)	(3,874,421)
Comprehensive income (loss)	\$3,009,839	\$(339,673)	\$2,260,911	\$(12,352,058)

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

July 31, 2013 and January 31, 2013

	July 31, 2013 (Unaudited)	January 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,834,326	\$ 6,736,962
Accounts receivable, net of allowance for doubtful accounts of \$303,700 and \$342,100 at July 31, 2013 and January 31, 2013, respectively	13,643,821	13,782,908
Inventories	40,418,360	39,270,675
Deferred income tax	3,861,392	—
Assets of discontinued operations in India	205,468	813,182
Prepaid income tax	1,483,775	1,564,834
Other current assets	1,973,091	1,703,322
Total current assets	67,420,233	63,871,883
Property and equipment, net	12,460,482	14,089,987
Prepaid VAT and other taxes, noncurrent	2,401,496	2,461,386
Security deposits	1,189,013	1,546,250
Other assets, net (mainly prepaid bank fees)	1,663,015	477,200
Goodwill	871,297	871,297
Total assets	\$ 86,005,536	\$ 83,318,003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,262,735	\$ 6,704,001
Accrued compensation and benefits	990,755	975,758
Other accrued expenses	2,420,987	2,409,453
Liabilities of discontinued operations in India	—	25,041
Current maturity of long-term debt	—	100,481
Current maturity of arbitration settlement	1,000,000	1,000,000
Short-term borrowing	2,340,141	1,578,779
Term loans to TD Bank	—	5,550,000
Borrowings under revolving credit facility	10,403,179	9,558,882
Total current liabilities	26,417,797	27,902,395
Accrued arbitration award in Brazil (net of current maturities)	4,258,691	4,710,691
Canadian warehouse loan, net of current maturities	—	1,298,085
Subordinated debt, net of OID	1,301,850	—
Other liabilities - accrued legal fees in Brazil	75,742	86,911
VAT taxes payable long term	3,331,250	3,328,820
Total liabilities	35,385,330	37,326,902
Stockholders' equity:		
Preferred stock, \$.01 par; authorized 1,500,000 shares - (none issued)	—	—
	57,074	56,886

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Common stock, \$.01 par; authorized 10,000,000 shares, issued 5,707,422 and 5,688,600; outstanding 5,350,981 and 5,332,159 at July 31, 2013 and January 31, 2013, respectively

Treasury stock, at cost; 356,441 shares at July 31, 2013 and January 31, 2013	(3,352,291)	(3,352,291)
Additional paid-in capital	53,341,071	50,973,065
Retained earnings (deficit)	2,854,475	(472,444)
Accumulated other comprehensive loss	(2,280,123)	(1,214,115)
Total stockholders' equity	50,620,206	45,991,101
Total liabilities and stockholders' equity	\$ 86,005,536	\$ 83,318,003

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

Six months ended July 31, 2013

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, January 31, 2013	5,688,600	\$56,886	(356,441)	\$(3,352,291)	\$50,973,065	\$(472,444)	\$(1,214,115)	