

LAKELAND INDUSTRIES INC
Form 10-K
April 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2010

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 or Other Jurisdiction of Incorporation or Organization)	13-3115216 (I.R.S. Employer Identification No.)
701 Koehler Ave., Suite 7, Ronkonkoma, NY (Address of Principal Executive Offices)	11779 (Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

Common Stock \$0.01 Par Value

(Title of Class)

Name of Exchange on which listed - NASDAQ

Securities registered pursuant to Section 12(g) of the Act:

Not Applicable

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Yes No

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

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

Class	Outstanding at April 14, 2010
Common Stock, \$0.01 par value per share	5,439,410

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Annual Report to Stockholders for the Fiscal Year Ended January 31, 2010 (Annual Report)	Parts [I, II, and IV]

Portions of the proxy statement for the annual meeting of stockholders to be held on June 16, 2010, are incorporated by reference into Part III.

LAKELAND INDUSTRIES, INC.
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This Annual Report on Form 10-K contains forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks, uncertainties and assumptions as described from time to time in registration statements, annual reports and other periodic reports and filings of the Company filed with the Securities and Exchange Commission. All statements, other than statements of historical facts, which address the Company's expectations of sources of capital or which express the Company's expectation for the future with respect to financial performance or operating strategies, can be identified as forward-looking statements. As a result, there can be no assurance that the Company's future results will not be materially different from those described herein as "believed," "anticipated," "estimated" or "expected," "may," "will," "should," or other similar words which reflect the current views of the Company with respect to future events. We caution readers that these forward-looking statements speak only as of the date hereof. The Company hereby expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which such statement is based.

PART I

Lakeland Industries, Inc. (the "Company" or "Lakeland," "we," "our," or "us") was incorporated in the State of Delaware in 1986. Our executive offices are located at 701 Koehler Avenue, Suite 7, Ronkonkoma, New York 11779, and our telephone number is (631) 981-9700. Our web site is located at www.lakeland.com. Information contained on our web site is not part of this report.

ITEM 1. BUSINESS

Overview

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial protective clothing market. Our products are sold by our in-house customer service group, our regional sales managers 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 integrated oil, chemical/petrochemical, utilities, automobile, steel, glass, construction, smelting, munition plants, janitorial, pharmaceutical, mortuaries and high technology electronics manufacturers, as well as scientific and medical laboratories. In addition, we supply federal, state and local governmental agencies and departments such as fire and law enforcement, airport crash rescue units, the Department of Defense, the Department of Homeland Security, and the Centers for Disease Control. In fiscal 2010, we had net sales of \$94.1 million. Our net sales attributable to customers outside the United States were \$13.0 million, \$25.6 million and \$32.6 million in fiscal 2008, fiscal 2009 and fiscal 2010, respectively.

Our major product categories and their applications are described below:

Limited Use/Disposable Protective Clothing. We manufacture a complete line of limited use/disposable protective garments offered in coveralls, lab coats, shirts, pants, hoods, aprons, sleeves and smocks. These garments are made from several non-woven fabrics, primarily our premium lines of Tyvek® and TyChem® (both DuPont manufactured fabrics) and also our proprietary fabrics Micromax® and Micromax NS and HBF, SafeGard® SMS, Pyrolon® Plus 2 and Pyrolon XT, RyTex® , Zonogard and ChemMax® 1 and 2 manufactured pursuant to customer order. These garments provide protection from low-risk contaminants or irritants, such as chemicals, pesticides, fertilizers, paint, grease and dust, and from limited exposure to hazardous waste and toxic chemicals, including acids, asbestos, lead and hydro-carbons (or PCBs) that pose health risks after exposure for long periods of time. Additional applications include protection from viruses and bacteria, such as AIDS, streptococcus, SARS and hepatitis, at international hospitals, clinics and emergency rescue sites and use in clean room environments to prevent human contamination in the manufacturing processes. This is our largest product line.

High-End Chemical Protective Suits. We manufacture heavy duty chemical suits made from TyChem® SL, TK and BR, and F, which are DuPont patented fabrics and our Pyrolon® CRFR and ChemMax® 3 product lines. These suits are worn by individuals on hazardous material teams to provide protection from powerful, highly concentrated and hazardous or potentially lethal chemical and biological toxins, such as toxic wastes at Super Fund sites, toxic chemical spills or biological discharges, chemical or biological warfare weapons (such as saran gas, anthrax or ricin), and hazardous chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. These suits can be used in conjunction with a fire protective shell that we manufacture to protect the user from both chemical and flash fire hazards. Homeland Security measures and government funding of personal protective equipment for first responders to terrorist threats or attack have since September 11, 2001 resulted in increased demand for our high-end chemical suits, and we believe a reasonable demand for these suits will continue in the future as state and local Bioterrorism grants are spent.

Fire Fighting and Heat Protective Apparel. We manufacture an extensive line of fire fighting and heat protective apparel for use by fire fighters and other individuals that work in extreme heat environments. Our branded fire fighting apparel Fyrepel® is sold to local municipalities and industrial fire fighting teams. Our heat protective aluminized fire suits are manufactured from Nomex®, a fire and heat resistant material, and Kevlar®, a cut and heat resistant, high-strength, lightweight, flexible and durable material both produced by DuPont. This apparel is also used for maintenance of extreme high temperature equipment, such as coke ovens, kilns, glass furnaces, refinery installations and smelting plants, as well as for military and airport crash and rescue teams.

Gloves and Arm Guards. We manufacture gloves and arm guards from Kevlar® and Spectra® cut resistant fibers made by DuPont and Honeywell, respectively, as well as engineered composite yarns of our Microgard antimicrobial yarns for food service markets. Our gloves are used primarily in the automotive, glass, metal fabrication and food service industries to protect the wearer's hands and arms from lacerations and heat without sacrificing manual dexterity or comfort.

Reusable Woven Garments. We manufacture a line of reusable and washable woven garments that complement our fire fighting and heat protective apparel offerings and provide alternatives to our limited use/disposable protective clothing lines. Product lines include electrostatic dissipative apparel used in the pharmaceutical and automotive industries for control of static electricity in the manufacturing process, clean room apparel to prevent human contamination in the manufacturing processes, and flame resistant Nomex® and fire resistant ("FR") cotton coveralls used in chemical and petroleum plants and for wildland fire fighting, and extrication suits for police and ambulance workers.

High Visibility Clothing. In August 2005, we acquired the assets of Mifflin Valley, Inc. of Shillington, PA. Mifflin is a manufacturer of protective clothing specializing in safety and visibility, largely for the Emergency Services market, but also for the entire public safety and traffic control market. Mifflin's high visibility products include flame retardant and reflective garments for the Fire Industry, Nomex clothing for utilities, and high visibility reflective outerwear for industrial uniforms and Departments of Transportation.

We have purchased DuPont's Tyvek® and TyChem® apparel grade fabrics under North American Trademark licensing agreements and other DuPont materials, such as Kevlar®, under Trademark licensing agreements. The trademark agreements require certain quality standards as a prerequisite for the use of DuPont trademarks and tradenames on the finished product manufactured by us. We believe this brand identification with DuPont and Tyvek® benefits the marketing of our largest product line, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing.

We maintain manufacturing facilities in Decatur, Alabama; Jerez, Mexico; Salvador Bahia, Brazil; AnQui City, China; Jiaozhou, China; New Delhi, India; Shillington, PA, and St. Joseph, Missouri, where our products are designed, manufactured and sold. We also have relationships with sewing subcontractors in Mexico and China, which we can utilize for unexpected production surges. Our China, Mexico, and India facilities allow us to take advantage of favorable labor and component costs, thereby increasing our profit margins on products manufactured in these facilities. Our China and Mexico facilities are designed for the manufacture of primarily limited use/disposable protective clothing as well as our high-end chemical protective suits. However, they have recently installed capabilities to manufacture all our products except chemically resistant gloves, which are made solely in our India facility. We have significantly improved our profit margins in these product lines by shifting production to our international facilities, and we continue to expand our international manufacturing capabilities to include our gloves and reusable woven and fire protective apparel product lines.

The industrial work clothing market includes our limited use/disposable protective or safety clothing, our high-end chemical protective suits, our fire fighting and heat protective apparel, gloves and our reusable woven garments.

The industrial protective safety clothing market in the United States has evolved over the past 40 years as a result of governmental regulations and requirements and commercial product development. In 1970, Congress enacted the Occupational Safety and Health Act, or OSHA, which requires employers to supply protective clothing in certain work environments. Almost two million workers are subject to OSHA standards today. Certain states have also enacted worker safety laws that further supplement OSHA standards and requirements.

The advent of OSHA coincided with DuPont's development of Tyvek® which, for the first time, allowed for the economical production of lightweight, disposable protective clothing. The attraction of disposable garments grew in the late 1970s as a result of increases in labor and material costs of producing cloth garments and the promulgation of federal, state and local safety regulations.

In response to the terrorist attacks that took place on September 11, 2001, the federal government has provided for additional protective equipment funding through programs that are part of the Homeland Security initiative.

Since 2001, federal and state purchasing of industrial protective clothing and federal grants to fire departments have increased demand for industrial protective clothing to protect first responders against actual or threatened terrorist incidents. Specific events such as the anthrax letters incidents in 2001, the 2002 U.S. Winter Olympics, the SARS epidemic in 2003, the ricin letter incidents in 2004, the spread of Avian Flu and Hurricane Katrina in 2006 have also resulted in increased peak demand for our products. In FY 2010, the Department of Homeland Security (DHS) budgeted more than two billion dollars to six various grant programs that allow states and cities to fund response capabilities through planning, organization, equipment (including the chemical protective suits we sell) and training and exercise activities. These include the "Urban Areas Security Initiative" (\$832,500,000), the "State Homeland Security Program" (\$842,000,000), The "Metropolitan Medical Response System Program" (\$39,360,000), The "Commercial Equipment Direct Assistance Program" (\$17,600,000), and the "Chemical Stockpile Emergency Preparedness Program" (\$67,800,000), and the "Hospital Emergency Preparedness Program" (\$426,000,000). Although the FY 2011 DHS budget is not out yet, the above programs are expected to exceed \$3 billion for 2010, within the same broader grant programs generically known as AFG (Assistance to Fire Fighters Grants) and SAFER (Staffing for Adequate Fire and Emergency Response) which are primarily utilized by our customer base, the fire departments.

International and Domestic Standards

Standards development, within both the U.S. and global markets, continues to challenge manufacturers as the pace of change and adoption of new standards increase. Complex and changing international standards play to Lakeland's strengths when compared to smaller manufacturers.

Globally, standards for lower levels of protection are also changing rapidly. In 1996, the European Committee for Standardization (CEN) adopted a group of standards that collectively comprised the only standards available for chemical protective clothing for general industry. Because these standards established performance requirements for a wide range of chemical protective clothing, these standards have been adopted by many countries and multinational corporations outside of the European Union (EU) as minimum requirements. This is especially true in the Asian and Pacific markets where compliance with occupational health and safety standards is being driven by World Trade Organization (WTO) membership. In addition to CEN, ASTM International and the National Fire Protection Association (NFPA) are increasing the numbers of "Memorandums of Understanding" (MOUs) they have in place with foreign countries as they vie for relevance on the international stage. Developing nations that want WTO membership must establish worker safety laws as the USA did in 1970 with its OSHA laws. This movement is driving demand for our products internationally, particularly in fast GDP growth countries such as China, Brazil and India.

A number of developing nations are now becoming active in their own standards development based on existing international standards. However the primary goal of their standards writing activity is not focused on worker protection (that is provided for by the use of international standards), rather they are attempting to establish their own certification criteria that will protect their domestic markets or favor specific regional suppliers. This presents a new challenge in that now not only are we faced with multiple test methods and standards, but we have the potential for multiple certification processes. While this adds to product development and sales expenses, the additional cost is only incremental. The real challenge is in navigating the certification process itself. Lakeland Industries, by virtue of its international manufacturing and sales operations, is in a unique position to capitalize on this new dynamic.

Industry Consolidation

The industrial protective clothing industry remains highly fragmented and consists of a large number of small, closely-held family businesses. DuPont, Lakeland and Kimberly Clark are the dominant disposable industrial protective apparel manufacturers. Current economic conditions have brought a lull in consolidation activities at both the manufacturing and distribution levels. Lakeland anticipates that this will be a temporary respite as stronger manufacturers and distributors will be in a better position to acquire smaller, heavily leveraged companies as the market begins to recover. Smaller, financially distressed companies that cannot attract buyers will likely go out of business leaving their customers to the remaining companies. In either case, the end result equates to continued consolidation.

As these safety distributors consolidate and grow, we believe they are looking to reduce the number of safety manufacturing vendors they deal with and support, while at the same time shifting the burden of end user selling to the manufacturer. This creates a significant capital availability issue for small safety manufacturers as end user selling is more expensive, per sales dollar, than selling to safety distributors. As a result, the manufacturing sector in this industry is also seeing follow-on consolidation. DuPont has acquired Marmac Manufacturing, Inc., Kappler, Inc., Cellucup, Melco, Mfg., and Regal Manufacturing since 1998 while, in the related safety product industries, Norcross Safety Products L.L.C. (Norcross) acquired Morning Pride, Ranger-Servus, Salisbury, North and Pro Warrington, and Christian Dalloz has acquired Bacou, USA which itself acquired Uvex Safety, Inc., Survivair, Howard Leight, Perfect Fit, Biosystems, Fenzy, Titmus, Optrel, OxBridge and Delta Protection. In spring of 2008, Honeywell then acquired Norcross and, in a separate transaction, 3M acquired Aaero Corporation.

We believe a larger industrial protective clothing manufacturer has competitive advantages over a smaller competitor including:

- economies of scale when selling to end users, either through the use of a direct sales force or independent representation groups;
- broader product offerings that facilitate cross-selling opportunities;
- the ability to employ dedicated protective apparel training and selling teams;
- the ability to offer volume and growth incentives to safety distributors; and
- access to international sales.

We believe we have a substantial opportunity to pursue acquisitions in the industrial protective clothing industry, particularly because many smaller manufacturers share customers with us.

Business Strategy

Key elements of our strategy include:

- **Increase International Sales Opportunities.** We intend to aggressively increase our penetration of the international markets for our product lines. In FY07 and FY08, we opened sales offices in Beijing, Shanghai, Chongqing, Guangzhou and Weifang, China; Tokyo, Japan; and Santiago, Chile. In FY10, we opened sales offices in Argentina and began the process of opening in Russia and Kazakhstan, and sales in our older United Kingdom operation were flat in FY2010 but increased 18% in 2009, 34.6% in fiscal 2008, and 46.6% in 2007. We expect our newer operations in Chile, China, and India to ramp up sales on a similar basis to our UK operations. We also acquired Qualytextil, a Brazilian manufacturer with FY08 sales of \$10.0 million and revenue growth of \$8.4 million for the nine months in FY09 in which we owned Qualytextil and a growth in the full year of FY10 of 18% (38.4% in Q4).

This strategy is driven by the fact that many Asian and South American countries have adopted legislation similar to the 1970 U.S. Occupational Health and Safety Act (OSHA) in order to facilitate their entry into the World Trade Organization (WTO) which has as a requisite for entry worker safety laws (like OSHA), social security, environmental and tax laws similar to that of the USA and Europe. These new worker safety laws have driven the demand for our products in these rapidly growing economies.

- Acquisitions. We believe that the protective clothing market is fragmented and presents the opportunity to acquire businesses that offer comparable products or specialty products that we do not offer. We intend to consider acquisitions that afford us economies of scale, enhanced opportunity for cross-selling, expanded product offerings and an increased market presence. We acquired a facility in New Delhi, India in November 2006 where we are producing Nitrile gloves. We also acquired Mifflin Valley, Inc., a manufacturer of high visibility protective clothing in August 2005. We closed on our acquisition of Qalytextil, a Brazilian manufacturer of fire protective clothing in May 2008. We continue to entertain other opportunities but with an eye to increase earnings.

- **Introduction of New Products.** We continue our history of product development and innovation by introducing new proprietary products across all our product lines. Our innovations have included Micromax® disposable protective clothing line, our ChemMax® line of chemical protective clothing, our Despro® patented glove design, Microgard antimicrobial products for food service and our engineered composite glove products for high cut and abrasion protection, our Thermbar™ glove and sleeve products for heat protection, Grapolator™ sleeve lines for hand and arm cut protection and our Thermbar™ Mock Twist glove for hand and arm heat protection. We own 16 patents on fabrics and production machinery and have 6 additional patents in application. We will continue to dedicate resources to research and development.

- **Decrease Manufacturing Expenses by Moving Production to International Facilities.** We have additional opportunities to take advantage of our low cost production capabilities in Brazil, Mexico and China. Beginning in 1995, we successfully moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to the facilities in Mexico and China. Beginning January 1, 2005, pursuant to the United States World Trade Organization Treaty with China and the North American Free Trade Agreement (“NAFTA”), the reduction in quota requirements and tariffs imposed by the U.S. and Canada on textiles goods, such as our reusable woven garments, have made it more cost effective to move production for some of these product lines to our assembly facilities in China and Mexico. We completed this process in fiscal 2008. As a result, we expect to see profit margin improvements for these product lines, which will allow us to compete more effectively as quota restrictions on China were removed as of January 1, 2009 and tariffs lowered. Additionally, due to the overcapacity resulting from the recent drop in demand globally:
 1. We continue to press our raw material and component suppliers for price reductions and better payment terms.
 2. We are sourcing more raw materials and components from our China based operations as opposed to sourcing in Europe and North America.
 3. We are re-engineering many products so as to reduce the amount of raw materials used and reduce the direct labor in such products.

- **Improve Marketing in Existing Markets.** We believe significant growth opportunities are available to us through the better positioning, marketing and enhanced cross-selling of our reusable woven protective clothing, glove and arm guards and high-end chemical suit product lines, along with our limited use/disposable lines as a bundled offering. This allows our customers one stop shopping using combined freight shipments.

- **Increase Sales to the First Responder Market.** Our high-end chemical protective suits meet all of the regulatory standards and requirements and are particularly well qualified to provide protection to first responders to chemical or biological attacks. For example, our products have been used for response to recent threats such as the 2001 anthrax letters, the 2003 SARS epidemic, the 2004 ricin letters and the 2006 Avian Flu. A portion of appropriations for the Fire Act of 2002 and the Bio Terrorism Act of 2002 with continuing funding through 2009 are available for purchase of products for first responders that we manufacture, and we are aggressively targeting this Homeland Security market.

- **Emphasize Customer Service.** We continue to offer a high level of customer service to distinguish our products and to create customer loyalty. We offer well-trained and experienced sales and support personnel, on-time delivery and accommodation of custom and rush orders. We also seek to advertise our DuPont branded tradenames.

Our Competitive Strengths

Our competitive strengths include:

- **Industry Reputation.** We devote significant resources to creating customer loyalty by accommodating custom and rush orders and focusing on on-time delivery. Additionally, our ISO 9001 and 9002 certified facilities manufacture high-quality products. As a result of these factors, we believe that we have an excellent reputation in the industry.
- **International Manufacturing Capabilities.** We have operated our own manufacturing facilities in Mexico since 1995 and in China since 1996. Our four facilities in China total 454,000 sq. ft. of manufacturing, warehousing and administrative space while our facility in Mexico totals over 43,000 sq. ft. of manufacturing, warehousing and administrative space. Our facilities and capabilities in China and Mexico allow access to a less expensive labor pool than is available in the United States and permits us to purchase certain raw materials at a lower cost than they are available domestically.
- **India.** In November 2006, we purchased three facilities comprising 47,408 square feet in New Delhi, India where we are producing nitrile gloves which were sold internationally in FY10. We have continued to enter the North American and European markets in calendar 2009 with a newly designed line of gloves, after a complete redesign and rebuild of the India machinery and equipment during FY08 and FY09.
- **Brazil.** In May 2008, we acquired Qualytextil, S.A., a Brazilian manufacturer of fire protective clothing which opens up the tariff protected Mercosur markets of Brazil, Argentina, Uruguay, Paraguay and soon, by membership, Venezuela, for not only Qualytextil's fire protective products, but also many of the products we make in the USA, China and Mexico.
- **International Sales Offices.** We have sales offices around the world to service various major markets, a greatly expanded Toronto, Canada facility that went on line in January 2008 for the Canadian market, an expanded Newport, United Kingdom office for the European Common Market that went on line in late 2007, and new sales offices in Beijing, Weifang, Guangzhou, Chongqing and Shanghai, China covering China, Australia and Southeast Asia, Tokyo, Japan for Japan and Santiago, Chile and Jerez, Mexico for the South American market. The Brazil acquisition in May 2008 completed the infrastructure for our strategy for South America. In FY10, we opened a sales office in Argentina as a spin off from our Chile operations.
- **Comprehensive Inventory.** We have a large product offering with numerous specifications, such as size, styles and pockets, and maintain a large inventory of each in order to satisfy customer orders in a timely manner. Many of our customers traditionally make purchases of industrial protective gear with expectations of immediate delivery. We believe our ability to provide timely service for these customers enhances our reputation in the industry and positions us strongly for repeat business, particularly in our limited use/disposable protective clothing lines.
- **Manufacturing Flexibility.** By locating labor-intensive manufacturing processes such as sewing in Brazil, Mexico, China, and India and by utilizing sewing sub-contractors, we have the ability to increase production without substantial additional capital expenditures. Our manufacturing systems allow us flexibility for unexpected production surges and alternative capacity in the event any of our independent contractors become unavailable.
- **Experienced Management Team.** We have an experienced management team. Our executive officers, other than the CFO, average greater than 23 years of experience in the industrial protective clothing market. The knowledge, relationships and reputation of our management team helps us maintain and build our customer base.

Products

The following table summarizes our principal product lines, the raw materials used to manufacture them, their applications and end markets:

Product Line	Raw Material	Protection Against	End Market
Limited use/disposable protective clothing	<ul style="list-style-type: none"> · Tyvek® and laminates of Polyethylene, Spunlaced Polyester, SMS, Polypropylene, and Company Micromax, Micromax NS, ChemMax 1, ChemMax 2, Pyrolon®, and other non-woven fabrics 	<ul style="list-style-type: none"> · Contaminants, irritants, metals, chemicals, fertilizers, pesticides, acids, asbestos, PCBs, lead, dioxin and many other hazardous chemicals · Viruses and bacteria (AIDS, streptococcus, SARS and hepatitis) 	<ul style="list-style-type: none"> · Integrated oil · Chemical industries · Public utilities · Automotive and pharmaceutical industries · Government (terrorist response) · Janitorial · Laboratories
High-end chemical protective suits	<ul style="list-style-type: none"> · TyChem® QC · TyChem® SL · TyChem® TK · TyChem® F · TyChem® BR · ChemMax® 3 and 4 · Pyrolon® CRFR · Tencate® FR cottons · Other Lakeland patented co-polymer laminates 	<ul style="list-style-type: none"> · Chemical spills · Toxic chemicals used in many varied manufacturing processes · Terrorist attacks, biological and chemical warfare (anthrax, ricin and sarin) 	<ul style="list-style-type: none"> · Integrated oil chemical and nuclear industries · Hazardous material teams · Fire departments (hazmat) · Government (first responders)
Fire fighting and heat protective apparel	<ul style="list-style-type: none"> · Nomex® · Aluminized Nomex® · Aluminized Kevlar® · PBI Matrix · Millenia® · Basofil® · Advance · Indura® Ultrasoft 	<ul style="list-style-type: none"> · Fire, burns and excessive heat 	<ul style="list-style-type: none"> · Municipal, corporate and volunteer fire departments · Wildland fire fighting · Hot equipment maintenance personnel and industrial fire departments · Oil well fires · Airport crash rescue
Hand & Arm Protective Products	<ul style="list-style-type: none"> · Kevlar® yarns · Kevlar® wrapped steel core yarns · Spectra® yarns · Composite engineered yarns · Nitrile, latex, natural rubber, neoprene compounds and mixtures thereof 	<ul style="list-style-type: none"> · Cuts, lacerations, heat, hazardous chemicals and dermatological irritants 	<ul style="list-style-type: none"> · Integrated oil · Automotive, glass and metal fabrication industries · Chemical plants · Food processing · Electronic industries

Product Line	Raw Material	Protection Against	End Market
Reusable woven garments	<ul style="list-style-type: none"> · Staticorb carbon thread with polyester · Cotton polyester blends · Cotton · Polyester · Nomex®/FR Cottons · Nylon 	<ul style="list-style-type: none"> · Protects manufactured products from human contamination or static electrical charge · Bacteria, viruses and blood borne pathogens · Protection from flash fires 	<ul style="list-style-type: none"> · General industrial applications · Household uses · Clean room environments · Emergency medical ambulance services · Chemical and oil refining · Medical and laboratory facilities
High Visibility Clothing	<ul style="list-style-type: none"> · Polyester mesh · Solid polyester 	<ul style="list-style-type: none"> · Lack of visibility · Heat, flame, sparks 	<ul style="list-style-type: none"> · Highway · Construction
Reflective vests	<ul style="list-style-type: none"> · FR polyester mesh 	<ul style="list-style-type: none"> · Arc flash 	<ul style="list-style-type: none"> · Maintenance
Jacket, Coats	<ul style="list-style-type: none"> · FR solid polyester 	<ul style="list-style-type: none"> · Static buildup, explosive atmospheres 	<ul style="list-style-type: none"> · Transportation
Jumpsuits	<ul style="list-style-type: none"> · Modacrylic 	<ul style="list-style-type: none"> · Fire, heat explosions 	<ul style="list-style-type: none"> · Airports
“T” shirts, sweatshirts	<ul style="list-style-type: none"> · Modacrylic anti-static 		<ul style="list-style-type: none"> · Police
· Raingear	§ FR cotton		<ul style="list-style-type: none"> · Fire, EMS
· 70E Vests	§ Nomex		<ul style="list-style-type: none"> · Electric, coal and gas utilities
· Jumpsuits with reflective trim	§ FR trims		<ul style="list-style-type: none"> · Extrication · Confined space rescue

Limited Use/Disposable Protective Clothing

We manufacture a complete line of limited use/disposable protective garments, including coveralls, laboratory coats, shirts, pants, hoods, aprons, sleeves, arm guards, caps, and smocks. Limited use garments can also be coated or laminated to increase splash protection against harmful inorganic acids, bases and other hazardous liquid and dry chemicals. Limited use garments are made from several non-woven fabrics, including our premium lines of Tyvek® and TyChem® QC (both DuPont fabrics which are the standard or benchmark from which all other fabrics are measured) and our own trademarked fabrics such as Pyrolon® Plus 2, XT, CRFR, Micromax®, Micromax NS, Safeguard® “76”, Zonogard®, RyTex® ChemMax® 1 and 2, and TomTex®, which are made of spunlaced polyester, polypropylene and nano-polyethylene filaments, laminates, microporous films and derivatives. We incorporate many seaming and taping techniques depending on the level of protection needed in the end use application.

Typical users of these garments include integrated oil/petrochemical refineries, chemical plants, and related installations, automotive manufacturers, pharmaceutical companies, construction companies, coal, gas and oil power generation utilities and telephone utility companies, laboratories, mortuaries and governmental entities. Numerous smaller industries use these garments for specific safety applications unique to their businesses. Additional applications include protection from viruses and bacteria, such as AIDS, streptococcus, SARS and hepatitis, at international hospitals, clinics and emergency rescue sites and use in clean room environments to prevent human contamination in the manufacturing processes.

Our limited use/disposable protective clothing products range in unit price from \$.04 for shoe covers to approximately \$14.00 for a TyChem® QC laminated hood and booted coverall. Our largest selling item, a standard white Tyvek® coverall, sells for approximately \$2.50 to \$3.75 per garment. By comparison, similar reusable cloth coveralls range in price from \$40.00 to \$90.00, exclusive of laundering, maintenance and shrinkage expenses.

We warehouse and sell our limited use/disposable garments primarily at our Decatur, Alabama, and China facilities, warehouses in Las Vegas, NV and Shillington, PA. The fabric is cut and sewn into required patterns at our four

Chinese and one Mexican plant and shipped to all our sales points around the world. Our assembly facilities in China and Mexico cut, sew and package the finished garments and return them primarily to our Decatur, Alabama plant, normally within one to ten weeks, for immediate shipment to our North American customers.

In fiscal 2010, there is no independent sewing contractor that accounts for more than 5% of our production of the limited use disposable garments. We believe that we can obtain adequate alternative production capacity should any of our independent contractors become unavailable.

High-End Chemical Protective Suits

We manufacture heavy-duty chemical suits made from DuPont TyChem® QC, SL, F, BR and TK fabrics and our proprietary ChemMax® 3 and 4 fabrics. These suits are worn by individuals on hazardous material teams and within general industry to provide protection from powerful, highly concentrated and hazardous or potentially lethal chemical and biological toxins, such as toxic wastes at Super Fund sites, toxic chemical spills or biological discharges, chemical or biological warfare weapons (such as anthrax, ricin, or saran and mustard gas), and chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. Our line of chemical suits range in cost from \$14 per coverall to \$1,192. The chemical suits can be used in conjunction with a fire protective shell that we manufacture to protect the user from both chemical and flash fire hazards. We have also introduced two garments approved by the National Fire Protection Agency (NFPA) for varying levels of protection:

- TyChem® TK – a multi-layer film laminated to a durable non-woven substrate. This garment offers the broadest temperature range for limited use garments of -94°F to 194°F. This garment is an encapsulating design and is available in National Fire Protection Agency 1991-2005 revision certified versions and meets the requirements of the flash fire option.
- ChemMax® 3 – a multi-layer film laminated to a durable spunbonded substrate. This is a non-encapsulating garment and meets the requirements of NFPA 1992, 2005 Revision. In addition to NFPA certified ensembles, we also manufacture garments from our proprietary ChemMax® 1, ChemMax® 2, and ChemMax® 3 fabrics that are compliant with CE types 2, 3, and 4 for the international markets.

We manufacture chemical protective clothing at our facilities in Decatur, Alabama, Mexico and China. Using fabrics such as TyChem® SL, TyChem® TK, TyChem F, TyChem® BR, ChemMax® 1, ChemMax® 2 and ChemMax® 3, we design, cut, glue and/or sew the materials to meet customer purchase orders.

We derive a significant percentage of our sales from the Department for Homeland Security. The federal government, through the Fire Act of 2002, appropriated approximately \$750 million in 2003 to fire departments in the United States and its territories to fund the purchase of, among other things, personal protective equipment, including our fire fighting and heat protective apparel and high-end chemical protective suits. An additional \$750 million was appropriated for 2004, \$650 million for 2005, \$648 million for 2006, \$547 million for 2007, \$560 million for 2008, \$500-600 million for 2009 and \$780 million for 2010. The Bio Terrorism Preparedness and Response Act of 2002 included appropriations of \$3.643 billion for Bioterrorism Preparedness and \$1.641 billion for Bioterrorism Hospital Preparedness between 2002 and 2008. Hospital Preparedness (\$426 million for FY 2010) is where we expect to see future garment sales.

Fire Fighting and Heat Protective Apparel

We manufacture an extensive line of products to protect individuals who work in high heat environments. Our heat protective aluminized fire suit product lines include the following:

- Kiln entry suit – to protect kiln maintenance workers from extreme heat.
- Proximity suits – to give protection in high heat areas where exposure to hot liquids, steam or hot vapors is possible.
- Approach suits – to protect personnel engaged in maintenance, repair and operational tasks where temperatures do not exceed 200°F ambient, with a radiant heat exposure up to 2,000°F.

We manufacture fire fighter protective apparel for domestic and foreign fire departments. We developed the popular 32 inch coat high back bib style (Batallion) bunker gear. Crash rescue continues to be a major market for us, as we were one of the first manufacturers to supply military and civilian markets with airport fire fighting protection.

Our fire suits range in price from \$795 for standard fire department turn out gear to \$2,000 for certain fire proximity suits and heat protective apparel. Approximately 7% of our heat protective clothing is currently manufactured at our facility in St. Joseph, Missouri, 15% in our China facilities and the remaining 78% in our Brazil facility. Our Fyrepel® brand of fire fighting apparel continues to benefit from ongoing research and development investment, as we seek to address the ergonomic needs of stressful occupations. Additionally, we have introduced a new NFPA certified line of our OSX turnout gear manufactured in China. Orders continue to increase as it complements our US product offering.

In order to enhance our sales, complement our existing woven products line and broaden our product offering, we have initiated a completely new product line that will be branded Fyrban. The Fyrban product offering will enable us to sell more to the fire service as well as open the doors regarding woven clothing in the electrical and industrial markets. The products that we are introducing for the fire service are as follows:

- Fire service station wear in multiple protective fabrics
- Fire service extrication suits in FR cotton
- Additional wildland firefighting apparel in multiple fabrics

The products that we are introducing for the electrical and industrial markets are as follows:

- Flame resistant arc/flash protective suits in FR cotton
- Flame resistant shirts and pants in multiple protective fabrics
- Flame resistant jackets in FR cotton

The products range in price from approximately \$35.00 for a standard certified pant to \$375.00 for a certified arc protective suit. Approximately 75% will be manufactured in our China facilities. Approximately 20% will be manufactured in our Mexico facilities, and approximately 5% will be manufactured in our St. Joseph, MO facility. The St. Joe facility will also be utilized as a finishing location for garments that need to be altered.

Hand & Arm Protective Products

We manufacture and sell specially designed hand & arm protective products made from Kevlar®, a cut and heat resistant material produced by DuPont, Spectra®, a cut resistant fiber made by Allied Signal/Honeywell and our proprietary patented engineered yarns. We are one of only nine companies licensed in North America to sell 100% Kevlar® gloves, which are high strength, lightweight, flexible and durable. Kevlar® gloves offer a better overall level of protection and lower worker injury rates, and are more cost effective than traditional leather, canvas or coated work gloves. Kevlar® gloves, which can withstand temperatures of up to 400°F and are cut resistant enough to allow workers to safely handle sharp or jagged unfinished sheet metal, are used primarily in the automotive, glass and metal fabrication industries. Our higher end string knit gloves range in price from \$37 to \$240 for a dozen pair.

We manufacture these string knit gloves primarily at our Mexican facility and chemical protective (Nitrile, natural rubber and neoprene) products at our Indian facility. We completed our shift of knitted glove production to Mexico in FY08 allowing for lower production and labor costs. Foreign production will allow lower fabric and labor costs.

We have received patents for our DesPro and Des ProPlus products on manufacturing processes that provide greater cut and abrasion hand protection to the areas of a glove where it wears out prematurely in various applications. For example, the areas of the thumb crotch and index fingers are made heavier than the balance of the glove providing increased wear protection and longer glove life reducing overall glove costs. This proprietary manufacturing process allows us to produce our gloves more economically and provide a greater value to our end user.

In FY11, we will continue to combine the Indian made chemically resistant line of gloves in other lines to further broaden our new product offerings on a global basis. Further, this chemically resistant line of gloves fits well with our chemically resistant line of disposable and higher end chemical protective line of apparel, as many of the users of these suits also use these same gloves. To further enhance the hand protection product offering in FY11, a relationship

has begun with a Chinese manufacturer of knit gloves with polymer (Nitrile, natural rubber, polyurethane) coatings. These new products further enhance Lakeland's product offering in a segment of the market that is increasing quickly.

Reusable Woven Garments

We manufacture and market a line of reusable and washable woven garments that complement our fire fighting and heat protective apparel offerings and provide alternatives to our limited use/disposable protective clothing lines and give us access to the much larger woven industrial and health care-related markets. Cloth reusable garments are favored by customers for certain uses or applications because of familiarity with and acceptance of these fabrics and woven cloth's heavier weight, durability, longevity and comfort. These products allow us to supply and satisfy a wider range of safety and customer needs.

Additionally, we are currently working on a new line of FR and Non FR garments that will be utilized in the Police/Swat and Emergency Medical Technician areas.

Our product lines include the following:

- Electrostatic dissipative apparel – used primarily in the pharmaceutical and automotive industries.
- Clean room apparel – used in semiconductor manufacturing and pharmaceutical manufacturing to protect against human contamination.
- Flame resistant Nomex®/FR Cotton coveralls/pants/jackets – used in chemical and petroleum plants and for wild land firefighting.
- Cotton and Polycotton coveralls, lab coats, pants, and shirts.

Our reusable woven garments range in price from \$30 to \$150 per garment. We manufacture and sell woven cloth garments at our facilities in China, Mexico and St. Joseph, Missouri. We are continuing to relocate highly repetitive sewing processes for our high volume, standard product lines such as woven protective coveralls and fire retardant coveralls to our facilities in China and Mexico where lower fabric and labor costs allow increased profit margins.

High-visibility Garments

Lakeland Reflective manufactures and markets a comprehensive group of reflective apparel meeting the American National Standards Institute (ANSI) requirements as designated under standards 107-2004 and 207-2006. The line includes vests, T-shirts, sweatshirts, jackets, coats, raingear, jumpsuits, hats and gloves.

Fabrics available include solid and mesh fluorescent, polyester, both standard and fire retardant (FR) treated, Modacrylic materials which meet ASTM 1560 Test method for standard 70 Electric Arc Protection, are part of our offering. We recently introduced a breathable Modacrylic fabric. This fabric should have great appeal in states where very hot weather affects utility workers working outside during spring and summer (heat prostration).

Last year we released a new series of High Contrast Bomber Jackets, with a polyester shell that is waterproof, breathable, and has a fire retardant (“FR”) treated fabric. This product is intended to provide visibility to the Public Safety sector. Public Safety as a market consists of Firemen, Police and Emergency Medical Services. Such personnel also contend with hazards such as hot objects and sparks. Hence the addition of the FR treatment makes this garment desirable in such working environments.

With the onset of Federal Legislation, 23CFR634, effective November 2008, all contractors and other groups, working on any highway which benefits from Federal Funds, will be required to wear class 2 or class 3 vests. This legislation has greatly expanded the market for economically priced vests, which we manufacture in China.

Our domestic vest production occurs at Shillington, PA. Much of the manufacturing at this facility is focused on custom vest requirements. Many corporations and agencies, such as State Departments of Transportation, develop custom specifications which they feel are more efficient in meeting their specific needs versus an off-the-shelf product. We also can import a significant amount of product from China to meet the demand for items in high volume commodity markets.

In addition to ANSI Reflective items, Lakeland Hi-Visibility manufactures Nomex and FR cotton garments which have reflective trim as a part of their design criteria. These garments typically are used in rescue operations, such as

those encountered with a vehicular crash. Garments in this group are not as price sensitive as those in the reflective categories. Consequently they are made in our Shillington, PA facility, where we can react to customized needs and offer quicker customer response. Garments in this group can range in price from \$200.00-\$350.00.

Quality

Our Alabama, Missouri, Pennsylvania, Brazil, Mexico, India and four China manufacturing facilities are ISO 9001 or 9002 certified. ISO standards are internationally recognized quality manufacturing standards established by the International Organization for Standardization based in Geneva, Switzerland. To obtain our ISO registration, our factories were independently audited to test our compliance with the applicable standards. In order to maintain registration, our factories receive regular announced inspections by an independent certification organization. While ISO certification is advantageous in retaining CE certification of products, we believe that the ISO 9001 and ISO 9002 certifications makes us more competitive in the marketplace, as customers increasingly recognize the standard as an indication of product quality.

As we are increasingly sourcing fabrics internationally, we have installed a quality control laboratory at our Weifang, China facility. This laboratory is critical for insuring that our incoming raw materials meet our quality requirements, and we continue to add new capabilities to this facility to further guarantee product quality and to aid in new product development.

Marketing and Sales

Domestically, we employ an in-house sales force of 16 people, 3 regional sales managers and utilize 42 independent sales representatives. These employees and representatives call on over 1,000 safety and mill supply distributors nationwide and internationally in order to promote and provide product information for and sell our products. Distributors buy our products for resale and typically maintain inventory at the local level in order to assure quick response times and the ability to service their customers properly. Our sales employees and independent representatives have consistent communication with end users and decision makers at the distribution level, thereby allowing us valuable feedback on market perception of our products, as well as information about new developments in our industry. In fiscal 2010, there is no independent sewing contractor that accounts for more than 5% of our production of the limited use disposable garments. We believe that we can obtain adequate alternative production capacity should any of our independent contractors become unavailable.

We seek to maximize the efficiency of our established distribution network through direct promotion of our products at the end user level. We advertise primarily through trade publications, and our promotional activities include sales catalogs, mailings to end users, a nationwide publicity program and our Internet web site. We exhibit at both regional and national trade shows such as the National Safety Congress and the American Society of Safety Engineers and A & A show in Dusseldorf, Germany. Internationally, we employ an in-house sales force of approximately 36 people and utilize approximately 32 independent sales representatives who primarily sell directly to end users thereby attaining significantly higher margins than we obtain domestically.

Research and Development

We continue to evaluate and engineer new or innovative products. In the past five years we have acquired or introduced 139 new products, the more prominent of which are the Micromax® line of disposable protective clothing; multiple new configured lines of fire retardant work coveralls and fire turn-out gear in Brazil, China and the USA; approximately 40 new lines of Hi-Visibility products; a SARS protective medical gown for Chinese hospital personnel; the Despro®, Grapolator™ and Microgard® anti microbial cut protective glove and sleeve lines for food service; our patented Thermbar™ Mock Twist that provides heat protection for temperatures up to 600°F; 20 new lines of gloves and our new ChemMax® 1, 2, 3 and 4 fabrics for protection against intermediate chemical threats. We own 16 patents on various fabrics, patterns and production machinery. We plan to continue investing in research and development to improve protective apparel fabrics and the manufacturing equipment used to make apparel. Specifically, we plan to continue to develop new specially knit and coated gloves, woven gowns for industrial and laboratory uses, fire retardant cotton fabrics and protective non-woven fabrics. During fiscal 2008, 2009 and 2010, we spent approximately \$359,000, \$321,000 and \$305,000, respectively, on research and development.

To insure that our development activities are properly directed, we are active participants in standards writing. We are represented on a number of relevant ASTM International and the International Safety Equipment Association (ISEA) committees and participate in NFPA standards writing meetings. Internationally, we participate in the U.S. Technical Advisory Group (TAG) to ISO through the ASTM and monitor CEN activities through our European offices.

Suppliers and Materials

Our largest supplier is DuPont, from whom we purchase Tyvek®, TyChem® and Kevlar® under North American trademark licensing agreements. Commencing in 1995, anticipating the expiration of certain patents on its proprietary materials, DuPont offered certain customers of these materials the opportunity to enter into one or two year trademark licensing agreements. In fiscal 2010, we purchased approximately 17.5% of the dollar value of our materials from

DuPont, and Tyvek® constituted approximately 13% of our cost of goods sold and 5% of the dollar value of our raw material purchases. Our Tyvek/TyChem/Kevlar® trademark licenses with DuPont have been in place since 1995. Prior to 1995 we bought Tyvek® and Kevlar from DuPont under informal branding agreements for 13 years.

We do not have long-term, formal trademark use agreements with any other suppliers of non-woven fabric raw materials used by us in the production of our limited use/disposable protective clothing product lines. Materials such as polypropylene, polyethylene, polyvinyl chloride, spun laced polyester, melt blown polypropylene and their derivatives and laminates are available from thirty or more major mills. Flame retardant fabrics are also available from a number of both domestic and international mills. The accessories used in the production of our disposable garments, such as thread, boxes, snaps and elastics are obtained from unaffiliated suppliers. We have not experienced difficulty in obtaining our requirements for these commodity component items.