LAKELAND INDUSTRIES INC
Form S-2/A
May 25, 2004

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**As filed with the Securities and Exchange Commission on May 25, 2004.**

**Registration No. 333-115162**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**AMENDMENT NO. 1**
**TO**

# FORM S-2
# REGISTRATION STATEMENT

**UNDER**
**THE SECURITIES ACT OF 1933**

# LAKELAND INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **13-3115216** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**Lakeland Industries, Inc.**
**711-2 Koehler Avenue**
**Ronkonkoma, New York 11779**
**(631) 981-9700**
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

**Christopher J. Ryan**
**Chief Executive Officer, President, General Counsel, Secretary and Director**
**Lakeland Industries, Inc.**
**711-2 Koehler Avenue**
**Ronkonkoma, New York 11779**
**(631) 981-9700**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copies to:**

| | |
|---|---|
| **Harold S. Poster** | **Andrew Lynch** |
| **Gilmartin, Poster & Shafto LLP** | **King & Spalding LLP** |
| **845 Third Avenue, 18th Floor** | **1730 Pennsylvania Avenue** |
| **New York, New York 10022-6617** | **Washington, D.C. 20006-4706** |
| **(212) 425-3220** | **(202) 737-0500** |

**Approximate date of commencement of proposed sale to public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this form, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered | Proposed Maximum Offering Price Per Share(1) | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee |
|---|---|---|---|---|
| Common Stock, par value $0.01 per share | 1,385,750 shares | $20.98 | $29,073,035 | $3,684(2) |

(1) Estimated solely for the purpose of calculating the registration fee based upon the average of the high and low sale price per share of the Lakeland Industries, Inc. common stock on the Nasdaq National Market on April 29, 2004, in accordance with Rule 457(c).
(2) Previously paid.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**Subject to Completion May 24, 2004**

**PROSPECTUS**

# 1,205,000 Shares

# Common Stock

We are offering 1,100,000 shares of our common stock and the selling stockholders identified in this prospectus are offering 105,000 shares of our common stock.

Our shares of common stock are listed on the Nasdaq National Market under the symbol LAKE. The last reported sale price of our common stock on May 21, 2004 was $19.11 per share.

**Investing in our common stock involves risks. See Risk Factors beginning on page 8 to read about the risks you should consider before buying shares of our common stock.**

| | Per Share | Total |
|---|---|---|
| Public offering price | $ | $ |
| Underwriters discounts and commissions | $ | $ |
| Proceeds, before expenses, to us | $ | $ |
| Proceeds to selling stockholders | $ | $ |

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

We have granted the underwriters a 30-day option to purchase up to 180,750 additional shares of our common stock at the public offering price, less the underwriting discounts and commissions, solely to cover over-allotments, if any.

We expect that the shares of our common stock will be ready for delivery to purchasers on or about , 2004.

# FRIEDMAN BILLINGS RAMSEY

The date of this prospectus is , 2004

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You should rely only on the information contained or incorporated by reference in this prospectus. We, the selling stockholders and the underwriters have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We, the selling stockholders and the underwriters are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since those dates. See Incorporation of Certain Information By Reference and Where You Can Find More Information.

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The Lakeland name and logo and the names of products offered by us are trademarks, registered trademarks, service marks or registered service marks of Lakeland. All other trademarks and service marks appearing in this prospectus are the property of their respective holders.

As used here, Body Gard®, Despro™, Fyrepel™, Grapolator™ Mock Twist, Kut Buster™, Micromax®, Pyrolon®, Rytex®, Safegard 76 ®, Sterling Heights™, Thermbar™ and TomTex® are trademarks of Lakeland Industries, Inc. Kevlar®, Nomex®, TyChem® SL, BR and TK and Tyvek® are registered trademarks of E.I. DuPont de Nemours and Company. Spectra® is a registered trademark of Honeywell International, Inc. Indura® is a registered trademark of Westex, Inc. Basofil® is a registered trademark of BASF Aktiengesellschaft. Millenia® is a registered trademark of Southern Mills.

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## PROSPECTUS SUMMARY

*You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this prospectus and in the documents that we incorporate by reference into this prospectus. This prospectus 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. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors. Unless the context otherwise requires, references in this prospectus to Lakeland, we, us and our mean Lakeland Industries, Inc. and its subsidiaries. Any reference in this prospectus to any fiscal year of our company refers to our fiscal year ended or ending on January 31 of such year.*

**Lakeland Industries, Inc.**

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 sales force and independent sales representatives to a network of over 500 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, Central Intelligence Agency, Federal Bureau of Investigation, U.S. Secret Service and the Centers for Disease Control. In fiscal 2004, we had net sales of $89.7 million and earnings per share of $1.11, which represent a growth rate of 15.3% and 38.8%, respectively, over our previous fiscal year. Our net sales attributable to customers outside the United States were $4.5 million, $5.7 million and $8.0 million in fiscal 2002, fiscal 2003 and fiscal 2004, 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 Tyvek® and TyvekQC (both DuPont manufactured fabrics) and also our proprietary fabrics 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 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 TyChem® BR, which are DuPont manufactured fabrics. 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 anthrax or ricin), and chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. Due to Homeland Security measures and government funding of personal protective equipment for first responders to terrorist threats or attack have recently resulted in increased demand for our high-end chemical suits and we believe demand for these suits will continue to increase in the future.

*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 such as industrial maintenance crews and military and airport crash and rescue teams.

*Gloves and Arm Guards.* We manufacture gloves and arm guards from Kevlar® and Spectra®, a cut resistant fiber made by Honeywell. Our gloves are used primarily in the automotive, glass and metal fabrication industries to protect the wearer s hand 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. These products are ultimately sold to the automotive and electrical manufacturing industries and to hospitals for protection against blood borne pathogens and bacteria such as AIDS, streptococcus and hepatitis, and flame resistant Nomex® coveralls used in chemical and petroleum plants and for wild land fire fighting.

We believe we are one of the largest independent customers of DuPont s Tyvek® and TyChem® apparel grade material. We purchase Tyvek® under North American licensing agreements and other DuPont materials, such as Kevlar®, under international licensing agreements. While we have operated under these trademark agreements since 1995, we have been a significant customer of these DuPont materials since 1982. The trademark agreements require certain quality standards and the identification of the DuPont trademark on the finished product manufactured by us. We believe this brand identification with DuPont and Tyvek® significantly 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 believe our relationship with DuPont to be excellent.

We maintain manufacturing facilities in Decatur, Alabama; Celaya, Mexico; AnQui City, China; Jiaozhou, China; and St. Joseph, Missouri, where our products are designed, manufactured and sold. We also have a relationship with a sewing subcontractor in Mexico, which we can utilize for unexpected production surges. Our China and Mexico facilities allow us to take advantage of favorable labor and supplier costs, thereby increasing our profit margins on products manufactured in these facilities. We have significantly improved our profit margins in these product lines by shifting production to our international facilities and we intend to expand our international manufacturing capabilities to include our gloves and reusable woven protective apparel product lines in the future.

**Industry Overview**

According to Global Industry Analysts, Inc., the global market for industrial protective clothing is projected to be approximately $6.0 billion in 2004, and is projected to grow at a compound annual growth rate of approximately 6.5%. Our primary market, North America, is the largest market, expected to make up over one-third, or approximately $2.0 billion, of the global market. The industrial protective clothing market includes our limited use/disposable protective clothing, our high-end chemical protective suits, our fire fighting and heat protective apparel and our reusable woven garments. Global Industry Analysts, Inc. estimates that the market for gloves was over $2.6 billion worldwide in 2003.

The industrial protective clothing market has evolved over the past 35 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 supplement OSHA standards and requirements.

**Business Strategy**

Key elements of our strategy include:

*Increase Sales to the First Responder Market.* Our high-end chemical protective suits meet all of the 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 and the 2004 ricin letters. A portion of appropriations for the Fire Act of 2002 and the Bio Terrorism Preparedness and Response Act of 2002 are available

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for purchase of products for first responders that we manufacture, and we intend to aggressively target this market.

*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.

*Increase Penetration of the North American Tyvek® Market.* We intend to increase our sales of Tyvek®-based garments by introducing Tyvek® in industries which have generally used woven reusable garments, such as food processing and food service industries including kitchens, grocery stores and chicken and fishery slaughter operations. We believe that limited use/disposable garments are more effective at preventing contamination than reusable garments that are exposed to possible contamination while in transit or while being laundered. We also plan to expand our sales of Tyvek®-based products and marketing efforts in Mexico and Canada. Industrial safety gear utilized in U.S. manufacturing often gains acceptance as standard equipment for new facilities and factories operated by U.S. companies in other countries.

*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 extensively advertise our brand names.

*Decrease Manufacturing Expenses by Moving Production to International Facilities.* We have additional opportunities to take advantage of our low cost production capabilities in Mexico and China. Beginning in 1995, we successfully moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. Beginning January 1, 2005, pursuant to the United States World Trade Organization Treaty with China, quota requirements imposed by the U.S. on textiles such as our reusable woven garments and gloves are scheduled to be removed, making it more cost effective to move production for these product lines to our assembly facilities in China. We are in the early stages of this process and expect to complete this process by the third quarter of fiscal 2005. As a result, we expect to see profit margin improvements for these product lines, which will allow us to compete more effectively as the quota restrictions are removed.

*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 have no letters of intent or understandings with respect to any potential acquisitions.

*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 Despro™ glove and Grapolator™ sleeve lines for hand and arm cut protection and our Thermbar™ Mock Twist glove for hand and arm heat protection. We own seven patents on fabrics and production machinery and have eight additional patents in application. We will continue to dedicate resources to research and development.

**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 certified facilities manufacture high-quality products. As a result of these factors, we believe that we have an excellent reputation in the industry.

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*Long-standing Relationship with DuPont.* We believe we are the largest independent customer for Dupont s Tyvek® and TyChem® material for use in the industrial protective clothing market. Our trademark agreements with DuPont for Tyvek®, TyChem® and Kevlar® require certain quality standards and the identification of the DuPont brand on the finished product. We believe this brand identification with DuPont significantly benefits the marketing of our product lines, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing. We believe our relationship with DuPont to be excellent.

*International Manufacturing Capabilities.* We have operated manufacturing facilities in Mexico since 1995 and in China since 1996. Our three facilities in China total over 160,000 sq. ft. of manufacturing, warehousing and administrative space while our facility in Mexico totals over 14,000 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 permit us to purchase certain raw materials at a lower cost than they are available domestically.

*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 product lines.

*Manufacturing Flexibility.* By locating labor-intensive manufacturing processes such as sewing in Mexico and China, 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 average greater than 20 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.

**Recent Development**

On May 19, 2004, we announced that our net sales increased by approximately $3.0 million, or 12.6%, to approximately $26.8 million for the three months ended April 30, 2004 from $23.8 million for the three months ended April 30, 2003.

**General Information**

We were first incorporated in New York in 1982 and later reincorporated in Delaware in 1986. Our principal executive offices are located at 711-2 Koehler Avenue, Ronkonkoma, New York 11779. Our telephone number is (631) 981-9700. Our website can be visited at www.lakeland.com. Information contained on our website is not part of this prospectus.

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## The Offering

| | |
|---|---|
| Common stock offered by us | 1,100,000 shares |
| Common stock offered by the selling stockholders | 105,000 shares |
| Common stock to be outstanding after this offering[(1)] | 4,375,135 shares |
| Use of proceeds | We intend to use the net proceeds of this offering, which are estimated to be approximately $19.1 million, for repayment of debt, potential acquisitions, working capital and other general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholders. See Use of Proceeds. |
| Over-allotment option | We have granted the underwriters an option to purchase up to an additional 180,750 shares of common stock to be sold solely to cover over-allotments. |
| Nasdaq National Market Symbol | LAKE |

(1) Based on the number of shares outstanding as of May 21, 2004. This does not include 290,330 shares of common stock issuable under our employee and director option plans as of May 21, 2004, consisting of:

- 11,330 shares underlying options outstanding at a weighted average exercise price of $7.58 per share, of which 11,330 shares were exercisable; and

- 279,000 shares available for future issuance under our employee and director option plans.

Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters over-allotment option.

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**Summary Consolidated Financial Data**

The following summary consolidated financial data for our fiscal years 2000, 2001, 2002, 2003 and as of and for our fiscal year 2004 have been derived from our audited consolidated financial statements, which have been audited by Grant Thornton LLP as of and for the fiscal years ended January 31, 2000, 2001 and 2002 and by PricewaterhouseCoopers LLP as of and for the fiscal years ended January 31, 2003 and 2004. You should read the information set forth below in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included in this prospectus.

| | Year Ended January 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| | (in thousands, except share and per share data) | | | | |
| **Income Statement Data:** | | | | | |
| Net sales | $ 58,644 | $ 76,108 | $ 76,431 | $ 77,826 | $ 89,717 |
| Costs of goods sold | 48,156 | 64,798 | 63,294 | 62,867 | 71,741 |
| Gross profit | 10,488 | 11,310 | 13,137 | 14,959 | 17,976 |
| Operating expenses: | | | | | |
| Selling and shipping | 4,177 | 4,825 | 5,414 | 6,338 | 7,342 |
| General and administrative | 3,014 | 3,794 | 4,134 | 4,262 | 4,596 |
| Impairment of goodwill | | | | | 249 |
| Total operating expenses | 7,191 | 8,619 | 9,548 | 10,600 | 12,187 |
| Operating profit | 3,297 | 2,691 | 3,589 | 4,359 | 5,789 |
| Other income (expense): | | | | | |
| Interest expense | (821) | (1,248) | (882) | (643) | (535) |
| Interest income | 26 | 27 | 18 | 20 | 19 |
| Other income net | 7 | 15 | 91 | 40 | 24 |
| Total other expense | 788 | 1,206 | 773 | 583 | 492 |
| Income before income taxes | 2,509 | 1,485 | 2,816 | 3,776 | 5,297 |
| Income tax expense | (761) | (362) | (846) | (1,172) | (1,659) |
| Net income | $ 1,748 | $ 1,123 | $ 1,970 | $ 2,604 | $ 3,638 |
| Net income per common share (Basic)[(1)] | $ 0.54 | $ 0.35 | $ 0.61 | $ 0.80 | $ 1.11 |
| Net income per common share (Diluted)[(1)] | $ 0.54 | $ 0.35 | $ 0.61 | $ 0.80 | $ 1.11 |
| Weighted average common shares outstanding[(1)]: | | | | | |
| Basic | 3,211,280 | 3,200,990 | 3,222,956 | 3,261,116 | 3,268,551 |
| Diluted | 3,234,873 | 3,227,265 | 3,247,290 | 3,269,039 | 3,275,501 |

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| | As of January 31, 2004 | |
|---|---|---|
| | **Actual** | **As Adjusted(2)** |
| | (in thousands) | |
| **Balance Sheet Data:** | | |
| Current assets | $43,285 | $45,552 |
| Total assets | 47,304 | 49,571 |
| Current liabilities | 21,509 | 4,724 |
| Long-term liabilities | 768 | 768 |
| Stockholders equity | 25,027 | 44,079 |

(1) Adjusted for periods prior to July 31, 2003 to reflect our 10% stock dividends to stockholders of record as of July 31, 2002 and July 31, 2003. Earnings per share have been restated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share.

(2) The as adjusted column gives effect upon the closing of this offering to the sale of 1,100,000 shares of common stock by us, at an assumed public offering price of $19.11 per share (the last reported sale price of our common stock on the Nasdaq National Market on May 21, 2004), in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, and the application of the estimated net proceeds.

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## RISK FACTORS

*You should carefully consider the following risks before investing in our common stock. These are not the only risks that we may face. If any of the events referred to below actually occurs, our business, financial condition, liquidity and results of operations could suffer. In that case, the trading price of our common stock could decline and you may lose all or part of your investment. You should also refer to the other information in this prospectus and in the documents we incorporate by reference into this prospectus, including our consolidated financial statements and the related notes.*

### Risks Related to Our Business

***We rely on a limited number of suppliers and manufacturers for specific fabrics, including Tyvek®, 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.***

Our business is dependent to a significant degree upon close relationships with vendors and our ability to purchase raw materials at competitive prices. The loss of key vendor support, particularly support by DuPont for its Tyvek® products, could have a material adverse effect on our business, financial condition, results of operations and cash flows. We do not have long-term supply contracts with DuPont or our other fabric suppliers. In addition, DuPont also uses Tyvek® in some of its own products which compete directly with our Tyvek®-based products. As a result, there can be no assurance that we will be able to acquire Tyvek® and other raw materials and components at competitive prices or on competitive terms in the future. For example, certain materials that are high profile and in high demand may be allocated by vendors to their customers based upon the vendors internal criteria, which are beyond our control.

In fiscal 2004, we purchased approximately 77.4% of the dollar value of our raw materials from DuPont, and Tyvek® constituted approximately 55% of our cost of goods sold and approximately 71.2% of the dollar value of our raw material purchases. For periods in 1985 and 1989, DuPont placed all purchasers of Tyvek® on allocation. Allocation is a circumstance in which demand outstrips supply and fabrics are sold based upon the amount a buyer purchased the prior year. This allocation limited our ability to meet demand for products made of Tyvek®. Although we have not experienced delays in obtaining Tyvek® since 1989, there can be no assurance that an adequate supply of Tyvek® will be available in the future. Any shortage could adversely affect our ability to manufacture our products, and thus reduce our net sales.

Other than DuPont s Tyvek® and TyChem® fabrics, we generally use standard fabrics and components in our products. We rely on non-affiliated suppliers and manufacturers for the supply of these fabrics and components that are incorporated in our products. If such suppliers or manufacturers experience financial, operational, manufacturing capacity or quality assurance difficulties, or if there is a disruption in our relationships, we will be required to locate alternative sources of supply. We cannot assure you that we will be able to locate such alternative sources. In addition, we do not have any long-term contracts with any of our suppliers for any of these components. Our inability to obtain sufficient quantities of these components, if and as required in the future, may result in:

- interruptions and delays in manufacturing and resulting cancellations of orders for our products;
- increases in fabric or component prices that we may not be able to pass on to our customers; and
- our holding more inventory than normal because we cannot finish assembling our products until we have all of the components.

***We are subject to risks as a result of our international manufacturing operations.***

Because most of our products are manufactured at our facilities located in China and Mexico, our operations are subject to risks inherent in doing business internationally. Such risks include the adverse effects on operations from war, international terrorism, civil disturbances, political instability, governmental activities and deprivation of contract and property rights. In particular, since 1978, the Chinese government

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has been reforming its economic and political systems, and we expect this to continue. Although we believe that these reforms have had a positive effect on the economic development of China and have improved our ability to successfully operate our facilities in China, we cannot assure you that these reforms will continue or that the Chinese government will not take actions that impair our operations or assets in China. In addition, periods of international unrest may impede our ability to manufacture goods in other countries and could have a material adverse effect on our business and results of operations.

***Our results of operations could be negatively affected by potential fluctuations in foreign currency exchange rates.***

Most of our assembly arrangements with our foreign-based subsidiaries or third party suppliers require payment to be made in U.S. dollars. These payments aggregated $6.2 million in fiscal 2004. Any decrease in the value of the U.S. dollar in relation to foreign currencies could increase the cost of the services provided to us upon contract expirations or supply renegotiations. There can be no assurance that we will be able to increase product prices to offset any such cost increases and any failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We are also exposed to foreign currency exchange rate risks as a result of our sales in foreign countries. In fiscal 2004, our net sales to customers in Canada and China were $4.7 million and $0.6 million, respectively. Our sales in Canada are denominated in Canadian dollars. If the value of the U.S. dollar increases relative to the Canadian dollar and we are unable to raise our prices proportionally, then our profit margins could decrease because of the exchange rate change. Although our sales in China are denominated in the Chinese Yuan, this currency has recently been largely pegged to the U.S. dollar, which has minimized our foreign currency exchange rate risk in China. However, if in the future the Chinese Yuan is not pegged to the U.S. dollar, we will be exposed to additional foreign currency exchange rate risk. This risk will also increase as we increase our sales in other foreign countries. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk.

***Rapid technological change could negatively affect sales of our products and our performance.***

The rapid development of fabric technology continually affects our apparel applications and may directly impact the performance of our products. For example, microporous film-based products have eroded the market share of Tyvek® in certain applications. We cannot assure you that we will successfully maintain or improve the effectiveness of our existing products, nor can we assure you that we will successfully identify new opportunities or continue to have the needed financial resources to develop new fabric or apparel manufacturing techniques in a timely or cost-effective manner. In addition, products manufactured by others may render our products obsolete or non-competitive. If any of these events occur, our business, prospects, financial condition and operating results will be materially and adversely affected.

***Acquisitions or future expansion could be unsuccessful.***

In the future, we may seek to acquire selected safety products lines or safety-related businesses which will complement our existing products. Our ability to acquire these businesses is dependent upon many factors, including our management s relationship with the owners of these businesses, many of which are small and closely held by individual stockholders. In addition, we will be competing for acquisition and expansion opportunities with other companies, many of which have greater name recognition, marketing support and financial resources than us, which may result in fewer acquisition opportunities for us as well as higher acquisition prices. There can be no assurance that we will be able to identify, pursue or acquire any targeted businesses and, if acquired, there can be no assurance that we will be able to profitably manage additional businesses or successfully integrate acquired businesses into our company without substantial costs, delays and other operational or financial problems.

If we proceed with any significant acquisition for cash, we may use a substantial portion of our available cash in order to consummate any such acquisition. We may also seek to finance any such

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acquisition through debt or equity financings, and there can be no assurance that such financings will be available on acceptable terms or at all. If consideration for an acquisition consists of equity securities, our stockholders could be diluted. If we borrow funds in order to finance an acquisition, we may not be able to obtain such funds on terms that are favorable to us. In addition, such indebtedness may limit our ability to operate our business as we currently intend because of restrictions placed on us under the terms of the indebtedness and because we may be required to dedicate a substantial portion of our cash flow to payments on the debt instead of to our operations, which may place us at a competitive disadvantage.

Acquisitions involve a number of special risks in addition to those mentioned above, including the diversion of management s attention to the assimilation of the operations and personnel of the acquired companies, the potential loss of key employees of acquired companies, potential exposure to unknown liabilities, adverse effects on our reported operating results, and the amortization or write down of acquired intangible assets. We cannot assure you that any acquisition by us will or will not occur, that if an acquisition does occur that it will not materially and adversely affect our results of operations or that any such acquisition will be successful in enhancing our business.

***If we are unable to manage our growth, our business could be adversely affected.***

Our operations and business have expanded substantially in recent years, with a large increase in employees and business areas in a short period of time. To manage our rapid growth properly, we have been and will be required to expend significant management and financial resources. There can be no assurance that our systems, procedures and controls will be adequate to support our operations as they expand. There can also be no assurance that our management will be able to manage our growth and operate a larger organization efficiently or profitably. To the extent that we are unable to manage growth efficiently and effectively or are unable to attract and retain additional qualified management personnel, our business, financial condition and results of operations could be materially and adversely affected.

***We must recruit and retain skilled employees, including our senior management, to succeed in our business.***

Our performance is substantially dependent on the continued services and performance of our senior management and certain other key personnel, including Christopher J. Ryan, our chief executive officer, president, general counsel and secretary, James McCormick, our chief financial officer and treasurer, Greg Willis, our national sales manager, and Harvey Pride, Jr., our vice president in charge of manufacturing, due to their long experience in our industry. Our executive officers have an average tenure with us of 16 years and an average of 22 years of experience in our industry. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, financial condition and results of operations. In addition, any future expansion of our business will depend on our ability to identify, attract, hire, train, retain and motivate other highly skilled managerial, marketing, customer service and manufacturing personnel and our inability to do so could have a material adverse effect on our business, financial condition and results of operations.

***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 sales are generally made on the basis of individual purchase orders, which may later be modified or canceled by the customer, rather than long-term commitments. We have historically been required to place firm orders for fabrics and components with our suppliers, prior to receiving an order for our products, based on our forecasts of customer demands. Our sales process requires us to make multiple demand forecast assumptions, each of which may introduce error into our estimates, causing excess inventory to accrue or a lack of manufacturing capacity when needed. If we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect or at all. As a result, we would have excess inventory, which would negatively impact our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would lose sales opportunities, lose market share and damage our customer relationships. On occasion, we have been unable to adequately respond to delivery dates required by our customers because of the lead time needed for us to obtain required materials or to send fabrics to our assembly facilities in China and Mexico.

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

Most parts of our business are highly competitive. Two of our competitors, DuPont and Kimberly Clark, have substantially greater financial, marketing and sales resources than we do. In addition, we believe that the barriers to entry in the reusable garments and gloves markets are relatively low. We cannot assure you that our present competitors or competitors that choose to enter the marketplace in the future will not exert significant competitive pressures. Such competition could have a material adverse effect on our net sales and results of operations. For further discussion of the competition we face in our business, see Business Competition.

***Some of our sales are to foreign buyers, which exposes us to additional risks.***

In fiscal 2004, we derived approximately 8.9% of our net sales from customers located in foreign countries. We intend to increase the amount of foreign sales we make in the future. The additional risks of foreign sales include:

- potential adverse fluctuations in foreign currency exchange rates;
- higher credit risks;
- restrictive trade policies of foreign governments;
- currency nullification and weak banking institutions;
- changing economic conditions in local markets;
- political and economic instability in foreign markets; and
- changes