

LAKELAND INDUSTRIES INC
Form 10-Q
June 13, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended **April 30, 2013**

OR

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

For the transition period from _____ to _____

Commission File Number: 0-15535

LAKELAND INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

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

Edgar Filing: LAKELAND INDUSTRIES INC - Form 10-Q

701 Koehler Avenue, Suite 7, Ronkonkoma, New York 11779
(Address of principal executive offices) (Zip Code)

(631) 981-9700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act. Check one.

Large accelerated filer

Accelerated filer

Nonaccelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Yes No

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 June 11, 2013
Common Stock, \$0.01 par value per share	5,353,716 shares

LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

FORM 10-Q

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

	Page
PART I - FINANCIAL INFORMATION:	
Item 1. Financial Statements:	
Introduction	3
Condensed Consolidated Statements of Operations Three Months Ended April 30, 2013 and 2012	5
Condensed Consolidated Statements of Comprehensive Income Three Months Ended April 30, 2013 and 2012	6
Condensed Consolidated Balance Sheets April 30, 2013 and January 31, 2013	7
Condensed Consolidated Statement of Stockholders' Equity Three Months Ended April 30, 2013	8
Condensed Consolidated Statement of Cash Flows Three Months Ended April 30, 2013 and 2012	9
Notes to Condensed Consolidated Financial Statements	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3. Quantitative and Qualitative Disclosures about Market Risk	32
Item 4. Controls and Procedures	32

PART II - OTHER INFORMATION:

Item 1. Legal Proceedings	33
Item 6. Exhibits	33
Signature Pages	34

LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Introduction

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q may contain certain forward-looking statements. When used in this Form 10-Q or in any other presentation, statements which are not historical in nature, including the words “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend,” “project” and similar expressions, are intended to identify forward-looking statements. They also include statements containing a projection of sales, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this Form 10-Q are based upon our management’s beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to us. These statements are not statements of fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

Our independent auditors report in respect of our recent year-end financial statements contain a going concern explanatory paragraph; if we are unable to continue as a going concern, our securities will have little or no value.

If we are not successful in the current refinancing transaction, we may not be able to continue to finance our operations.

Covenants in our credit facilities may restrict our financial and operating flexibility, and we are currently in default on this facility.

We may need additional funds and, if we are unable to obtain these funds, we may not be able to expand or operate our business as planned.

We incurred a significant loss in the fourth quarter and for the full fiscal year in FY13, and there can be no assurance that such losses will not continue.

We are required to make substantial quarterly cash payments over six years in respect of the settlement agreement.

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

The termination of our supply agreement with DuPont adversely affected our recent results of operations and will continue to do so for at least the immediate future.

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

Our results of operations may vary widely from quarter to quarter.

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

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

Our operations are substantially dependent upon key personnel.

We rely on a limited number of suppliers and manufacturers for specific fabrics, and we may not be able to obtain substitute suppliers and manufacturers on terms that are as favorable, or at all, if our supplies are interrupted.

We deal in countries where corruption is an obstacle.

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

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

A significant reduction in government funding for preparations for terrorist incidents could adversely affect our net sales.

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

Environmental laws and regulations may subject us to significant liabilities.

The market price of our common stock may fluctuate widely.

Our directors and executive officers have the ability to exert significant influence on our Company and on matters subject to a vote of our stockholders.

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

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

Acquisitions could be unsuccessful.

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

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

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Furthermore, forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 10-Q might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

Three months ended April 30, 2013 and 2012

	THREE MONTHS ENDED	
	April 30,	
	2013	2012
Net sales	\$21,736,990	\$23,980,711
Cost of goods sold	15,657,374	16,669,351
Gross profit	6,079,616	7,311,360
Operating expenses	6,316,247	7,286,423
Operating profit	(236,631)	24,937
Foreign exchange loss Brazil	(27,142)	(315,787)
Arbitration judgment in Brazil	—	(10,000,000)
Other expense and other income, net	(128,579)	59,374
Interest expense	(273,435)	(236,392)
Loss before income taxes	(665,787)	(10,467,868)
Provision (benefit) for income taxes	178,693	(346,402)
Net loss	\$(844,480)	\$(10,121,466)
Net loss per common share		
Basic	\$(0.16)	\$(1.94)
Diluted	\$(0.16)	\$(1.94)
Weighted average common shares outstanding:		
Basic	5,337,205	5,225,478
Diluted	5,337,205	5,225,478

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three months ended April 30, 2013 and 2012

	Three Months Ended	
	April 30,	
	2013	2012
Net loss	\$ (844,480)	\$ (10,121,466)
Other comprehensive income (loss):		
Cash flow hedge in China	50,572	(103,770)
Foreign currency translation adjustments:		
Lakeland Brazil, S.A.	93,868	(1,815,272)
Canada	(8,060)	5,533
United Kingdom	(38,339)	21,855
China	21,306	9,605
Russia/Kazakhstan	(23,795)	(8,869)
Other comprehensive income (loss)	95,552	(1,890,918)
Comprehensive loss	\$ (748,928)	\$ (12,012,384)

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

April 30, 2013 and January 31, 2013

	April 30, 2013 (Unaudited)	January 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,003,741	\$ 6,736,962
Accounts receivable, net of allowance for doubtful accounts of \$371,900 and \$342,100 at April 30, 2013 and January 31, 2013, respectively	14,126,722	13,782,908
Inventories	39,090,976	39,270,675
Assets of discontinued operations in India	744,520	813,182
Prepaid income tax	1,626,900	1,564,834
Other current assets	2,052,990	1,703,322
Total current assets	64,645,849	63,871,883
Property and equipment, net	13,967,724	14,089,987
Prepaid VAT and other taxes, noncurrent	2,458,346	2,461,386
Security deposits	1,121,033	1,546,250
Intangibles and other assets, net	517,690	477,200
Goodwill	871,297	871,297
Total assets	\$ 83,581,939	\$ 83,318,003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 7,459,923	\$ 6,704,001
Accrued compensation and benefits	1,240,001	975,758
Other accrued expenses	2,710,073	2,409,454
Liabilities of discontinued operations in India	—	25,041
Current maturity of long-term debt	99,464	100,481
Current maturity of arbitration settlement	1,000,000	1,000,000
Short-term borrowing	1,793,633	1,578,779
Term loans to TD Bank	5,285,000	5,550,000
Borrowings under revolving credit facility	9,558,882	9,558,882
Total current liabilities	29,146,976	27,902,396
Accrued arbitration award in Brazil (net of current maturities)	4,460,691	4,710,691
Other long-term debt	1,260,075	1,298,085
Other liabilities - accrued legal fees in Brazil	86,911	86,911
VAT taxes payable long term	3,328,291	3,328,820
Total liabilities	38,282,944	37,326,903
Stockholders' equity:		
Preferred stock, \$.01 par; authorized 1,500,000 shares - (none issued)	—	—
Common stock, \$.01 par; authorized 10,000,000 shares, issued 5,698,580 and 5,688,600; outstanding 5,342,139 and 5,332,159 at April 30, 2013 and January 31, 2013, respectively	56,986	56,886

Edgar Filing: LAKELAND INDUSTRIES INC - Form 10-Q

Treasury stock, at cost; 356,441 shares at April 30, 2013 and January 31, 2013, respectively	(3,352,291)	(3,352,291)
Additional paid-in capital	51,029,787	50,973,065
Retained earnings deficit	(1,316,924)	(472,445)
Accumulated other comprehensive loss	(1,118,563)	(1,214,115)
Total stockholders' equity	45,298,995	45,991,100
Total liabilities and stockholders' equity	\$ 83,581,939	\$ 83,318,003

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

Three months ended April 30, 2013

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings Deficit	Accumulated Other Comprehensive Income		Total
	Shares	Amount	Shares	Amount			Income	Total	
Balance, January 31, 2013	5,688,600	\$56,886	(356,441)	\$(3,352,291)	\$50,973,065	\$(472,444)	\$(1,214,115)	\$45,991,101	
Net loss	—	—	—	—	—	(844,480)	—	(844,480)	
Other comprehensive income (loss)	—	—	—	—	—	—	95,552	95,552	
Stock-based compensation: Restricted stock issued at par	9,980	100	—	—	(100)	—	—	—	
Restricted stock plan	—	—	—	—	74,831	—	—	74,831	
Return of shares in lieu of payroll tax withholding	—	—	—	—	(18,009)	—	—	(18,009)	
Balance April 30, 2013	5,698,580	\$56,986	(356,441)	\$(3,352,291)	\$51,029,787	\$(1,316,924)	\$(1,118,563)	\$45,298,995	

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Three months ended April 30, 2013 and 2012

	For the Three Months Ended April 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (844,480	) \$ (10,121,466
Adjustments to reconcile net loss to net cash provided by operating activities		
Provision for inventory obsolescence	21,610	135,000
Provision for doubtful accounts	29,927	5,000
Deferred income taxes	—	(462,191
Depreciation and amortization	434,436	374,889
Stock based and restricted stock compensation	74,831	131,391
(Increase) decrease in operating assets		
Accounts receivable	(440,714	) (3,967,092
Inventories	48,947	2,382,174
Prepaid income taxes and other current assets	(413,024	) (647,500
Other assets	422,865	(31,855
Assets of discontinued operations	68,662	(5,079
Increase (decrease) in operating liabilities		
Accounts payable	991,094	1,833,037
Accrued expenses and other liabilities	578,971	727,890
Arbitration award in Brazil	(250,000	) 10,000,000
Liabilities of discontinued operations	(25,041	) (21,440
Net cash provided by operating activities	698,084	332,758
Cash flows from investing activities:		
Purchases of property and equipment	(353,214	) (364,185
Net cash used in investing activities	(353,214	) (364,185
Cash flows from financing activities:		
Net borrowings (payments) under credit agreement, net of reclassification to term loans	—	(1,715,504
Repayments of term loans	(265,000	) (190,000
Canada loan repayments	(39,027	) (125,012
Proceeds of borrowings in Brazil	253,551	1,029,194
Repayments of Brazil debt	(282,052) —
UK borrowings	280,567	—
Other liabilities	—	(9,601
Shares returned in lieu of taxes under restricted stock program cash paid	(18,009) —
Deferred taxes long term	(529	) (302
Net cash used in financing activities:	(70,499	) (1,011,225

Edgar Filing: LAKELAND INDUSTRIES INC - Form 10-Q

Effect of exchange rate changes on cash	(7,592	)	26,618	
Net increase (decrease) in cash and cash equivalents	266,779		(1,016,034)
Cash and cash equivalents at beginning of year	6,736,962		5,711,038	
Cash and cash equivalents at end of year	\$ 7,003,741		\$ 4,695,004	

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

Certain reclassifications of prior period data have been made to conform to current period classification.

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

Lakeland Industries, Inc. and Subsidiaries (the "Company"), a Delaware corporation organized in April 1982, manufactures and sells a comprehensive line of safety garments and accessories for the industrial protective clothing and homeland security markets. The principal market for our products is the United States. No customer accounted for more than 10% of net sales during the three-month periods ended April 30, 2013 and 2012.

2. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting of only normal and recurring adjustments) which are, in the opinion of management, necessary to present fairly the condensed consolidated financial information required therein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended January 31, 2013.

Our consolidated financial statements have been prepared using the accrual method of accounting in accordance with GAAP and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. We have sustained substantial operating losses since FY13 and we are in default with our lender, TD Bank. During the year ended January 31, 2013, we had a net loss of \$(26.3) million. These factors raise substantial doubt about our ability to continue as a going concern.

We expect to continue to incur substantial additional operating losses from our Brazilian operations for at least the first half of FY14. Unless we are able to have in place a new credit facility, we believe that our current cash position of \$7.0 million, our cash flow from operations and, borrowing in Brazil and the United Kingdom, may not be sufficient to meet our currently anticipated operating, capital expenditures and debt service requirements for at least the next 12 months. To this end, on May 15, 2013, the Company accepted a commitment letter from a bank for a Senior Credit Facility subject to certain terms and conditions and is currently working towards closing this financing. However, no assurance can be given that this transaction or any other transaction will be consummated.

If management is unable to successfully implement its cost reduction strategies or to complete any other financing, that would impact our ability to continue as a going concern.

The results of operations for the three-month period ended April 30, 2013, are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications of prior period data have been made to conform to current period classification.

In this Form 10-Q, "FY" means fiscal year; thus, for example, FY14 refers to the fiscal year ending January 31, 2014.

3. Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

4. Inventories

Inventories consist of the following:

	April 30, 2013	January 31, 2013
Raw materials	\$ 17,048,059	\$ 16,361,872
Work-in-process	1,709,825	1,812,788
Finished goods	20,333,092	21,096,015
	\$ 39,090,976	\$ 39,270,675

Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost (on a first-in, first-out basis) or market.

5. Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of common stock equivalents. Diluted earnings per share are based on the weighted average number of common and common stock equivalents. The diluted earnings per share calculation take into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from their exercise, based on the average price during the period.

The following table sets forth the computation of basic and diluted earnings (loss) per share at April 30, 2013 and 2012.

	Three Months Ended	
	April 30, 2013	2012
Numerator		
Net loss from continuing operations	\$ (844,480)	\$ (10,121,466)
Denominator		
Denominator for basic earnings per share (weighted-average shares which reflect 356,441 shares in the treasury as a result of the stock repurchase program for the three months ended April 30, 2013 and 2012, respectively)	5,337,205	5,225,478
Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options	—	—
Denominator for diluted loss per share (adjusted weighted average shares)	5,337,205	5,225,478
Basic loss per share from continuing operations	\$ (0.16)	\$ (1.94)
Diluted loss per share from continuing operations	\$ (0.16)	\$ (1.94)

6. Long-Term Debt and Subsequent Event

Revolving Credit Facility

At April 30, 2013, the balance outstanding under our revolving credit facility amounted to \$9.6 million. In January 2010, the Company entered into a one-year \$23.5 million revolving credit facility (as amended from time to time, the "Loan Agreement") with TD Bank, N.A. ("TD Bank"). In January 2011, TD Bank agreed to a two-year extension to expire January 2013. In June 2011, TD Bank agreed to extend the term to June 2014 and add a \$6.5 million term loan facility to be used to fund capital expansion in Brazil, Mexico and Argentina, as well as the ability to refinance existing debt in Canada. In April 2012, TD Bank agreed to add a \$3.0 million term loan facility to be used to refinance a portion of the revolver. Borrowings under this \$6.5 million term loan facility are in the form of a five-year term loan, with maturity in June 2013. As a result of the arbitration award issued against the Company in May 2012 and the subsequent entry into a Settlement Agreement in respect thereof, as well as due to the recent operating results of the Company mentioned below, one or more events of default have occurred during the fiscal year ended January 31, 2013 under the TD Bank revolving credit facility and term loan facility, including an event of default for failure to comply with the minimum EBITDA covenant, which allows TD Bank, at its option, to accelerate the loan.

On October 17, 2012, the Company entered into an Amendment No. 5 and Waiver (the "Amendment") to the Loan Agreement. Under the Amendment, TD Bank has agreed to waive the Company's noncompliance with the consolidated leverage ratio requirements and consolidated EBITDA requirements of the Loan Agreement, in each case, for the fiscal quarters ended April 30, 2012 and July 31, 2012. TD Bank has also agreed, with respect to standards for the October 31, 2012, quarter compliance standards, not to test or has revised these and one other financial covenant.

Pursuant to the Amendment, TD Bank has reduced the Company's revolving line of credit from the aggregate principal amount of \$30,000,000 to \$17,500,000 and increased the maximum interest rate payable on the revolving credit balance from LIBOR plus 2.50% to LIBOR plus 3.50%. The maturity date of amounts outstanding under the revolving credit facility was changed from June 30, 2014 to June 30, 2013. The Loan Agreement requires payment of certain access fees for all unused portions of the total borrowing capacity provided to the Company.

The maximum amounts borrowed under the revolving credit facility during the three months ended April 30, 2013, was \$9.6 million, and the weighted average interest rate during that period was 3.70%.

The credit facility, as amended October 2012, contains financial covenants including, but not limited to, fixed charge ratio, funded debt to EBITDA ratio, inventory and accounts receivable collateral coverage ratio, with respect to which the Company was not in compliance at January 31, 2013 or April 30, 2013. The current interest rate on this term loan at April 30, 2013, was 2.96%, and principal and interest of \$131,470 was due monthly.

The operating losses from Brazil and impairment charge resulted in the Company's being in default with its TD Bank facility. In June 2012, the Company engaged Raymond James & Associates, Inc. to assist management and the Board of Directors in its evaluation of a broad range of financial and strategic alternatives for the Company.

On May 15, 2013, the Company accepted a commitment letter from a bank for a Senior Credit Facility subject to execution of documentation, final due diligence, obtaining by the Company of a minimum of \$3.5 million of junior debt under terms satisfactory to lender, and an intercreditor agreement. There can be no assurance that the Company will be able to close on such financing.

7. Major Supplier

We purchased no more than 5% of our raw materials from one supplier during the three-month period ended April 30, 2013.

8. Employee Stock Compensation

The Company has three main share-based payment plans: The Nonemployee Directors Option Plan (the “Directors Plan”) and two Restricted Stock Plans (the “2009 Equity Plan” and the “2012 Equity Plan”). Both the 2009 and 2012 Equity Plans have an identical structure. The below table summarizes the main provisions of each of these plans:

Nature and terms

Nonemployee
Director Stock
Option Plan

The plan provides for an automatic one-time grant of options to purchase 5,000 shares of common stock to each nonemployee director newly elected or appointed. Options are granted at not less than fair market value, become exercisable commencing six months from the date of grant and expire six years from the date of grant. In addition, all nonemployee directors re-elected to the Company's Board of Directors at any annual meeting of the stockholders will automatically be granted additional options to purchase 1,000 shares of common stock on that date. Such plan expired at December 31, 2012, as to any new awards. Existing options will expire based on individual award dates.

Restricted Stock
Plan – employees

Long-term incentive compensation three-year plan. Employees are granted potential share awards at the beginning of the three-year cycle at baseline and maximum amounts. The level of award and final vesting is based on the Board of Director's opinion as to the performance of the Company and management in the entire three-year cycle. All vesting is three-year "cliff" vesting - there is no early vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.

Restricted Stock
Plan – directors

Long-term incentive compensation three-year plan. Directors are granted potential share awards at the beginning of the three-year cycle at baseline and maximum amounts. The level of award and final vesting is based on the Board of Director's opinion as to the performance of the Company and management in the entire three-year cycle. All vesting is three-year "cliff" vesting - there is no early vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.

Matching award
program

All participating employees are eligible to receive one share of restricted stock awarded for each two shares of Lakeland stock purchased on the open market. Such restricted shares are subject to three-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.

Compensation in
stock in lieu of cash
program -
employees

All participating employees are eligible to elect to receive any cash bonus in shares of restricted stock. Such restricted shares are subject to two-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the two-year period. Since the employee is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the grant date stock price. The Chief Executive Officer, Chief Financial Officer and the Chief Operating Officer of the Company have all elected to take 30% of their cash compensation in restricted stock pursuant to this program, commencing in October 2012.

Director fee in
stock program

All directors are eligible to elect to receive any director fees in shares of restricted stock. Such restricted shares are subject to two-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the two-year period. Since the director is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the grant date stock price.

The following table represents our stock options granted, exercised and forfeited during the three months ended April 30, 2013.

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 31, 2013	24,000	\$ 7.47	3.95 years	\$ 1,300
Granted during the three months ended April 30, 2013	—	—	—	—
Outstanding at April 30, 2013	24,000	\$ 7.47	3.70 years	—
Exercisable at April 30, 2013	24,000	\$ 7.47	3.70 years	—
Reserved for future issuance:				
Directors' Plan (expired on December 31, 2012)	—			

There were no exercises or forfeitures during the three-months ended April 30, 2013.

Restricted Stock Plan and Performance Equity Plan

On June 17, 2009, the stockholders of the Company approved a restricted stock plan (the "2009 Equity Plan"). A total of 253,000 shares of restricted stock were authorized under this plan. On June 20, 2012, the stockholders of the Company authorized 310,000 shares under a new restricted stock plan (the "2012 Equity Plan"). Under these restricted stock plans, eligible employees and directors are awarded performance-based restricted shares of the Company common stock. The amount recorded as expense for the performance-based grants of restricted stock are based upon an estimate made at the end of each reporting period as to the most probable outcome of this plan at the end of the three-year performance period (e.g., baseline, maximum or zero). In addition to the grants with vesting based solely on performance, certain awards pursuant to the plan have a time-based vesting requirement, under which awards vest from two to three years after grant issuance, subject to continuous employment and certain other conditions. Restricted stock has voting rights, and the underlying shares are not considered to be issued and outstanding until vested.

Under the 2009 Equity Incentive Plan, the Company has issued 162,495 fully vested shares as of April 30, 2013. The Company has granted up to a maximum of 20,365 restricted stock awards remaining unvested as of April 30, 2013. All of these restricted stock awards are nonvested at April 30, 2013, and have a weighted average grant date fair value of \$8.06. The Company recognizes expense related to performance-based awards over the requisite service period using the straight-line attribution method based on the outcome that is probable.

Under the 2012 Equity Incentive Plan, the Company has granted 263,541 restricted stock awards as of April 30, 2013, assuming all maximum awards are achieved. All of these restricted stock awards are nonvested at April 30, 2013 (202,041 shares at “baseline”), and have a weighted average grant date fair value of \$6.15. The Company recognizes expense related to performance-based awards over the requisite service period using the straight-line attribution method based on the outcome that is probable.

As of April 30, 2013, unrecognized stock-based compensation expense related to restricted stock awards totaled \$16,502 pursuant to the 2009 Equity Incentive Plan and \$1,422,981 pursuant to the 2012 Equity Incentive Plan, before income taxes, based on the maximum performance award level, less what has been charged to expense on a cumulative basis through April 30, 2013, which was set to zero. Such unrecognized stock-based compensation expense related to restricted stock awards totaled \$16,502 for the 2009 Equity Incentive Plan and \$1,026,921 for the 2012 Equity Incentive Plan at the baseline performance level. The cost of these nonvested awards is expected to be recognized over a weighted-average period of three years. The Board has estimated its current performance level to be at zero, and expenses have been recorded accordingly. The performance-based awards are not considered stock equivalents for earnings per share (“EPS”) calculation purposes.

Stock-Based Compensation

The Company recognized total stock-based compensation costs of \$74,831 and \$131,391 for the years ended April 30, 2013 and 2012, respectively, of which \$0 and \$131,391 result from the 2009 Equity Plan and \$74,831 and \$0 result from the 2012 Equity Plan for the years ended April 30, 2013 and 2012, respectively, and \$0 and \$0, respectively, from the Director Option Plan. These amounts are reflected in selling, general and administrative expenses. The total income tax benefit recognized for stock-based compensation arrangements was \$26,939 and \$47,300 for the years ended April 30, 2013 and 2012, respectively.

	Outstanding unvested grants at maximum ^(a) at beginning of FY14	Granted during FY14 through April 30, 2013	Vested during FY14 through April 30, 2013	Forfeited during FY14 through April 30, 2013	Outstanding unvested grants at maximum ^(a) at April 30, 2013
Shares under 2012 Equity Plan					
Restricted stock grants - employees	164,500	—	—	—	164,500
Restricted stock grants - directors	49,500	—	—	—	49,500
Matching award program	—	—	—	—	—
Compensation in stock in lieu of cash - employees	21,517	18,316	—	—	39,833
Retainer in stock - directors	6,601	3,107	—	—	9,708
Total restricted stock plan	242,118	21,423	—	—	263,541
Weighted average grant date fair value	\$ 6.34	\$ 4.06	—	—	\$ 6.15
	Outstanding unvested grants at maximum ^(a) at beginning of FY14	Granted during FY14 through April 30, 2013	Vested during FY14 through April 30, 2013	Forfeited during FY14 through April 30, 2013	Outstanding unvested grants at maximum ^(a) at April 30, 2013
Shares under 2009 Equity Plan					
Restricted stock grants –employees	—	—	—	—	—
Restricted stock grants – directors	—	—	—	—	—
Matching award program	3,500	—	—	—	3,500
Compensation in stock in lieu of cash - employees	26,090	—	14,494	—	11,596
Retainer in stock - directors	6,688	—	1,419	—	5,269
Total restricted stock plan	36,278	—	15,913	—	20,365
Weighted average grant date fair value	\$ 8.27	—	\$ 8.54	—	\$ 8.06

- (a) The Board has estimated the current performance level at zero and expenses have been recorded accordingly.

9. *Manufacturing Segment Data*

Domestic and international sales are as follows in millions of dollars:

	Three Months Ended April 30, (in \$ millions)			
	2013		2012	
Domestic	\$11.86	54.56 %	\$9.77	40.75 %
International	9.88	45.44 %	14.21	59.25 %
Total	\$21.74	100.00 %	\$23.98	100.00 %

We manage our operations by evaluating each of our geographic locations. Our North American operations include our facilities in Alabama (primarily the distribution to customers of the bulk of our products and manufacturing of our chemical suit, glove and fire protective products), Mexico (primarily disposable, glove, chemical suit and woven production) and Pennsylvania (primarily production of high visibility products). We also maintain three manufacturing companies in China (primarily disposable and chemical suit production) and a wovens manufacturing facility in Brazil. We evaluate the performance of these entities based on operating profit, which is defined as income before income taxes, interest expense and other income and expenses. We have sales forces in Canada, Europe, Latin America, India, Russia, Kazakhstan and China, which sell and distribute products shipped from the United States, Mexico, Brazil or China. The table below represents information about reported manufacturing segments for the years noted therein:

	Three Months Ended April 30 (in millions of dollars)	
	2013	2012
Net Sales:		
USA	\$ 12.83	\$ 10.59
Other foreign	5.86	5.02
Mexico	0.62	0.51
China	8.93	8.16
Brazil	1.78	5.19
Less intersegment sales	(8.28)	(5.49)
Consolidated sales	\$ 21.74	\$ 23.98
External Sales:		
USA	\$ 11.86	\$ 9.77
Other foreign	5.31	4.96
Mexico	0.18	0.10
China	2.61	3.96
Brazil	1.78	5.19
Consolidated external sales	\$ 21.74	\$ 23.98
Intersegment Sales:		
USA	\$ 0.97	\$ 0.82

Edgar Filing: LAKELAND INDUSTRIES INC - Form 10-Q

Other foreign	0.55	0.06	
Mexico	0.44	0.41	
China	6.32	4.20	
Brazil	—	—	
Consolidated intersegment sales	\$ 8.28	\$ 5.49	
Operating Profit (Loss):			
USA	\$ 0.29	\$ (1.47)
Other foreign	0.18	0.28	
Mexico	(0.10	)	(0.05)
China	0.39	0.83	
Brazil	(0.93	)	0.38
Less intersegment profit	(0.07	)	0.05
Consolidated operating profit (loss)	\$ (0.24	)	\$ 0.02
Depreciation and Amortization Expense:			
USA	\$ 0.19	\$ 0.14	
Other foreign	0.05	0.05	
Mexico	0.01	—	
China	0.07	0.09	
Brazil	0.11	0.10	
Consolidated depreciation and amortization expense	\$ 0.43	\$ 0.38	
Interest Expense:			
USA	\$ 0.13	\$ 0.10	
Other foreign	0.04	0.04	
Mexico	0.01	0.01	
China	—	—	
Brazil	0.25	0.24	
Less intersegment	(0.15	)	(0.15)
Consolidated interest expense	\$ 0.28	\$ 0.24	
Income Tax Expense (Benefits):			
USA	\$ 0.06	\$ (0.50)
Other foreign	0.07	0.05	
Mexico	—	0.01	
China	0.15	0.15	
Brazil	—	(0.09)
Less intersegment	(0.10	)	0.03
Consolidated income tax expense (benefit)	\$ 0.18	\$ (0.35)
Total Assets (at Balance Sheet Date):			
USA	\$ 24.80	\$ 31.64	
Other foreign	14.16	12.60	
Mexico	3.47	3.46	
China	27.66	24.03	
India assets of discontinued operations	0.74	2.00	
Brazil	12.75	27.77	
Consolidated assets	\$ 83.58	\$ 101.50	
Long-Lived Assets (at Balance Sheet Date)			
USA	\$ 3.40	\$ 3.86	
Other foreign	2.36	2.47	
Mexico	2.17	2.22	
China	3.42	2.40	
India	—	—	
Brazil	2.62	2.87	

Consolidated long-lived assets	\$ 13.97	\$ 13.82
--------------------------------	----------	----------

10. Income Tax Audit/Change in Accounting Estimate

The Company is subject to US federal income tax, as well as income tax in multiple US state and local jurisdictions and a number of foreign jurisdictions. The Company's federal income tax returns for the fiscal years ended January 31, 2003, 2004, 2005 and 2007, have been audited by the Internal Revenue Service ("IRS"). The Company has received a final "No Change Letter" from the IRS for FY07 dated August 20, 2009. The Company has received notice from the IRS on March 21, 2011, that it will shortly commence an audit for the FY09 tax return. There have been no further communications from the IRS since.

Our three major foreign tax jurisdictions are China, Canada and Brazil. China tax authorities performed a fraud audit, but the scope was limited to the fraud activities found in late FY09 as discussed more fully in Note 14 to the Company's Form 10-K for the year ended January 31, 2010. This audit covered tax years from 2003 through 2008. We reached a settlement with the Chinese Government in January 2009. China tax authorities have performed limited reviews on all China subsidiaries as of tax years 2008, 2009, 2010, 2011 and 2012 with no significant issues noted. We believe our tax positions are reasonably stated as of January 31, 2013. On May 9, 2013, one of our China operations was notified by local tax authority that they could conduct an audit on transfer pricing. After preliminary communication with the tax authority, we believe the additional tax liability will be no more than RMB100,000 or USD\$16,000. At the same time, China tax authority also questioned about the retained earning amount for not being repatriated to corporate and the delayed payment in trade payable from corporate to the sister companies, especially from US parent to our Chinese subsidiary. Additionally, China tax authority also questioned if there is any tax avoidance motive in the investment by Weifang Lakeland Safety Products Co., Ltd. of USD\$500,000 to our Argentina subsidiary. We do not believe there will be any material tax consequences from the latter two inquiries.

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

The Company's Brazilian subsidiary is currently under a tax audit, which raised some issues regarding the tax impact related to the merger held in 2008 and the resulting goodwill resulting from the structure which was set up at the Company's Brazilian counsel's suggestion. The Company has not received any formal communication from the authorities. There is no formal claim received, and there may not be such a claim in any case. However, this structure is relatively common in acquisitions of Brazilian operations made by non-Brazilian companies. In general, acquisitions with this structure have survived challenge by the taxing authorities in Brazil. The cumulative amount of tax benefits recognized on the Company's books through April 30, 2013, resulting from the tax deduction of the goodwill amortization is approximately USD\$0, net of the deferred tax valuation reserve. This results from the goodwill on the Brazilian books which, for Brazilian tax purposes, is eligible for tax write-off over a five-year period dating from November 2008.

11. Derivative Instruments and Foreign Currency Exposure

The Company is exposed to foreign currency risk. Management has commenced a derivative instrument program to partially offset this risk by purchasing forward contracts to sell the Canadian Dollar, the Chilean Peso, the Euro, the Great Britain Pound and Brazil Real other than the cash flow hedge discussed below. Such contracts are largely timed to expire with the last day of the fiscal quarter, with a new contract purchased on the first day of the following quarter, to match the operating cycle of the Company. We designated the forward contracts as derivatives but not as hedging instruments, with loss and gain recognized in current earnings. In the three-months ended April 30, 2013, the Company sustained a loss on foreign exchange in Brazil of \$27,142 or \$(0.01) per share included in net income from continuing operations. In the three months ended April 30, 2012, the Company recorded a loss on foreign exchange in Brazil of \$315,787 or \$(0.06) per share included in net income from continuing operations.

The Company accounts for its foreign exchange derivative instruments by recognizing all derivatives as either assets or liabilities at fair value, which may result in additional volatility in both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses from changes in the fair value of derivative instruments.

Currently, we have two types of derivatives to manage the risk of foreign currency fluctuations. We enter into forward contracts with financial institutions to manage our currency exposure related to net assets and liabilities denominated in foreign currencies. Those forward contract derivatives, not designated as hedging instruments, are generally settled quarterly. Gain and loss on those forward contracts are included in current earnings. We also enter cash flow hedge contracts with financial institutions to manage our currency exposure on future cash payments denominated in foreign currencies. The effective portion of gain or loss on cash flow hedge is reported as a component of accumulated other

comprehensive income. Our hedge positions are summarized below:

Fair Value of Derivative Instruments

Derivatives not designated as hedging instruments

Foreign Exchange Forward Contracts

	Three Months Ended	
	April 30, 2013	April 30, 2012
Notional Value in USD	\$4,587,136	\$ 2,503,770
Gain and loss reported in current operating income (expense)	29,879	(57,261)

There is no outstanding balance from foreign exchange forward contracts as of April 30, 2013 or April 30, 2012.

Derivatives designated as hedging instruments

Asset Derivative from Foreign Currency Cash Flow Hedge

	As of April 30, 2013	As of January 31, 2013
Notional value in USD	\$ 3,135,120	\$ 6,944,040
Gain reported in equity as other comprehensive income	88,261	38,513

Effect of Derivative on Income Statement from Foreign Currency Cash Flow Hedge

	Three Months Ended April 30, 2013	Three Months Ended April 30, 2012
Gain reclassified from other comprehensive income into current earnings during three months ended April 30, 2013, reported in operating income	\$ 75,668	\$ 22,329

The cash flow hedge is designed to hedge the payments made in USD and Euro to our China subsidiaries. Other assets have been recorded as \$92,011 and \$19,544 in the balance sheet for Q1 FY14 vs. FYE2013, respectively.

12. VAT Tax Issue in Brazil

Asserted Claims

VAT tax in Brazil is at the state level. We commenced operations in Brazil in May 2008 through an acquisition of Qualytextil, S.A. ("QT"). At the time of the acquisition, and going back to 2004, the acquired company used a port facility in a neighboring state (Recife-Pernambuco), rather than its own, in order to take advantage of incentives, in the form of a discounted VAT tax, to use such neighboring port facility. We continued this practice until April 2009. The practice was stopped largely for economic reasons, resulting from additional trucking costs and longer lead time. The Bahia state auditors (state of domicile for the Lakeland operations in Brazil) initially reviewed the period from 2004-2006 and filed a claim for unpaid VAT taxes in October 2009. The claim asserted that the state VAT taxes are owed to the state of domicile of the ultimate importer/user and disregarded the fact that the VAT taxes had already been paid to the neighboring state.

The audit notice claimed that the taxes paid to Recife-Pernambuco should have been paid to Bahia in the amount of R\$4.8 million and assessed fines and interest of an additional R\$5.6 million for a total of R\$10.4 million (approximately US\$3.0 million, \$3.5 million and \$6.5 million, respectively).

Bahia had announced an amnesty for this tax whereby R\$3.5 million (US\$1.9 million) of the taxes claimed were paid by QT by the end of the month of May 2010, and the interest and penalties related thereto were forgiven. According to fiscal regulation of Brazil, R\$2.1 million (US\$1.1 million) of this amnesty payment has since been recouped as credits against future taxes due.

An audit for the 2007-2009 period has been completed by the State of Bahia. In October 2010, the Company received a claim for 2007-2009 from the State of Bahia for taxes of R\$6.2 (US\$3.1) million and fines and penalties of R\$4.9 (US\$2.4) million, for a total of R\$11.1 (US\$5.5) million, which had been expected per above. The Company intends to defend and wait for the next amnesty period. Of these claims, our attorney informs us that R\$0.9 (US\$0.5) million in respect of fines and penalties will likely be successfully defended based on state auditor misunderstanding.

Lakeland intends to apply for amnesty and make any necessary payments upon the forthcoming, anticipated amnesty periods imposed by the local Brazilian authorities. Of this R\$6.2 (US\$3.2) million exposure, R\$3.4 (US\$1.9) million is eligible for future credit. This future credit amount represents the USD value at the exchange rate prevailing in 2010 when recorded.

Company Brazilian counsel advises the Company that in its opinion the next amnesty will come before the end of the judicial process. There has been a long history in Bahia of the state declaring such amnesty periods every two to three years going back 25 years. The litigation process begins as two separate administrative proceedings and, after a period of time, must be switched to a formal court judicial proceeding. If the next amnesty does not arrive prior to the commencement of the formal court proceedings, the Company will have to remit a "judicial deposit" covering the exposure from 2007-2009 in taxes of approximately R\$6.2 (US\$3.1) million plus assessed fines and interest bringing the judicial deposit needed to approximately R\$12.3 (US\$6.2) million. The initial estimated time period to Judicial Court deposit was 1.5-2 years.

Set forth below are the total amounts of potential tax liability from both the first and second claims, the amount of payments already made into amnesty or scheduled for future payment, which are not eligible for future credit (essentially the discount allowed as an incentive by the neighboring state), less the amount of VAT taxes actually paid which are available as a credit and the amounts of the escrow released by one of the three sellers of the Brazilian company acquired by the Company. The foregoing forms the basis for the US\$1.6 million charge to expense recorded by Lakeland in the first quarter of fiscal 2011.

Foreign exchange rate	BRL (millions)			USD (millions)		
	Total Paid Or To Be Paid Into Government Under Amnesty Program	Total Not Available For Credit ¹	Available For Credit ²	Total Paid Or To Be Paid Into Government Under Amnesty Program	Total Not Available For Credit ¹	Available For Credit ²
				1.82	1.82	1.82
Original claim 2004-2006	3.5	1.4	2.1	1.9	0.8	1.1
Second claim						
Preacquisition 2007-April 2008	2.4	1.0	1.4	1.3	0.5	0.8
Postacquisition May 2008-April 2009	3.3	1.4	1.9	1.8	0.8	1.0
Totals	9.2	3.8	5.4	5.0	2.1	2.9
Escrow released from one seller	1.0	1.0	-	0.5	0.5	-
Charged to expense at April 30, 2010	-	2.8	-	-	1.6	-

¹Essentially represents the discount originally offered as incentive by the neighboring state.

²The amount allowed as credit against future payments represents the VAT taxes actually previously paid to the neighboring state.

Of these claims, our attorney informs us that R\$1.0 (US\$0.6) million will be successfully defended based on a lapse of statute of limitations and R\$0.3 (US\$0.2) million based on state auditor misunderstanding. No accrual has been made for these items.

The total taxes paid into the amnesty program on May 31, 2010, were R\$3.5 (US\$2.2) million.

Future Accounting for Funds

Following payment into the amnesty program, a portion of the taxes were since recouped via credits against future taxes due. The Company does not expect any further charges to expense other than as described below:

In addition to the direct cost of the additional tax liability accrued per above, there are several additional costs which will be future costs. There will be interest costs on the cash paid during the period from the payment to the state and the credit to be subsequently used which has been and will be charged to expense as incurred. There will be legal fees to defend and resolve this legal matter before the state, which will be charged to expense as incurred. Further, there will be a loss of an incentive known as “desenvolve” as a result of using the credit rather than cash payments for the future VAT taxes. The “desenvolve” has already been reflected in the operating results subsequent to May 2010 through August 2011 when the initial credit was exhausted and the Company resumed normal monthly cash payments for VAT taxes. This has been reflected as a reduction in the gross margin in the ensuing period through August 2011. This is not a cost but a lost discount.

Summary of Cash Flow Requirements: (R\$ millions and US\$ millions)

Claim period/description	Taxes	Fines and penalties	Maximum judicial deposit	
2004-2006 not paid into amnesty and being defended. Management does not plan to pay this into amnesty.	R\$1.3	R\$ 1.9	R\$ 3.2	US\$ 1.6
2007-2009 claim by State of Bahia ⁽¹⁾	R\$6.2	R\$ 6.1	R\$ 12.3	US\$ 6.2
TOTAL	R\$7.5	R\$ 8.0	R\$ 15.5	US\$ 7.8

⁽¹⁾ Our attorney informs us that based on the slow progress so far in the administrative proceedings for the 2007-2009 claim, they believe it is now more likely than not that the next amnesty will arrive prior to the need to pay the R\$12.3 judicial deposit. Therefore, the most likely cash flow outlook in management’s opinion is as follows:

R\$3.1 (US\$1.6) million 2004-2006
Judicial deposit
R\$6.2 (US\$3.1) million 2007-2009
claim into amnesty

Management has pledged a first lien on its plant and equipment in Brazil as a judicial deposit in lieu of cash.

From Quarter Three Fiscal Year 2014 to Quarter Four Fiscal Year 2014.

³ *“Desenvolve” is an incentive remaining from Brazil’s hyperinflationary days about 10 years ago. It is based on the net ICMS (VAT) tax payable. (QT pays ICMS to suppliers on raw materials, bills and collects ICMS from customers, takes credit for ICMS paid to suppliers and remits the difference. The net amount payable is payable 30% immediately and 70% for up to five years. The “desenvolve” is an incentive to pay the 70% quickly, like a cash discount. If the full amount is paid immediately, there is an 80% discount of the 70% (or 56% of the total).*

At the next amnesty period:

If before judicial process - still administration proceeding - the Company would pay only the taxes with no penalty or interest. This would then be recouped via credits against future taxes on future imports.

If after judicial process commences - the amount of the judicial deposit previously remitted would be reclassified to the taxes at issue, and the excess submitted to cover fines and interest would be refunded to Lakeland Brasil, S.A. As above, the taxes would be recouped via credits against future taxes on future imports.

Balance Sheet Treatment

The Company has reflected the above items on its January 31, 2013, balance sheet as follows:

	R\$ millions	US\$ millions ⁽¹⁾
Noncurrent assets VAT taxes eligible for future credit	3.4	1.9
Long-term liabilities Taxes payable	6.2	3.1

⁽¹⁾ At exchange rate prevailing in 2010 when recorded.

13. Brazil Management and Share Purchase Agreement-Arbitration Award and Settlement Agreement

Lakeland Industries, Inc. and its wholly-owned subsidiary, Lakeland Brasil S.A. (“Lakeland Brasil” and together with Lakeland Industries, Inc., the “Company”) were parties to an arbitration proceeding in Brazil involving the Company and two former officers (the “former officers”) of Lakeland Brasil. On May 8, 2012, the Company received notice of an arbitral award in favor of the former officers as described below. On May 12, 2012, the Company filed a request for clarification seeking a modification of the award or to have it set aside. However, no such relief was awarded to the Company.

The arbitration proceeding arose out of the acquisition by the Company in 2008 of Qualytextil, S.A., a company of which the former officers were owners. In connection with the acquisition, the Company entered into management agreements with the former officers and agreed to pay the former officers a supplemental purchase price payment (“SPP”), calculated based upon the 2010 EBITDA of the acquired company, subject to a cap (the “Maximum SPP”). Based upon actual results for 2010 as contractually specified, the Company determined that no SPP would be payable. Contractual provisions further provided for the former officers to be paid the Maximum SPP in the event that either of them were terminated by the Company without cause even if an SPP would not otherwise be payable. In

May 2010, the Company terminated the former officers for cause.

In the arbitration proceeding, the former officers sought a determination that they were terminated by the Company without cause and, therefore, entitled to be paid their portion of the Maximum SPP and the monthly remuneration that they would have been paid from the date of termination through the end of their contractual employment period on December 31, 2011. On May 8, 2012, the Company received the arbitration decision which accepted the former officers' requests to declare that their employments were terminated without cause and determined that, among other things, the noncompete clauses of each of the stock purchase agreement and management agreements were null and nonapplicable despite having been drafted by one of the top law firms in Brazil and reviewed by a second top law firm. The Company was ordered to pay to the former officers damages representing their portion of the Maximum SPP in the aggregate amount of R\$18,037,500 (approximately US\$9 million at current exchange rates) and monthly remuneration from the date of termination through December 31, 2011, which the Company estimates at an aggregate amount of R\$1,150,000 (US\$580,000). The arbitration panel further ordered that the Company pay the former officers approximately R\$450,000 (US\$226,000) from an escrow account established in connection with the acquisition, and the Company is responsible for payment of 85% of the costs and arbitrators' fees associated with the arbitration. The arbitration award, with all taxes, expenses, interest and applicable adjustments to date, amounts to R\$25,148,252 (approximately US\$12,575,000) as adjusted for inflation, plus interest and penalties.

On September 11, 2012, the Company and the former officers entered into a settlement agreement (the "Settlement Agreement") which fully and finally resolved all alleged outstanding claims against the Company arising from the arbitration proceeding. Pursuant to the Settlement Agreement, the Company agreed to pay to the former officers an aggregate of approximately US\$8.5 million (the "Settlement Amount") over a period of six (6) years. The Settlement Amount is payable in combined Brazilian Real and United States dollars as follows: (i) R\$3 million (approximately US\$1.5 million) was paid on the effective date of the Settlement Agreement, of which amount (A) R\$2.294 million (approximately US\$1.15 million) in cash was released from the escrow account established in connection with the Qualytextil, S.A. acquisition and (B) R\$706,000 (approximately US\$350,000) was paid directly by the Company; (ii) R\$2 million (approximately US\$1.0 million) was paid in December 2012; and (iii) the balance of \$6.0 million of the Settlement Amount will be made in United States dollars consisting of 24 consecutive quarterly installments of US\$250,000 beginning on March 31, 2013. In the event the Company fails to pay the remainder of the Settlement Amount in accordance with terms of the Settlement Agreement, the former officers will be entitled to seek payment by the Company of R\$25,148,252 (approximately US\$12,575,000) as adjusted for inflation, plus interest and penalties, less prior payments, which represents the original arbitral award inclusive of all taxes, expenses, interest and applicable adjustments. The Company is current with all obligations pursuant to this Settlement Agreement.

In addition, pursuant to the Settlement Agreement, as additional security for payment of the Settlement Amount, Lakeland Brasil agreed to grant the former officers a second mortgage interest on certain of its property in Brazil, which mortgage is expressly behind the lien securing the payment of tax debts to a state within Brazil related to certain notices of tax assessment on such property. The Company also agreed to become a co-obligor, in lieu of a guarantor, for payment of the Settlement Amount.

The Company, upon reaching the Settlement Agreement, has recorded a settlement liability at net present value of \$7.0 million, by applying a risk-free interest rate of 1.58% to discount the noninterest-bearing payment schedule. Together with estimated total fees for the settlement of \$856,000, the total cost for the settlement is estimated at \$8.0 million. The Settlement liability is \$5.5 million as of April 30, 2013, as reflected on the accompanying balance sheet.

The Company further believes that its available resources, together with additional outside funding through debt or equity financings or asset sales, will enable it to make timely payment of the Settlement Amount and continue its operations on a viable basis. There can, however, be no assurance that such outside funding will ultimately be obtained (see Note 6).

The legal and arbitration fees are being charged to expense as incurred.

14. Goodwill

Edgar Filing: LAKELAND INDUSTRIES INC - Form 10-Q

The changes in the carrying amount of goodwill during fiscal year 2014 are summarized in the following:

	USA	Brazil	Total
Balance as of January 31, 2013	\$871,297	—	\$871,297
During fiscal year 2014 through April 30, 2013			
Effect of foreign currency translation	—	—	—
Balance as of April 30, 2013	\$871,297	—	\$871,297

15. Recent Accounting Pronouncements

The Company considers the applicability and impact of all accounting standards updates (ASUs). ASUs not listed below were determined to either not be applicable or to have a minimal impact on the consolidated financial statements.

The Financial Accounting Standards Board (FASB) has issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for private companies. Early adoption is permitted.

The FASB has issued ASU No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value

with the carrying amount in accordance with Codification Subtopic 350-30, *Intangibles—Goodwill and Other, General Intangibles Other than Goodwill*.

Under the guidance in this ASU, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period.

The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

The FASB has issued ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles-Goodwill and Other*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%.

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

The FASB has issued its *U.S. GAAP Financial Reporting Taxonomy Implementation Guide - Subsequent Events*. The guide is the first in a series of XBRL Implementation Guides, which are designed to help Taxonomy users understand how certain disclosures are structured within the Taxonomy. The purpose of the Implementation Guide is to demonstrate the modeling for disclosures required about events occurring subsequent to the end of a public company's reporting period. The modeling has been completed using the elements in the Taxonomy. The examples are not intended to encompass all of the potential modeling configurations or to dictate the appearance and structure of a company's XBRL documents. In addition to the Implementation Guide, the FASB also issued *Definition Components & Structure, the first style guide of the FASB U.S. GAAP Financial Reporting Taxonomy Style Guide Series*. Also available on the FASB website, the style guides provide additional insight into design criteria and are offered as a reference for users of the Taxonomy.

The U.S. GAAP Financial Reporting Taxonomy is a list of computer-readable tags in XBRL that allows companies to tag precisely the thousands of pieces of financial data that are included in typical long-form financial statements and related footnote disclosures. The tags allow computers to automatically search for, assemble and process data so it can be readily accessed and analyzed by investors, analysts, journalists and regulators. In early 2010, the Financial Accounting Foundation assumed maintenance responsibilities for the Taxonomy and, along with the FASB, assembled a team of technical staff dedicated to updating the Taxonomy for changes in U.S. GAAP, identifying best practices in Taxonomy extensions and technical enhancements.

16. Discontinued Operations in India

The Company decided to discontinue operations in its India glove manufacturing facility and put the assets and business up for sale. The Company decided to sell this division primarily because it has incurred significant operating losses since inception, and the Company has been unsuccessful in developing sufficient sales to reach at least break even. The Company attempted to sell the operations as an ongoing operation but shut down its operations in December 2011. Total assets of discontinued operations were reduced \$69,000 in the quarter primarily as a result of

inventory write-downs.

In conjunction with the discontinuance of operations, the Company, in the year ended January 31, 2012, recognized a pretax loss on shutdown and sale of assets of \$1.7 million, primarily consisting of \$1.0 million in fixed asset write-downs and \$0.1 million in inventory write-downs. In the year ended January 31, 2013, the Company took a further write-down of fixed assets in the amount of \$0.8 million. The assets and liabilities of the discontinued operations are presented separately under the captions “Assets of discontinued operations in India” and “Liabilities of discontinued operations in India,” respectively, in the accompanying Balance Sheets at January 31, 2013 and January 31, 2012, and consist of the following:

26

	April 30, 2013	January 31, 2013
Inventory	\$ 29,449	\$ 85,170
Other current asset	—	10,024
Property and equipment	715,071	717,988
Total assets of discontinued operations	744,520	813,182
Liabilities of discontinued operations:		
Accounts payable	—	2,759
Other liabilities	—	22,282
Total liabilities of discontinued operations	—	25,041
Net assets of discontinued operations	\$ 744,520	\$ 788,141

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Form 10-Q may contain certain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements.

Overview

We manufacture and sell a comprehensive line of safety garments and accessories for the global industrial protective clothing markets. Our products are sold by our in-house sales force and independent sales representatives to a network of over 1,200 North American safety and mill supply distributors and end users and distributors internationally. These distributors in turn supply end user industrial customers, such as integrated oil, utilities, chemical/petrochemical, automobile, steel, glass, construction, smelting, janitorial, pharmaceutical and high technology electronics manufacturers. In addition, we supply federal, state and local governmental agencies and departments domestically and internationally, such as municipal fire and police departments, airport crash rescue units, the military, the Department of Homeland Security and the Centers for Disease Control and state and privately owned utilities and integrated oil companies.

We have operated-facilities in Mexico since 1995, in China since 1996, in India since 2007 (now discontinued) and in Brazil since May 2008. Beginning in 1995, we moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. 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. As we have increasingly moved production of our products to our facilities in Mexico and China, we have seen improvements in the profit margins for these products. Our net sales from continuing operations attributable to customers outside the United States were \$9.9 million and \$14.2 million in April 30, 2013 and April 30, 2012, respectively.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses and disclosure of contingent assets and liabilities. We base estimates on our past experience and on various other assumptions that we believe to be reasonable under the circumstances, and we periodically evaluate these estimates.

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

Going Concern. Our consolidated financial statements have been prepared using the accrual method of accounting in accordance with GAAP and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. We have sustained substantial operating losses since in FY13 and have continued in Q1 FY14, and we are in default with our lender, TD Bank. During the year ended January 31, 2013, we had a net loss of \$(26.3) million. These factors raise substantial doubt about our ability to continue as a going concern.

We expect to continue to incur substantial additional operating losses from our Brazilian operations for at least the first half of FY14. Unless we are able to have in place a new credit facility, we believe that our current cash position of \$7.0 million, our cash flow from operations and borrowing in Brazil and the United Kingdom, may not be sufficient to meet our currently anticipated operating, capital expenditures and debt service requirements for at least the next 12 months. To this end, in May 2013, the Company accepted a commitment letter from a bank for a Senior Credit Facility subject to certain terms and conditions and is currently working towards closing this financing. However, no assurance can be given that this transaction or any other transaction will be consummated.

If management is unable to successfully implement its cost reduction strategies or to complete any other financing, that would impact our ability to continue as a going concern.

Revenue Recognition. The Company derives its sales primarily from its limited use/disposable protective clothing and secondarily from its sales of high-end chemical protective suits, firefighting and heat protective apparel, gloves and arm guards and reusable woven garments. Sales are recognized when goods are shipped, at which time title and the risk of loss pass to the customer. Some sales in Brazil may be sold on terms with F.O.B. destination, which are recognized when received by the customer. Sales are reduced for sales returns and allowances. Payment terms are generally net 30 days for United States sales and net 90 days for international sales.

Inventories. Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost (on a first-in, first-out basis) or market. Inventory is written down for slow-moving, obsolete or unusable inventory.

In the year ended January 31, 2013, the Company changed its estimate used in calculating slow-moving inventory in the US. Previously, the Company wrote-down the inventory value for any item in excess of 5 years stock on hand based on annualized sales levels. The Company has determined that based on its needs to service customers, up to a two-year supply may be needed. Therefore, the Company now writes down anything in excess of a two-year supply. Most foreign operations consider inventory obsolete or slow-moving when more than one-year supply exists.

Allowance for Doubtful Accounts. Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its

customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts:

Customer creditworthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Past due balances over 90 days and other less creditworthy accounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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

Uncertain Tax Positions. In the event the Company determines that it may not be able to realize all or part of our deferred tax assets in the future, or that new estimates indicate that a previously recorded valuation allowance is no longer required, an adjustment to the deferred tax asset is charged or credited to income in the period of such determination. The Company recognizes tax positions that meet a “more likely than not” minimum recognition threshold.

Valuation of Goodwill and Other Intangible Assets. Goodwill and indefinite lived, intangible assets are tested for impairment at least annually; however, these tests may be performed more frequently when events or changes in circumstances indicate the carrying amount may not be recoverable. Goodwill impairment is evaluated utilizing a two-step process as required by US GAAP. Factors that the Company considers important that could identify a potential impairment include: significant underperformance relative to expected historical or projected future operating results; significant changes in the overall business strategy; and significant negative industry or economic trends. The Company measures any potential impairment on a projected discounted cash flow method. Estimating future cash flows requires the Company’s management to make projections that can differ materially from actual results.

Impairment of Long-Lived Assets. The Company evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from the asset are separately identifiable and are less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset.

Foreign Currency Risks. The functional currency for the Brazil operation is the Brazil Real; the United Kingdom, the Euro; the trading company in China, the RenminBi; the Canada Real Estate, the Canadian dollar; and the Russia operation, the Russian Ruble and Kazakhstan Tenge. All other operations have the US dollar as its functional currency.

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

Loss Contingencies. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been or is probable of being incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Significant Balance Sheet Fluctuation April 30, 2013, As Compared to January 31, 2013

Cash increased by \$0.3 million and borrowings under the revolving credit facility remained at \$9.6 million at April 30, 2013. Accounts receivables increased \$0.3 million, primarily due to the increase of sales in the three months ended April 30, 2013, in Canada of \$0.5 million, in the UK of \$0.3 million and in Russia of \$0.5 million from the three months ended January 31, 2013. Inventory decreased by \$0.2 million primarily in the UK and Canada. Other current assets increased \$0.3 million due to prepaid expenses in China and in the UK for costs related to the financing in the UK.

Three Months Ended April 30, 2013, As Compared to the Three Months Ended April 30, 2012

Net Sales. Net sales decreased \$2.2 million, or 9.4%, to \$21.7 million for the three months ended April 30, 2013, from \$24.0 million for the three months ended April 30, 2012. The net decrease was due to a \$4.3 million decrease in foreign sales, primarily in Brazil, partially offset by an increase of \$2.1 million in domestic sales. Domestic sales in China and to the Asia Pacific Rim increased by \$0.5 million, or 23.1%. Canada sales decreased by \$0.2 million, or 10.4%. Argentina sales decreased by \$0.4 million or 52.1%. Russia and Kazakhstan sales combined increased by \$0.4 million, or 325.8%. US domestic sales of disposables increased by \$1.0 million, chemical sales increased by \$0.5 million and reflective sales increased by \$0.5 million. Sales in Brazil decreased by \$3.4 million, a decrease of 65.6%, as a result of several large bid orders shipped in the first quarter last year and a generally poor sales level in Brazil. There can be no assurance that sales in Brazil will improve. Sales for Lakeland worldwide, excluding Brazil, increased \$1.2 million, or 6.3%, over the first quarter of last year.

Gross Profit. Gross profit decreased \$1.2 million, or 16.8%, to \$6.1 million for the three months ended April 30, 2013, from \$7.3 million for the three months ended April 30, 2012. Gross profit as a percentage of net sales decreased to 28.0% for the three months ended April 30, 2013, from 30.5% for the three months ended April 30, 2012. Major factors driving the changes in gross margins were:

Wovens gross margin increased by 25 percentage points in FY14 compared with FY13. This increase was mainly due to the FY13 inventory write-downs resulting from the closure of the Missouri plant, disruptions, inefficiencies and a shortage following the move

Disposables gross margin increased by 5.8 percentage points due to higher volume resulting from conversion of customers to Lakeland branded products with a higher gross, a price increase and adjustments in transfer pricing
Brazil gross margin was 16.7% for this year compared with 44.1% last year resulting from several large bid contracts at a high margin last year and heavy discounting in this year to promote sales

Argentina gross margin decreased by 25 percentage points mainly due to poor volume resulting from lack of working capital

Higher margins in chemical sales were reflected as a result of higher volume and a different sales mix

China gross margins decreased 6.6 percentage points primarily due to the accrual of shutdown costs in our Qingdao facility

Operating Expenses. Operating expenses decreased \$1.0 million, or 13.3%, to \$6.3 million for the three months ended April 30, 2013, from \$7.3 million for the three months ended April 30, 2012. As a percentage of sales, operating expenses decreased to 29.1% for the three months ended April 30, 2013, from 30.4% for the three months ended April 30, 2012. The \$1.0 million decrease in operating expenses in the three months ended April 30, 2013, as compared to the three months ended April 30, 2012, was comprised of:

- \$(0.5) million decrease in sales commission mainly resulting from two large bid contracts in Brazil last year which resulted in high commissions
- \$(0.1) million decrease in officer salaries resulting from officers voluntary reduction in cash compensation
- \$(0.1) million reduction in currency fluctuation
- \$(0.1) million reduction in research and development expense as Lakeland branding efforts were accelerated in FY13
- \$(0.1) million decrease in payroll administration due to staff reductions
- \$(0.1) million decrease to payroll tax as a result of staff reductions

Operating Profit. Operating profit decreased \$0.3 million for the three months ended April 30, 2013, from \$0.02 million for the three months ended April 30, 2012. Operating margins were breakeven for the three months ended April 30, 2013, and the three months ended April 30, 2012.

Interest Expense. Interest expenses increased by \$0.04 million for the three months ended April 30, 2013, as compared to the three months ended April 30, 2012, due to higher rates prevailing in Brazil, in the US and the UK.

Income Tax Expense. Income tax expenses consist of federal, state and foreign income taxes. Income tax expenses increased \$0.5 million to \$0.2 million for the three months ended April 30, 2013, from a benefit of \$0.3 million for the three months ended April 30, 2012. Our effective tax rates were not meaningful due to the loss carryforwards.

Net Income (Loss). Net income increased \$9.3 million to a loss of \$0.8 million for the three months ended April 30, 2013, from a loss of \$10.1 million for the three months ended April 30, 2012. The decrease to the net loss primarily resulted from the \$10,000,000 Arbitral Award in Brazil in FY13.

Liquidity and Capital Resources

Cash Flows. As of April 30, 2013, we had cash and cash equivalents of \$7.0 million and working capital of \$35.5 million. Cash and cash equivalents increased \$0.3 million, and working capital decreased \$0.5 million from January 31, 2013.

Net cash provided by operating activities of \$0.7 million for the three months ended April 30, 2013, was due primarily to net loss from operations of \$0.8 million, offset by a provision in inventories of \$0.2 million and an increase in accounts receivable of \$0.3 million, and increased accounts payable of \$0.8 million. Net cash used in investing activities of \$0.4 million in the three months ended April 30, 2013, was due to the completion of the expansion in China.

We currently have one credit facility: \$23.5 million revolving credit facility which commenced January 2010, of which we had \$14.7 million of borrowings outstanding as of April 30, 2013, expiring on June 30, 2013. Our current credit facility requires, and any future credit facilities may also require, that we comply with specified financial covenants relating to interest coverage, debt coverage, minimum consolidated net worth and earnings before interest, taxes, depreciation and amortization. Our ability to satisfy these financial covenants can be affected by events beyond our control, and we cannot guarantee that we will meet the requirements of these covenants. These restrictive covenants could affect our financial and operational flexibility or impede our ability to operate or expand our business. Default under our credit facilities would allow the lenders to declare all amounts outstanding to be immediately due and payable. Our lenders have a security interest in substantially all of our assets to secure the debt under our current credit facilities, and it is likely that our future lenders will have security interests in our assets. If our lenders declare amounts outstanding under any credit facility to be due, the lenders could proceed against our assets. Any event of default, therefore, could have a material adverse effect on our business. We are currently in default of our current loan facility. While Lakeland has signed a commitment letter with another bank as discussed in Note 6 to the Financial Statements, there is no assurance that Lakeland can successfully refinance.

Capital Expenditures. Our capital expenditures principally relate to purchases of building and equipment in Brazil and Mexico, manufacturing equipment, computer equipment and leasehold improvements. We anticipate FY14 capital expenditures to be approximately \$0.7 million. Our facilities in China are not encumbered by commercial bank mortgages and, thus, Chinese commercial mortgage loans or the sale of a facility may be available with respect to these real estate assets if we need additional liquidity. There are no further specific plans for material capital expenditures in the FY14.

During FY13 the AnQui City, China Weifang Lakeland factory expanded its operations substantially to accommodate the movement of the work in a leased facility, whose lease had expired. By bringing the two factories together, economies of scale were achieved.

Foreign Currency Exposure. The Company has foreign currency exposure, principally through its investment in Brazil, sales in China, Canada and the UK and production in Mexico and China. Management has undertaken a hedging program to offset this risk by purchasing forward contracts to sell the Canadian Dollar, Chilean Peso, Euro and Great Britain Pound. Such contracts are largely timed to expire with the last day of the fiscal quarter, with a new contract purchased on the first day of the following quarter, to match the operating cycle of the Company. Management has decided not to hedge its long position in the Chinese Yuan or Brazilian Real; however, as described in Note 11, the Company does engage in cash flow hedges between the CNY and the USD and EUR.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in market risk from that disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2013.

Item 4. Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of April 30, 2013. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of April 30, 2013.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of April 30, 2013. In making this assessment, management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon an evaluation performed as of April 30, 2013 and throughout FY13, we have identified a material weakness surrounding our internal control over international financial reporting and review. In response to the material weakness management is restructuring its international financial review process and believes these changes will remediate the issue. Further, this weakness did not result in any significant adjustment to the financial statements.

Changes in Internal Control over Financial Reporting

There have been no changes in Lakeland Industries, Inc.'s internal control over financial reporting that occurred during Lakeland's first quarter of fiscal 2014, other than the material weakness described above, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Items 2, 3, 4, and 5 are not applicable

Item 1. Legal Proceedings.

From time to time, we are a party to litigation arising in the ordinary course of our business. Other than the proceedings related to the VAT tax issue described in Note 12 to the financial statements, we are not currently a party to any litigation or other legal proceedings that we believe could reasonably be expected to have a material adverse effect on our results of operations, financial condition or cash flows.

Item 6. Exhibits:

Exhibits:

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Definitions Document*

101.DEF XBRL Taxonomy Extension Labels Document*

101.LAB XBRL Taxonomy Extension Labels Document*

101.PRE XBRL Taxonomy Extension Presentations Document*

*In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be “furnished” and not “filed”.

33

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKELAND INDUSTRIES, INC.

(Registrant)

Date: June 13, 2013 /s/ Christopher J. Ryan

Christopher J. Ryan,
Chief Executive Officer, President and Secretary
(Principal Executive Officer and Authorized Signatory)

Date: June 13, 2013 /s/Gary Pokrassa

Gary Pokrassa,
Chief Financial Officer
(Principal Accounting Officer and Authorized Signatory)