LAKELAND INDUSTRIES INC
Form 10-Q
June 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended **April 30, 2012**

OR

o 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)

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 x No o

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).

Yesx No o

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

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

Yeso No x

As of July 31, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $38,911,451 based on the closing price of the common stock as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

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

Class	Outstanding at June 12, 2012
Common Stock, $0.01 par value per share	5,225,478 shares

LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

FORM 10-Q

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

PART I - FINANCIAL INFORMATION:

PART II - OTHER INFORMATION:

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:

- The effect of the recent approximate $10 million adverse Brazilian arbitration award;
- Our ability to obtain fabrics and components from suppliers and manufacturers at competitive prices or prices that vary from quarter to quarter;
- Risks associated with our international manufacturing and start-up sales operations;
- Potential fluctuations in foreign currency exchange rates;
- Our ability to respond to rapid technological change;
- Our ability to identify and complete acquisitions or future expansion;
- Our ability to manage our growth;

- Our ability to recruit and retain skilled employees, including our senior management;
- Our ability to accurately estimate customer demand;
- Competition from other companies, including some with greater resources;
- Risks associated with sales to foreign buyers;
- Restrictions on our financial and operating flexibility as a result of covenants in our credit facilities;
- Our ability to obtain additional funding to expand or operate our business as planned;
- The impact of potential product liability claims;
- Liabilities under environmental laws and regulations;
- Fluctuations in the price of our common stock;
- Variations in our quarterly results of operations;
- The cost of compliance with the Sarbanes-Oxley Act of 2002 and rules and regulations relating to corporate governance and public disclosure;
- The significant influence of our directors and executive officers on our Company and on matters subject to a vote of our stockholders;
- The impact of a decline in federal funding for preparations for terrorist incidents;
- The limited liquidity of our common stock;
- 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 2012 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, 2012 and 2011

	THREE MONTHS ENDED April 30,	
	2012	2011
Net sales from continuing operations	$23,980,711	$25,584,829
Cost of goods sold from continuing operations	16,669,351	17,322,690
Gross profit from continuing operations	7,311,360	8,262,139
Operating expenses from continuing operations	7,286,423	6,685,703
Operating profit from continuing operations	24,937	1,576,436
Foreign Exchange charge gain (loss) Brazil	(315,787)	220,767
Arbitration judgment in Brazil	(10,000,000)	—
Other income, net	59,374	49,477
Interest expense	(236,392)	(118,381)
(Loss) income from continuing operations before income taxes	(10,467,868)	1,728,299
Provision (benefit) for income taxes	(346,402)	407,749
(Loss) income from continuing operations	(10,121,466)	1,320,550
Discontinued operations:		
Loss from operations of discontinued India glove manufacturing facility	—	(245,561)
Income tax benefit	—	(88,402)
Loss on discontinued operations	—	(157,159)
Net Income (loss)	$(10,121,466)	$1,163,391
Earnings (loss) per share - Basic		
(Loss) income from continuing operations	$(1.94)	$0.25
Discontinued operations	—	$(0.03)
Net income (loss)	$(1.94)	$0.22
Earnings (loss) per share - Diluted		
(Loss) income from continuing operations	$(1.94)	$0.25
Discontinued operations	—	$(0.03)
(Loss) net income	$(1.94)	$0.22
Weighted average common shares outstanding:		
Basic	5,225,478	5,222,639
Diluted	5,225,478	5,334,165

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, 2012 and 2011

	Three Months Ended April 30, 2012	2011
Net income (loss)	$(10,121,466)	$1,163,391
Other comprehensive income (loss):		
Cash flow hedge in China	(103,770)	55,981
Foreign currency translation adjustments:		
Lakeland Brazil, S.A.	(1,815,272)	1,121,086
Canada	5,533	32,218
United Kingdom	21,855	160,724
China	9,605	15,328
Russia/Kazakhstan	(8,869)	11,952
Other comprehensive income (loss)	(1,890,918)	1,397,289
Comprehensive income (loss)	$(12,012,384)	$2,560,680

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

April 30, 2012 and January 31, 2012

	April 30, 2012 (Unaudited)	January 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$4,695,004	$5,711,038
Accounts receivable, net of allowance for doubtful accounts of $274,600 at April 30, 2012 and $270,200 at January 31, 2012	16,188,680	12,576,362
Inventories, net of reserves of $1,736,000 at April 30, 2012 and $1,601,000 at January 31, 2012	42,318,674	45,668,355
Deferred income taxes	4,322,710	3,987,671
Assets of discontinued operation in India	2,003,649	1,998,570
Prepaid income and VAT tax	2,125,897	1,772,806
Other current assets	2,046,753	1,993,151
Total current assets	73,701,367	73,707,953
Property and equipment, net	13,824,167	13,914,826
Prepaid VAT and other taxes, noncurrent	2,480,035	2,791,107
Security deposits	1,470,641	1,330,679
Intangibles and other assets, net	4,226,385	4,527,335
Goodwill	5,794,154	6,132,954
Total assets	$101,496,749	$102,404,854
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$6,002,025	$4,600,437
Accrued compensation and benefits	1,897,472	1,304,818
Other accrued expenses	1,579,568	1,584,894
Arbitration Award in Brazil	10,000,000	—
Liabilities of discontinued operation in India	43,340	64,780
Current maturity of long-term debt and short-term borrowing	8,592,891	1,898,259
Borrowings under revolving credit facility	6,742,303	—
Total current liabilities	34,857,599	9,453,188
Borrowings under revolving credit facility	—	11,457,807
Other long-term debt	1,850,868	4,814,682
Other liabilities-accrued legal fees in Brazil	89,767	99,367
VAT taxes payable long-term	3,312,651	3,312,953
Total liabilities	40,110,885	29,137,997
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $.01 par; authorized 1,500,000 shares (none issued)	—	—

Common stock, $.01 par; authorized 10,000,000 shares, issued, 5,581,919; outstanding, 5,225,478 at January 31, 2012 and April 30, 2012,	55,819	55,819
Treasury stock, at cost, 356,441 shares at April 30, 2012 and at January 31, 2012	(3,352,291)	(3,352,291)
Additional paid-in capital	50,903,985	50,772,594
Retained earnings	15,694,758	25,816,224
Accumulated other comprehensive loss	(1,916,407)	(25,489)
Total stockholders' equity	61,385,864	73,266,857
Total liabilities and stockholders’ equity	$101,496,749	$102,404,854

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

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LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

Three months ended April 30, 2012

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount				
Balance, January 31, 2012	5,581,919	$55,819	(356,441)	$(3,352,291)	$50,772,594	$25,816,224	$(25,489)	$73,266,857
Net loss	—	—	—	—	—	(10,121,466)	—	(10,121,466)
Other comprehensive income (loss)	—	—	—	—	—	—	(1,890,918)	(1,890,918)
Stock-based compensation:								
Restricted Stock Plan 2009	—	—	—	—	131,391	—	—	131,391
Balance April 30, 2012	5,581,919	$55,819	(356,441)	$(3,352,291)	$50,903,985	$15,694,758	$(1,916,407)	$61,385,864

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, 2012 and 2011

	For the Three Months Ended April 30,	
	2012	As restated 2011
Cash flows from operating activities:		
Net income (loss)	$ (10,121,466)	$ 1,163,391
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Arbitration award in Brazil	10,000,000	—
Provision for inventory obsolescence	135,000	(116,000)
Provision for doubtful accounts	5,000	9,600
Deferred income taxes	(462,191)	—
Depreciation and amortization	374,889	418,813
Stock based and restricted stock compensation	131,391	220,969
(Increase) decrease in operating assets		
Accounts receivable	(3,967,092)	(1,894,713)
Inventories	2,382,174	(4,140,204)
Prepaid income taxes and other current assets	(647,500)	(129,927)
Other assets	(31,855)	645,518
Assets of discontinued operations	(5,079)	—
Increase (decrease) in operating liabilities		
Accounts payable	1,833,037	1,090,083
Accrued expenses and other liabilities	727,890	(1,113,793)
Liabilities of discontinued operations	(21,440)	—
Net cash provided by (used in) operating activities	332,758	(3,846,263)
Cash flows from investing activities		
Purchases of property and equipment	(364,185)	(578,508)
Net cash used in investing activities	(364,185)	(578,508)
Cash flows from financing activities		
Net borrowings (payments) under credit agreement, net of reclassification to term loans	(1,715,504)	4,619,124
Repayments of term loans	(190,000)	—
Canada loan repayments	(125,012)	(25,012)
Proceeds of borrowings in Brazil	1,029,194	—
Purchases of stock under stock repurchase program	—	(339,371)
Other liabilities	(9,601)	6,570
Shares returned in lieu of taxes under restricted stock program-cash paid	—	12,365

Deferred taxes – long-term	(302)	1,899
Net cash provided by (used in) financing activities	(1,011,225)	4,275,575
Effect of exchange rate changes on cash	26,618	100,225
Net (decrease) increase in cash and cash equivalents	(1,016,034)	48,971
Cash and cash equivalents at beginning of year	5,711,038	6,074,505
Cash and cash equivalents at end of year	$ 4,695,004	$ 6,025,534

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.

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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, 2012 and 2011. One customer in Brazil accounted for 17.2% of the accounts receivable at April 30, 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, 2012.

The results of operations for the three-month period ended April 30, 2012, 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.

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, 2012	January 31, 2012
Raw materials	$ 19,100,595	$ 21,213,423
Work-in-process	1,879,908	1,790,510
Finished goods	21,338,171	22,664,422
	$ 42,318,674	$ 45,668,355

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

5. Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of common stock equivalents. Diluted earnings per share are based on the weighted average number of common and common stock equivalents. The diluted earnings per share calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from 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, 2012 and 2011.

	Three Months Ended April 30, 2012	2011
Numerator		
Net income (loss) from continuing operations	$(10,121,466)	$1,320,550
Denominator		
Denominator for basic earnings per share (weighted-average shares which reflect 356,441 and 352,194 shares in the treasury as a result of the stock repurchase program for the three months 2012 and 2011, respectively	5,225,478	5,222,639
Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options	—	111,526
Denominator for diluted earnings (loss) per share (adjusted weighted average shares)	5,225,478	5,334,165
Basic earnings (loss) per share from continuing operations	$(1.94)	$0.25
Diluted earnings (loss) per share from continuing operations	$(1.94)	$0.24

6. Long-Term Debt and Subsequent Event

Revolving Credit Facility

At April 30, 2012, the balance outstanding under our revolving credit facility amounted to $6.7 million. In January 2010, the Company entered into a one-year $23.5 million revolving credit facility with TD Bank, N.A. In January 2011, TD Bank, N.A. agreed to a two-year extension to expire January 2013 and in June 2011, TD Bank, N.A. 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, N.A. agreed to add a $3.0 million term loan facility to be used to refinance a portion of the revolver. Borrowings under this $9.5 million term loan facility are in the form of a five-year term loan, with maturity June 2014. As a result of the Arbitration Award issued against the Company in May 2012 (see Note 14), and other issues, one or more events of default have occurred 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 would allow TD Bank, at its option, to accelerate the loan. As such this debt has been reclassified as a current liability. While TD Bank has not waived the events of default, we are in discussions with TD Bank about resolution of these matters, and we continue to otherwise operate within the terms of the credit agreement while we work out a resolution. However, no assurances can be given that we will be able to work out a satisfactory arrangement with TD Bank. The Company has engaged Raymond James & Associates, Inc. to assist the Board of Directors in its evaluation of a broad range of financial and strategic alternatives for the Company.

7. Major Supplier

We purchased 10.2% of our raw materials from one supplier during the three-month period ended April 30, 2012.

8. Employee Stock Compensation

There is one general equity plan, the 2009 equity plan, and a nonemployee director option plan under which shares may currently be granted. The 2009 plan has the structure and includes all of the components described below:

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	Nature and terms
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 partial 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 partial 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.
Bonus in stock 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.
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.
Non-employee 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.

The following table represents our stock options granted, exercised and forfeited during the first quarter ended April 30, 2012.

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 31, 2012	18,200	$ 7.31	3.38 years	$ 10,230
Granted during the three months ended April 30, 2012	0	0	0	0
Outstanding at April 30, 2012	18,200	$ 7.31	3.14 years	$ 39,260
Exercisable at April 30, 2012	18,200	$ 7.31	3.14 years	$ 39,260
Reserved for future issuance:				
Directors' Plan	31,300			

There were no exercises or forfeitures during the three-months ended April 30, 2012.

Restricted Stock Plan and Performance Equity Plan

On June 17, 2009, the stockholders of the Company authorized 253,000 shares under a new restricted stock plan (the "2009 Equity Incentive Plan"). Under the restricted stock plan, eligible employees and directors are awarded performance-based restricted shares of the 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 no voting rights until fully vested and issued, and the underlying shares are not considered to be issued and outstanding until vested.

Under the 2009 Equity Incentive Plan, the Company has granted up to a maximum of 228,709 restricted stock awards as of April 30, 2012. All of these restricted stock awards are nonvested at April 30, 2012 (173,689 shares at "baseline"), and have a weighted average grant date fair value of $8.08. 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, 2012, unrecognized stock-based compensation expense related to restricted stock awards totaled $562,623, all under the 2009 Equity Incentive Plan, before income taxes, based on the maximum performance award level, less what has been charged to expense on a cumulative basis through April 30, 2012, which was set at baseline. Such unrecognized stock-based compensation expense related to restricted stock awards totaled $122,460 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 the baseline level, and expenses have been recorded accordingly. The performance based awards are not considered stock equivalents for earnings per share (“EPS”) calculation purposes.

The Board of Directors has adopted a 2012 Stock Incentive Plan which is scheduled for stockholder vote at the Company’s upcoming Annual Meeting of Stockholders to be held on June 20, 2012.

Stock-Based Compensation

The Company recognized total stock-based compensation costs of $131,391 and $220,968 for the three-months ended April 30, 2012 and 2011, respectively, of which $0 and $3,486 result from the 2006 Equity Plan and $122,641 and $211,300 result from the 2009 Equity Plan for the three-months ended April 30, 2012 and 2011, respectively, and $8,750 and $6,182, 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 $47,301 and $80,653 for the three-months ended April 30, 2012 and 2011, respectively.

Shares under 2009 Plan	Outstanding unvested grants at maximum at beginning of FY13	Granted during FY13 through April 30, 2012	Becoming Vested during FY13 through April 30, 2012	Forfeited during FY13 through April 30, 2012	Outstanding unvested grants at maximum at April 30, 2013
Restricted stock grants - employees	129,536	—	—	—	129,536
Restricted stock grants - directors	63,184	—	—	—	63,184
Matching award program	3,500	—	—	—	3,500
Bonus in stock - employees	25,801	—	—	—	25,801
Retainer in stock - directors	5,572	1,116	—	—	6,688
Total restricted stock plan	227,593	1,116	—	—	228,709
Weighted average grant date fair value	$ 8.07	$ 10.45			$ 8.08

9. Manufacturing Segment Data

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

	Three Months Ended April 30,			
	2012		2011	
Domestic	$9.8	40.8 %	$14.7	57.5 %
International	14.2	59.2 %	10.9	42.5 %
Total	$24.0	100 %	$25.6	100 %

We manage our operations by evaluating each of our geographic locations. Our North American operations include our facilities in Decatur, Alabama (primarily the distribution to customers of the bulk of our products and the manufacture of our chemical, glove and disposable products), Jerez, Mexico (primarily disposable, glove and chemical suit production), St. Joseph, Missouri (closed in April 2012 with most production being moved to Mexico and distribution to Alabama) and Sinking Spring, Pennsylvania (primarily woven products production). We also maintain three manufacturing companies in China (primarily disposable and chemical suit production) and a wovens manufacturing facility in Brazil. Our China and Brazil facilities produce the majority of the Company's revenues. The accounting policies of these operating entities are the same as those described in Note 1. 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 periods noted therein:

	Three Months Ended April 30 (in millions of dollars)	
	2012	2011
Net Sales from Continuing Operations:		
USA	$10,594,143	$15,554,582
Other foreign	5,523,213	4,719,015
China	8,161,860	6,558,963
Brazil	5,190,760	4,055,732
Less intersegment sales	(5,489,265)	(5,305,463)
Consolidated sales	$23,980,711	$25,584,829
External Sales from Continuing Operations:		
USA	$9,772,960	$14,700,787
Other foreign	5,056,186	4,211,232
China	3,960,805	2,617,078
Brazil	5,190,760	4,055,732
Consolidated external sales	$23,980,711	$25,584,829
Intersegment Sales from Continuing Operations:		
USA	$821,183	$855,795
Other foreign	467,027	507,783
China	4,201,055	3,941,885
Brazil	—	—
Consolidated intersegment sales	$5,489,265	$5,305,463
Operating Profit (loss) from Continuing Operations:		
USA	$(1,465,671)	$376,619
Other foreign	229,395	207,665
China	832,235	673,387
Brazil	374,550	(78,451)
Less intersegment profit	54,428	397,216
Consolidated operating profit	$24,937	$1,576,436
Depreciation and Amortization Expense from Continuing Operations:		
USA	$139,121	$189,883
Other foreign	49,810	33,968
China	87,160	76,906
Brazil	98,798	118,056
Consolidated depreciation and amortization expense	$374,889	$418,813
Interest Expense from Continuing Operations:		
USA	$100,021	$74,103
Other foreign	52,323	58,292
China	—	—
Brazil	233,952	42,773
Less intersegment	(149,904)	(56,787)
Consolidated interest expense	$236,392	$118,381
Income Tax Expense (benefits) from Continuing Operations:		
USA	$(503,390)	$74,286
Other foreign	59,668	212,296
China	154,570	152,354
Brazil	(86,855)	(47,456)
Less intersegment	29,605	16,269

Consolidated income tax expense	$(346,402)	$407,749
Total Assets (at Balance Sheet Date):		
USA	$32,842,326	$35,110,376
Other foreign	16,345,505	13,124,767
China	23,994,917	22,451,411
India assets of discontinued operations	266,048	3,669,601
Brazil	28,047,953	28,048,699
Consolidated assets	$101,496,749	$102,404,854
Long-lived Assets (at Balance Sheet Date)		
USA	$5,260,097	$4,016,538
Other foreign	3,288,374	1,514,022
China	2,398,299	2,418,998
India	—	—
Brazil	2,877,397	3,146,771
Consolidated long-lived assets	$13,824,167	$11,096,329

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10. Income Tax Audit/Change in Accounting Estimate

Effective February 1, 2007, the Company adopted the new guidance issued by the Financial Accounting Standards Board (“FASB”) dealing with accounting for uncertainty in income taxes. This guidance prescribes recognition thresholds that must be met before a tax position is recognized in the financial statements and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under guidance, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold.

There was no activity during FY12 or FY13, and the uncertain tax liability at April 30, 2012, was $0. The Company’s policy is to recognize interest and penalties related to income tax issues as components of income tax expense.

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 FY03, FY04, FY05 and FY07 have been audited by the Internal Revenue Service (“IRS”). An audit of the FY07 has been completed by the IRS. The Company has received a final “No Change Letter” from the IRS for FY07. The Company has received notice from the IRS that it will shortly commence an audit for the FY09 tax return.

Our three major foreign tax jurisdictions are China, Canada and Brazil. According to China tax regulatory framework, there is no statute of limitation on fraud or any criminal activities to deceive tax authorities. However, the general practice is going back five years, and general practice for records maintenance is 15 years. China tax authorities have performed limited reviews on all China subsidiaries as of tax years 2008, 2009, 2010 and 2011 with no significant issues noted. We believe our tax positions are reasonably stated.

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, 2012, resulting from the tax deduction of the goodwill amortization is approximately USD$850,000. 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 has foreign currency exposure, principally through sales in Canada, Brazil, China, Argentina, Chile and the UK, and production in Brazil, Mexico and China. 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 the Argentina Peso 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. Management has decided not to hedge its long position in the Chinese Yuan or the Brazilian Real. We designated the forward contracts as nonhedging instruments with loss and gain recognized in the current earnings. In the three-months ended April 30, 2012, the Company sustained a loss on foreign exchange in Brazil of $(315,787) or $(0.05) per share included in net income from continuing operations. In the three months ended April 30, 2011, the Company recorded a gain on foreign exchange in Brazil of $220,767 or $0.04 per share included in net income from continuing operations.

The Company accounts for its foreign exchange derivative instruments 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 contracts derivatives not designated as hedging instruments are generally settled quarterly. Gain and loss on 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 other comprehensive income and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. Our hedge positions are summarized below:

<u>Fair Value of Derivative Instruments</u>

Derivatives not designated as hedging instruments

Foreign Exchange Forward Contracts

	Three Months Ended	
	April 30, 2012	April 30, 2011
Notional Value in USD	$2,503,770	$ 2,871,547
Gain and loss reported in current operating income (expense)	$(57,261)	$ (186,230)

There is no outstanding balance from foreign exchange forward contracts as of April 30, 2012 or April 30, 2011

Derivatives designated as hedging instruments

Asset Derivative from Foreign Currency Cash Flow Hedge

	As of April 30, 2012	As of January 31, 2012

Notional value in USD	$ 8,700,000	$ 6,904,150
Gain and loss reported in equity as other comprehensive income	$ 19,544	$ 123,313

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

	Three Months Ended April 30, 2012	Three Months Ended April 30, 2012
Gain reclassed from other comprehensive income into current earnings during three months ended April 30, 2012 reported in operating income	$ 22,329	$ —

The cash flow hedge is designed to hedge the payments made in USD and Euro to our China subsidiaries. $19,544 and $123,313 have been recorded as other assets in the balance sheet for FY13 and FY12 ended April 30, 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 ("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.

In October 2009, QT received an audit notice from Bahia claiming 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 the taxes claimed were paid by QT by the end of the month of May 2010, and the interest and penalties were forgiven. According to fiscal regulation of Brazil, $R2.1 million (US$1.1 million) of this amnesty payment has since been recouped as credits against future taxes due.

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.

	BRL (millions)			USD (millions)		
Foreign exchange rate				1.82	1.82	1.82
	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]
Original claim 2004-2006	3.5	1.4	2.1	1.9	0.8	1.1
Second claim						
Preacquisition 2007-April 2008						