

LAKELAND INDUSTRIES INC
Form 10-Q/A
October 03, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark one)

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

For the quarterly period ended **July 31, 2012**

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)

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)

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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 "

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 "

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

Large accelerated filer "

Accelerated filer "

Nonaccelerated filer " (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 12b-2 of the Exchange Act). Yes" No x

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

Class	Outstanding at September 11, 2012
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Common Stock, \$0.01 par value per share	5,329,861 shares
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EXPLANATORY NOTE

Lakeland Industries, Inc. (the “Registrant”) filed its Quarterly Report on Form 10-Q for the quarter ended July 31, 2012 (the “Form 10-Q”) on September 13, 2012. The Registrant is filing this Amendment No. 1 on Form 10-Q/A (this “Amendment”) solely to (i) restate the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to correct a typographical error in the third sentence under “Net Sales” for the “Six Months ended July 31, 2012, as Compared to the Six Months ended July 31, 2011” and (ii) furnish its Interactive Data Files as Exhibit 101. The corrected sentence now reads “USA domestic sales of disposables decreased by \$8.8 million, as wovens increased by \$0.4 million, and glove sales increased by \$0.3 million.” The Registrant elected to take advantage of the 30-day grace period for filing its first XBRL documents with detail tagging requirements, as permitted by Rule 405 of Regulation S-T.

Users of this data are advised that pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Investors should continue to rely on the originally filed version of the Form 10-Q, other than with respect to the corrected sentence as set forth above. No other changes have been made to the Form 10-Q other than those described above. This Amendment does not reflect subsequent events occurring after the original filing date of the Form 10-Q or, except as described above, modify or update any disclosures made in the Form 10-Q.

PART I FINANCIAL INFORMATION

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. See Part I, Item 1.

Overview

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial protective clothing market. Our products are sold by our in-house customer service group, our regional sales managers and independent sales representatives to a network of over 1,200 North American safety and mill supply distributors. These distributors in turn supply end user industrial customers, such as integrated oil, chemical/petrochemical, utilities, automobile, steel, glass, construction, smelting, munition plants, janitorial, pharmaceutical, mortuaries and high technology electronics manufacturers, as well as scientific and medical laboratories. In addition, we supply federal, state and local governmental agencies and departments, such as fire and law enforcement, airport crash rescue units, the Department of Defense, the Department of Homeland Security and the Centers for Disease Control.

We have operated manufacturing facilities in Mexico since 1995, in China since 1996 and in Brazil since 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 are available domestically. As we have increasingly moved production of our products to our facilities in China, Mexico and Brazil (other than issues with the Navy contract as discussed herein), we have seen improvements in the profit margins for these products except for cost increases early in the second quarter of FY13 for which transfer pricing has been adjusted effective in the third quarter of FY13.

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.

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. 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.

Substantially all the Company's sales outside Brazil are made through distributors. There are no significant differences across product lines or customers in different geographical areas in the manner in which the Company's sales are made.

Lakeland offers a growth rebate to certain distributors each year on a calendar-year basis. Sales are tracked on a monthly basis, and accruals are based on sales growth over the prior year. The growth rebate accrual is booked on a monthly basis as a reduction to revenue and an increase to liabilities if the accrual is increased and the reverse if the trend goes in the opposite direction over the prior year in a given month. Based on volume and products purchased, distributors can earn anywhere from 1% to 4% rebates in the form of either a quarterly or annual credit to their account, depending on the specific agreement. In estimating the accrual needed, management tracks sales growth over the prior year.

Our sales are generally final; however, requests for return of goods can be made and must be received within 90 days from invoice date. No returns will be accepted without a written authorization. Return products may be subject to a restocking charge and must be shipped freight prepaid. Any special made-to-order items are not returnable. Customer returns have historically been insignificant.

Customer pricing is subject to change on a 30-day notice; exceptions based on meeting competitors' pricing are considered on a case-by-case basis.

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. Provision is made for slow-moving, obsolete or unusable inventory.

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. The Company recognizes losses when information available before the financial statements are issued or available to be issued indicates that it is probable that an asset has been impaired based on criteria noted above at the date of the financial statements, and the amount of the loss can be reasonably estimated. 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 higher risk amounts 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.

Uncertain Tax Positions. The Company adopted the guidance for uncertainty in income taxes effective February 1, 2007. This guidance prescribes recognition thresholds that must be met before a tax benefit is recognized in the financial statements and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under this guidance, an entity may only recognize or continue to recognize tax positions that meet a “more likely than not” threshold.

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.

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.

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 U.S. dollar as its functional currency.

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.

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 July 31, 2012, As Compared to January 31, 2012

Cash increased by \$0.8 million as TD borrowings increased by \$0.8 million at July 31, 2012, with all TD borrowings including \$6.1 million in term loans now classified as current. Accounts receivables increased \$1.8 million, primarily due to the increase of sales in the six months ended July 31, 2012 in Brazil of \$1.8 million or 22.3% from the six months ended January 31, 2012, primarily resulting from our Brazilian Navy contract. Inventory decreased by \$2.6 million, including the \$1.6 million of which decrease was in the U.S., with \$0.8 million in chemical, as we changed our inventory mix to Lakeland branded products only. Our wovens division inventory decreased \$1.0 million as a planned reduction as we physically moved this division from Missouri to Alabama. Accounts payables increased \$3.6 million due primarily to the \$1.7 million increase in China payables as more materials are sourced and purchased in China and in Brazil in respect of raw material for the Navy Contract, all of which are paid on a more prolonged schedule than the average payable. As a result of the Settlement Agreement in Brazil, the balance sheet now reflects a total accrual of \$7.9 million, with \$5.3 million in non-current with \$1.8 million current maturity and \$0.6 million in accrued fees at July 31, 2012.

At July 31, 2012, the Company had an outstanding loan balance of \$9.1 million under its revolving facility with TD Bank, N.A. compared with \$11.5 million at January 31, 2012. The term loan balance at July 31, 2012 was \$6.1 million. Total stockholders' equity decreased \$12.3 million principally due to the arbitration award in Brazil and changes in foreign exchange translations in other comprehensive income of \$3.9 million.

Three months ended July 31, 2012, As Compared to the Three Months Ended July 31, 2011

Net Sales. Net sales decreased \$2.3 million, or 9%, to \$23.5 million for the three months ended July 31, 2012, from \$25.8 million for the three months ended July 31, 2011. The net decrease was due to a \$4.5 million decrease in domestic sales offset in part by a \$1.8 million increase in foreign sales. USA domestic sales of disposables decreased by \$3.9 million, chemical suit sales decreased by \$0.2 million, wovens decreased by \$0.1 million and reflective sales decreased by \$0.5 million. The decrease in domestic sales was mainly due to the loss of the DuPont product sales as a result of the termination of the DuPont supply contract in July 2011, and partially due to a shortage in stock situation that management believes has been resolved (but may have continuing impact resulting from lost customers), and also to operating inefficiencies resulting from the move from St. Joseph, MO to Decatur, AL and Mexico which resulted in additional lost sales. The sales team continues to make progress in converting customers from Tyvek, previously supplied DuPont product, to Lakeland branded products. Currently, the decreased sales due to the loss of the DuPont contract have not been offset by such sales of Lakeland branded products; however, the sales achieved from Lakeland branded products have greater gross profit margins than the DuPont Tyvek products, lessening the impact of the revenue reduction. While the Company's sales of Lakeland branded products show strong gains over the Lakeland branded product sales from the same period in the prior year, it will take time to rebuild the lost sales volume, for which there can be no assurance. Domestic sales in China and to the Asia Pacific Rim remain strong. UK sales increased by \$1.0 million, or 69%. Chile and Argentina sales increased by 37%, Beijing sales increased by \$0.4 million or 35% and sales in Brazil increased by \$0.7 million or 16.7%. The increase in foreign sales is primarily due to increases in sales of high end chemical suits, fire retardant garments, and completion of some large contracts.

Gross Profit. Gross profit decreased \$0.7 million, or 8.6%, to \$7.1 million for the three months ended July 31, 2012, from \$7.8 million for the three months ended July 31, 2011. Gross profit as a percentage of net sales was flat at 30% for the three months ended July 31, 2012, from 30.2% for the three months ended July 31, 2011. Major factors driving the changes in gross margins were:

Disposables margins increased 6.8 percentage points in the second quarter of FY13 over the second quarter of FY12, *resulting mainly from changed sales mix of nearly all Lakeland branded products this year, while last year had more than 50% sales of DuPont products at a lower margin. This year's margin was lower than it otherwise would be as a result of lower volume and an increase in inventory reserves against Tyvek items remaining.

* China manufacturing gross margin at our Weifang plant decreased 10 percentage points over last year due to a 12% labor cost increase and the negative impact to margins from sales to our UK operations in Euros.

* China margins in our Beijing Trading Company increased 2.8 percentage points, based on continued strong operations.

*

Brazil margin decreased by 14.3 percentage points in the second quarter of FY13 from the second quarter of FY12 entirely due to issues with the Brazilian Navy contract. This contract was to supply coveralls to the Brazilian Navy made from Fire-Resistant cotton for a total value of approximately USD\$5 million. The Brazilian currency weakened significantly in May 2012, thereby greatly increasing the material cost purchased from a USA supplier. Further, due to the length of time elapsed since the bid was submitted; there were increases in the material invoiced cost, along with a need to change certain components at a higher cost.

Wovens gross margin increased by approximately 10 percentage points in the second quarter of FY13 over the *second quarter of FY12 mainly reflecting unusually low margins in the prior year. The current period would have been even higher, but was impacted by continuing inefficiencies resulting from its facility move in April 2012.

Operating Expenses. Operating expenses were flat at \$7 million for the three months ended July 31, 2012 and July 31, 2011. As a percentage of sales, operating expenses increased to 29.7% for the three months ended July 31, 2012 from 27.0% for the three months ended July 31, 2011.

\$ 0.3 million increase in sales salaries, resulting partly from paying in cash foreign participants in the Restricted Stock Plan, with the balance of the increase resulting from additional sales personnel in Argentina, China and Alabama.
 \$ 0.1 million increase in professional fees, due to additional legal matters relating to various compliance issues and also several personnel terminations.
 \$(0.1) million decreased equity compensation resulting from a reversal of expenses relating to foreign participants, who were compensated in cash in their local countries.
 \$(0.1) million decrease in freight out, mainly from lower volume in disposables in the USA.
 \$(0.2) million decrease in administration payroll, mainly from reductions in Brazil.

Operating Profit. Operating profit decreased 81.6% to \$0.2 million for the three months ended July 31, 2012, from \$0.8 million for the three months ended July 31, 2011. Operating margins were 0.6% for the three months ended July 31, 2012, compared to 3.2% for the three months ended July 31, 2011.

Arbitration Judgment in Brazil. As a result of the settlement of the Brazilian arbitration matter in September 2012 a positive adjustment of \$2.1 million was recorded in the second quarter of FY13.

Interest Expenses. Interest expenses increased \$0.1 million to \$0.3 million for the three months ended July 31, 2012, from \$0.1 million for the three months ended July 31, 2011, due to higher borrowing levels outstanding.

Income Tax Expense. Income tax expenses consist of federal, state and foreign income taxes. Income tax expenses decreased \$0.1 million to \$0.0 million for the three months ended July 31, 2012, from \$0.1 million for the three months ended July 31, 2011. Our effective tax rates were 1.7% for the second quarter of FY13 and 13.4% for the second quarter of FY12. Our effective tax rate for both periods varied from the 34% federal statutory rate primarily due to goodwill amortization in Brazil and tax loss benefits in the USA at higher rates than China profits were taxed, certain losses in China which are carried forward and the arbitration settlement.

Net Income (Loss). Net income increased by \$1.1 million to \$1.6 million for the three months ended July 31, 2012, from \$0.6 million for the three months ended July 31, 2011, reflecting the \$2.1 million adjustment due to the arbitration settlement in September 2012. Without this adjustment, net loss would have been \$0.5 million, or \$(0.09) per share.

Six months ended July 31, 2012, As Compared to the Six Months Ended July 31, 2011

Net Sales. Net sales from continuing operations decreased \$3.9 million, or 7.7%, to \$47.5 million for the six months ended July 31, 2012, from \$51.4 million for the six months ended July 31, 2011. The net decrease was due to a \$9.4 million decrease in domestic sales, offset in part by a \$5.4 million increase in foreign sales. USA domestic sales of disposables decreased by \$8.8 million, as wovens increased by \$0.4 million, and glove sales increased by \$0.3 million. The decrease in disposable sales is due primarily to the loss of the DuPont Tyvek sales, to a shortage in stock situation that management believes has been resolved (but may have continuing impact resulting from lost customers), and also to operating inefficiencies resulting from the move from St. Joseph, MO to Decatur, AL and Mexico which resulted in additional lost sales, and a decline in direct container shipments to the USA resulting from high stock levels from larger customers in the USA after the Gulf oil spill in the prior year. External sales from China were up \$4.5 million from the year ago period. In addition, domestic sales in China and to the Asia Pacific Rim remain strong recording a \$1.0 million increase for the six months ended July 31, 2012. UK sales increased by \$1.5 million, or 45.7%, and Chile and Argentina sales increased by 0.6%. Sales in Brazil increased by \$1.8 million or 22.3%. The increase in foreign sales is primarily due to introduction of new products and new marketing material targeting specific markets.

Gross Profit. Gross profit from continuing operations decreased \$1.6 million, or 10%, to \$14.4 million for the six months ended July 31, 2012, from \$16.0 million for the six months ended July 31, 2011. Gross profit as a percentage of net sales decreased to 30.4% for the six months ended July 31, 2012, from 31.2% for the six months ended July 31, 2011. Major factors driving the changes in gross margins were:

Disposables gross margins increased 5.1 percentage points in the second quarter of FY13 over in the second quarter of FY12, resulting mainly from changed sales mix of nearly all Lakeland branded products this year, while last year had more than 50% sales derived from lower margin DuPont products. This year's margin was lower than it otherwise would have been mainly as a result of lower volume.

* China manufacturing gross margins at our Weifang plant decreased by 10 percentage points over last year due to a 12% labor cost increase in April 2012 and the negative impact to margins from sales to our UK operations in Euros.

* China margins in our Beijing Trading Company increased 3.3 percentage points based on continued strong operations.

Brazil margins decreased by 4.3 percentage points in the second quarter of FY13 from the second quarter of FY12 entirely due to issues with the Brazilian Navy contract. The Brazilian currency weakened significantly in May, thereby greatly increasing its material cost purchased from a USA supplier. Further, due to the length of time elapsed since the bid was submitted in respect of the Navy contract, there were increases in the material cost, along with a need to change certain components at a higher cost.

Wovens gross margins decreased by approximately 8.5 percentage points in the six months ended July 2012 over the prior year as a result of the facility closure in the first quarter of FY13, partially offset by improvements in the second quarter of FY13.

* Chemical gross margins decreased by 13.6 percentage points resulting from different sales mix, with improvements in the second quarter of FY13 over the first quarter of FY13.

* Gloves gross margins improved by 5.6 percentage points resulting from improved mix.

Operating Expenses. Operating expenses from continuing operations increased \$0.6 million, or 4%, to \$14.3 million for the six months ended July 31, 2012, from \$13.7 million for the six months ended July 31, 2011. As a percentage of sales, operating expenses increased to 30% for the six months ended July 31, 2012, from 27% for the six months ended July 31, 2011. The \$0.6 million increase in operating expenses in the six months ended July 31, 2012, as compared to the six months ended July 31, 2011, was comprised of:

\$ 0.6 million increase in sales commissions mainly resulting from large bid contracts in Brazil.

\$ 0.5 million increase in sales salaries resulting from new hires in the USA and cash payments for foreign participants in the Restricted Stock Plan.

\$ million increase in selling, general and administrative costs reallocated back to China to reflect growth in domestic China sales increases SGA and decreases cost of goods sold.

\$ 0.1 million increase in currency fluctuation expense mainly from the Euro depreciation into sales made from our China plants to our U.K. operation.

\$(0.1) million miscellaneous decreases.

\$(0.2) million reduction in equity compensation mainly resulting from foreign participants being paid in cash in their local countries.

\$(0.2) million reduction in freight out resulting from lower volume in disposables in the USA.

\$(0.3)

million decrease in administration payroll mainly resulting from staff reductions in the USA and cutbacks in Brazil.

Operating Profit. Operating profit from continuing operations decreased to \$0.2 million for the six months ended July 31, 2012 from \$2.4 million for the six months ended July 31, 2011. Operating margins were 0.4% for the six months ended July 31, 2012, compared to 4.7% for the six months ended July 31, 2011.

Arbitration Judgment in Brazil. As a result of the decision of the arbitration matter and the subsequent settlement thereof, the Company took a \$7.9 million charge, inclusive of expenses, for the six months ended July 31, 2012.

Interest Expenses. Interest expenses from continuing operations increased by \$0.2 million for the six months ended July 31, 2012, as compared to the six months ended July 31, 2011, due to higher borrowing levels outstanding.

Income Tax Expense. Income tax expenses from continuing operations consist of federal, state and foreign income taxes. There was an income tax benefit of \$0.4 million for the six months ended July 31, 2012, as compared to an expense of \$0.5 million for the six months ended July 31, 2011. Our effective tax rates were 38.2% for the second quarter of FY13 (excluding the settlement charge for which there was not tax benefit recorded) and 20.5% for the second quarter of FY12. Our effective tax rate for the second quarter of FY13 varied from the 34% federal statutory rate primarily due to goodwill amortization in Brazil and tax benefits from operating losses in the USA at higher rates than China profits were taxed along (resulting in a lower overall net rate) with certain losses in China which are carried forward with no tax benefit recorded.

Income (Loss). Loss from continuing operations was \$8.5 million for the six months ended July 31, 2012 and income from continuing operations was \$2.0 million for the six months ended July 31, 2011. Without the \$7.9 million charge in respect of the Brazilian arbitration and settlement, the loss from continuing operations would have been \$(0.6) million.

PART II OTHER INFORMATION

Item 6. Exhibits:

Exhibits:

- 10.1 Settlement Agreement
- 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

* Filed herewith

** 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”.

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: October 3, 2012 /s/ Christopher
J. Ryan
Christopher J.
Ryan,
Chief
Executive
Officer,
President and
Secretary
(Principal
Executive
Officer and
Authorized
Signatory)

Date: October 3, 2012 /s/Gary
Pokrassa
Gary Pokrassa,
Chief Financial
Officer
(Principal
Accounting
Officer and
Authorized
Signatory)