EBIX INC
Form 10-Q/A
May 24, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

to

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

For the quarterly period ended March 31, 2004

OR

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

Commission file number 0-15946

Ebix, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0021975**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1900 E. GOLF ROAD **SCHAUMBURG, IL**	**60173**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **847-789-3047**

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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of May 10, 2004, the number of shares of Common Stock outstanding was 2,738,990.

Ebix, Inc. and Subsidiaries

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2004

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EXPLANATORY NOTE

In connection with a review by the Securities and Exchange Commission (the SEC) of the Company s Registration Statement on Form S-3 (File No. 333-112616), the SEC has reviewed the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (the Form 10-Q) and other reports filed by the Company with the SEC. The SEC s review of the Form 10-Q has focused primarily on financial-related disclosure. This Amendment No. 1 to the Form 10-Q (this 10-Q/A) has been filed in connection with the Company s response to comments on the Form 10-Q and other filings raised by the SEC during its review process.

Please note that the information contained in this 10-Q/A has not been updated to reflect events or developments occurring after May 17, 2004, the date the Form 10-Q was originally filed with the SEC and, accordingly, such information continues to speak as of such earlier date.

Ebix, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except for share and per share amounts)

	March 31, 2004 (Unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,961	$ 7,915
Accounts receivable, less allowance of $260 and $356	3,534	1,787
Other current assets	485	364
Total current assets	9,980	10,066
Property and equipment, net	1,469	1,353
Capitalized software, net	82	109
Intangible assets, net	3,450	
Goodwill	6,055	123
Other assets	371	320
Total assets	$ 21,407	$ 11,971
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,934	$ 1,778
Accrued payroll and related benefits	1,292	1,287
Current portion of long term debt	500	
Current portion of capital lease obligations	43	73
Deferred revenue	2,689	2,141
Total current liabilities	6,458	5,279
Long term debt, less current portion	1,726	
Redeemable common stock (200,000 and 0 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively) stated at redemption price	2,700	
Stockholders equity:		
Convertible Series D Preferred stock, $.10 par value, 2,000,000 shares authorized, no shares issued and outstanding		
Common stock, $.10 par value, 40,000,000 shares authorized, 2,738,990 and 2,316,767 shares issued and outstanding, respectively	274	232
Additional paid-in capital	91,951	88,706
Deferred compensation	(406)	(436)
Accumulated deficit	(81,805)	(82,251)
Accumulated other comprehensive income	509	441
Total stockholders equity	10,523	6,692
Total liabilities and stockholders equity	$ 21,407	$ 11,971

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2004		2003	
Revenue:				
Software	$	227	$	210
Services and other (Including revenues from related parties of $953 and $805, respectively-See Note 5.)		3,707		3,402
Total revenue		3,934		3,612
Operating expenses:				
Services and other costs		1,163		1,005
Product development		560		360
Sales and marketing		273		461
General and administrative		1,387		1,164
Total operating expenses		3,383		2,990
Operating income		551		622
Interest income		27		15
Interest expense		(2)		(5)
Foreign exchange gain (loss)		10		(49)
Income before income taxes		586		583
Income tax expense		(140)		(67)
Net income	$	446	$	516
Basic earnings per common share	$	0.17	$	0.23
Diluted earnings per common share	$	0.15	$	0.23
Basic weighted average shares outstanding		2,586		2,291
Diluted weighted average shares outstanding		2,917		2,291

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2004	2003
Cash flows from operating activities:		
Net income	$ 446	$ 516
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	201	97
Stock-based compensation	40	6
Provision for doubtful accounts	23	35
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	(1,035)	(495)
Other assets	(72)	126
Accounts payable and accrued expenses	72	111
Accrued payroll and related benefits	(205)	38
Deferred revenue	298	459
Net cash (used in) provided by operating activities	(232)	893
Cash flows from investing activities:		
Acquisition of LifeLink, net of cash acquired	(4,634)	
Capital expenditures	(103)	(120)
Net cash used in investing activities	(4,737)	(120)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of issuance costs	2,977	
Principal payments under capital lease obligations	(30)	(27)
Net cash provided by (used in) financing activities	2,947	(27)
Effect of foreign exchange rates on cash	68	(36)
Net change in cash and cash equivalents	(1,954)	710
Cash and cash equivalents at the beginning of the period	7,915	4,993
Cash and cash equivalents at the end of the period	$ 5,961	$ 5,703
Supplemental disclosures of cash flow information:		
Interest paid	$ 2	$ 5
Income taxes paid	$ 84	$

Supplemental schedule of noncash investing activities:

During the first quarter of 2004, the Company purchased all of the capital stock of LifeLink Corporation for consideration which included 200,000 shares of common stock valued at $3,000,000, cash of $5,000,000, and a note payable of $2,226,000.

See accompanying notes to condensed consolidated financial statements.

Ebix, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation These condensed consolidated financial statements are unaudited, include the accounts of Ebix, Inc. and its wholly-owned subsidiaries (Ebix or the Company), and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results of the interim periods.

On February 23, 2004, the Company acquired LifeLink Corporation (LifeLink). Under terms of the agreement, the Company acquired all of the outstanding capital stock of LifeLink from its shareholders in exchange for an aggregate purchase price of $10,226,000 (see note 7). The acquisition was accounted for as a purchase business combination.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, and accompanying notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

The results of operations for the current interim period are not necessarily indicative of results to be expected for the entire current year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Summary of significant accounting policies

Revenue Recognition We apply the provisions of Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by Statement of Position 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, to all transactions involving the sale of software.

In May 2003, the Financial Accounting Standards Board (FASB) finalized the terms of Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, (EITF 00-21), which provides criteria governing how to identify whether goods or services that are to be delivered separately in a bundled sales arrangement should be accounted for separately. Deliverables are accounted for separately if they meet all of the following: a) the delivered items have stand-alone value to the customer; b) the fair value of any undelivered items can be reliably determined; and c) if the arrangement includes a general right of return, delivery of the undelivered items is probable and substantially controlled by the seller. The Company adopted EITF 00-21 on July 1, 2003 for all new revenue arrangements executed subsequent to June 30, 2003 (or significant modification to arrangements existing prior to July 1, 2003). The Company s current policy is to analyze all new revenue arrangements.

To the extent arrangements contain multiple deliverables, the Company performs an analysis of the nature of the deliverables to determine to what extent the deliverables of the arrangement are governed by any higher level literature (as defined in EITF 00-21). EITF 00-21 recognizes arrangements that qualify for treatment under SOP 97-2 and certain arrangements that qualify for contract accounting (i.e. SOP 81-1) as falling under the definition of higher level literature . The Company applies the provisions of SOP 97-2, as amended by Statement of Position 98-9, Modifications of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions, to all arrangements which include software deliverables that are considered more than inconsequential to the other elements in the arrangements. For 2004, all of the Company s contracts with multiple deliverables have fallen under higher level accounting literature under the provisions of SOP 97-2 and/or SOP 81-1.

Although the Company has not been impacted in the current year by the adoption of EITF 00-21, it is possible that EITF 00-21 may affect future periods given the additional revenue streams the Company has initiated, as well as through the acquisition activities of the Company.

The Company recognizes revenue for license fees from its software products upon delivery, provided that the fee is fixed and determinable, acceptance has occurred, collectibility is probable and persuasive evidence of an arrangement exists. Revenue from third party software is derived from the licensing of third party software products in connection with sales of the Company s software licenses, and is generally recognized upon delivery together with the Company s license revenue. Training, data conversion, installation, and consulting services are generally recognized as revenue when the services are performed and collectibility is probable. Revenue for maintenance and support service is recognized ratably over the term of the support agreement.

For arrangements containing multiple elements, revenue is recognized on delivered elements when vendor-specific objective evidence (VSOE) of fair value has been established on the undelivered elements, applying the residual method of SOP 98-9. Fair value is determined for each undelivered element based on the price charged for the sale of each element separately. In contracts that contain first year maintenance bundled with software fees, unbundling of maintenance is based on the price charged for renewal maintenance. Revenue for maintenance and support service is recognized ratably over the term of the support agreement.

For certain contracts where services are deemed essential to the functionality of the software and the software has not been accepted by the customer, the software and related service revenue have been deferred until acceptance has taken place. In addition, all costs incurred in connection with these contracts have been expensed, as the Company has been unable to estimate the total costs to achieve customer acceptance.

Revenues related to EbixASP and other hosting arrangements, including monthly fees as well as any initial registration fees and related custom programming, are recognized ratably over the term of the agreement in accordance with Staff Accounting Bulletin (SAB) No. 104 Revenue Recognition . Ebix.mall transaction fees are recognized as revenue as the transactions occur and revenue is earned. Revenue is only recognized when collectiblity is probable.

Deferred revenue includes maintenance and support payments that have been received or billings recorded prior to performance and in certain cases, cash collections, amounts received under multi-element arrangements in which VSOE of undelivered elements does not exist; and initial registration fees and related service fees under hosting agreements. Revenue is recognized when VSOE of the undelivered elements is established, the elements are delivered, or the obligation to deliver the elements is extinguished.

Software arrangements involving significant customization, modification or production are accounted for in accordance with American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance on Construction-Type and Certain Production-Type Contracts, using the percentage-of-completion method. The Company recognizes revenue using actual hours worked as a percentage of total expected hours required by the arrangement, provided that the fee is fixed and determinable, there is evidence of an arrangement and recovery of any related recorded asset is considered probable.

For business process outsourcing agreements, which include call center services, services are primarily performed on a time and material basis. Revenue is recognized when the service is performed.

Stock Options - At March 31, 2004, the Company had three stock-based employee compensation plans. The Company accounts for stock options issued to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, for options issued to employees, as well as the requirements of SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure. Under APB Opinion No. 25, compensation expense is recorded based on the difference, if any, on the measurement date, between the estimated fair value of the Company s stock and the exercise price of options to purchase that stock. Any resulting compensation expense is amortized on a straight-line basis over the vesting period of the options.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its employee stock-based compensation plans. Had compensation cost for these stock-based compensation plans been determined based on the fair-value method prescribed by SFAS No. 123, using the Black-Scholes option-pricing model, the Company s net earnings and net earnings per share would have been the pro forma amounts indicated below:

	Three Months Ended	
	March 31, 2004	**March 31, 2003**
Net income, as reported	$ 446,000	$ 516,000
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	5,000	
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	(394,000)	(228,000)
Pro forma net income	$ 57,000	$ 288,000
Basic earnings per share, as reported	$ 0.17	$ 0.23
Diluted earnings per share, as reported	$ 0.15	$ 0.23
Basic earnings per share, pro forma	$ 0.02	$ 0.13
Diluted earnings per share, pro forma	$ 0.02	$ 0.13

Non-employee Stock Compensation The Company accounts for stock-based compensation issued to non-employees in accordance with SFAS No. 123 and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in conjunction with Selling Goods or Services. SFAS No. 123 establishes a fair value-based method of accounting for stock-based compensation plans. Under the fair-value based method, compensation cost is measured at the grant date based on the value of the award, which is calculated using an option pricing model, and is recognized over the service period, which is usually the vesting period.

Note 2. STOCK OPTIONS

During the first quarter of 2004, the Company did not grant any stock options.

The Company has granted stock options outside the Company s stock option plans to non-employee consultants to purchase up to an aggregate of 57,000 shares, of which options to purchase 34,500 shares were outstanding at March 31, 2004. These options were granted at prices determined by the Board of Directors (at no less than 100 percent of the market price on the date of grant). The options have a four-year vesting period and must be exercised within ten years of the date of the grant. These non-employee options were valued using the fair value method as prescribed by SFAS No. 123 using the following assumptions: volatility of 88%, risk free interest rate of 3.76% and a 10-year term. Options issued prior to 2001 are performance-based awards, with no service commitment and subject to vesting only if the Company s stock price reaches a certain level. Options issued in 2001 vest over four years, but vesting accelerates if a performance target is achieved. At March 31, 2004, non-employee options to purchase 7,461 shares were vested. The Company recognized compensation expense of approximately $34,000 and $6,000 related to these options during the three-month periods ended March 31, 2004 and March 31, 2003, respectively.

On August 11, 2003, the Company granted options to purchase the Company s common stock to an employee who is the brother of the Chief Executive Officer, in connection with his joining the Company as an employee. The option grantee was an employee when he received the grant. The options vest over four years from the date of grant, expire ten years from the date of grant, and were issued with an exercise price below the fair market value of the stock on the date of grant. This grant was not subject to any of the Company s stock option plans. The total intrinsic value associated with the granting of options was $96,250, which will be recognized ratably as compensation expense over the four-year vesting period in accordance with APB Opinion No. 25.The Company recognized compensation expense of approximately $6,000 related to these options during the three-month period ended March 31, 2004.

Note 3. EARNINGS PER SHARE

Basic earnings per share (EPS) is equal to net income divided by the weighted average number of shares of common stock outstanding for the period. The weighted average number of shares outstanding for the three months ended March 31, 2004 and March 31, 2003 was 2,586,000 and 2,291,000, respectively. Diluted EPS is calculated as if the Company had additional common stock outstanding from the beginning of the year or the date of grant for all common stock equivalents, net of assumed repurchased shares using the treasury stock method. Diluted EPS recognizes the dilutive effect of common stock equivalents and is equal to net income divided by the sum of the weighted average number of shares outstanding and common stock equivalents. For the three months ended March 31, 2004 and March 31, 2003, the Company s common stock equivalents consisted of stock options. For the three months ended March 31, 2004, the effect of this calculation resulted in an increase in the weighted average number of shares outstanding of 331,000. At March 31, 2004, the fully diluted weighted average number of shares outstanding was 2,917,000. For the three months ended March 31, 2003, there was no effect on the weighted average number of shares outstanding. At March 31, 2004, there were 328,000 shares potentially issuable with respect to stock options, which could dilute EPS in the future which were excluded from the diluted EPS calculation because their effect was antidilutive. At March 31, 2003, there were 600,000 shares potentially issuable with respect to stock options, which could dilute EPS in the future which were excluded from the diluted EPS calculation because their effect was antidilutive.

Note 4. COMPREHENSIVE INCOME

	Three Months Ended March 31, 2004		2003	
Net income	$	446,000	$	516,000
Other comprehensive income foreign currency translation adjustment		68,000		(36,000)
Comprehensive income	$	514,000	$	480,000

Note 5. RELATED PARTY AND SIGNIFICANT CUSTOMER TRANSACTIONS

In 2001, the Company issued 868,000 shares of its common stock to BRiT Insurance Holdings PLC (BRiT), for $7,000,000. The total shares held by BRiT at March 31, 2004 was 930,163, representing an equity ownership of approximately 34 percent. At March 31, 2004 BRiT owned approximately 45% of CF Epic Insurance and General Fund, which owned approximately 8% of our common stock.

The Company has entered into various software and service agreements with BRiT. During the first quarter of 2004, approximately $953,000 was recognized as revenue from BRiT and its affiliates. Total accounts receivable from BRiT and its affiliates at March 31, 2004 were $900,000. During the first quarter of 2003, approximately $805,000 was recognized as revenue from BRiT and its affiliates. Total accounts receivable from BRiT and its affiliates at March 31, 2003 were $852,000. Total accounts receivables from Brit and its affiliates at December 31, 2003 were $369,000.

During the first quarter of 2004 and 2003, approximately $557,000 and $441,000, respectively was recognized from another significant customer, AON. Total accounts receivable from AON at March 31, 2004 were $273,000. Total accounts receivable from AON at December 31, 2003 were $192,000.

Note 6. SALE OF UNREGISTERED COMMON STOCK

On January 16, 2004 the Company sold 222,223 shares of its unregistered common stock to CF Epic Insurance and General Fund, an investment fund located in London of which BriT, at March 31, 2004, owned approximately 45% of the equity interests, for a total price of $3,000,010, or $13.50 per share.

Note 7. ACQUISITION OF LIFELINK

On February 23, 2004, the Company acquired LifeLink Corporation (LifeLink), and the operations of LifeLink have been included in the Company s financial statements since that date. Under terms of the agreement, the Company acquired all of the outstanding capital stock of LifeLink from its shareholders in exchange for an aggregate purchase price of $10,226,000, payable as follows: $5,000,000 paid in cash at closing, $2,500,000 non-interest bearing note payable in cash in annual installments of $500,000 over five years (present value computed as $2,226,000), and $3,000,000 payable in 200,000 shares of the common stock of the Company issued at the time of closing. The Company also incurred approximately $71,000 of transaction costs in conjunction with the LifeLink acquisition. In connection with the 200,000 shares of common stock issued subject to Rule 144, the former shareholder received from Ebix the option to sell his stock back to Ebix subject to specified time frames and prices. The Company has classified $2,700,000 of the value of the common stock issued as a liability, redeemable common stock, in the condensed consolidated balance sheet due to existence of the holder s embedded put option. At any time during the one month period commencing on the date which is eighteen months after February 23, 2004 and ending nineteen months after February 23, 2004, the holder of the redeemable common stock has a one-time right to require the Company to purchase all of the holder s 200,000 shares originally issued at a price of $2,700,000 minus the aggregate purchase price received by the holder from any sales of these shares of common stock prior to the exercise of the put option. As of March 31, 2004, the holder has not sold any shares of common stock received from this transaction.

The following table summarizes the estimated fair value of the LifeLink assets acquired and liabilities assumed at the date of acquisition. These amounts are based upon the preliminary purchase price allocation which is subject to modification upon further analysis by the Company.

		February 23, 2004
Current assets	$	1,199,000
Property and equipment		119,000
Intangible assets		3,518,000
Goodwill		5,932,000

Total assets acquired		10,768,000
Current liabilities		471,000
Total liabilities assumed		471,000
Net assets acquired	$	10,297,000

Of the $3,518,000 of intangible assets acquired, $977,000 was assigned to developed technology with a remaining estimated useful life of five years, $299,000 was assigned to trademarks with a remaining estimated useful life of five years and $2,242,000 was assigned to customer relationships with a remaining estimated useful life of seven years. The Company recorded $68,000 of amortization expense related to these intangible assets for the period ended March 31, 2004.

Estimated Amortization Expenses:

For the year ended December 31, 2004	$ 491,000
For the year ended December 31, 2005	$ 575,000
For the year ended December 31, 2006	$ 575,000
For the year ended December 31, 2007	$ 575,000
For the year ended December 31, 2008	$ 575,000

The following unaudited pro forma financial information for the three months ended March 31, 2004 and March 31, 2003 presents the consolidated operations of the Company as if the acquisition had been made on January 1, 2003, after giving effect to certain adjustments for the pro forma acquisition as of the acquisition date. The unaudited pro forma financial information is provided for informational purposes only and does not project the Company s results of operations for any future period:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Revenue	$ 4,855,000	$ 4,945,000
Net income	406,000	433,000
Basic earnings per share	$ 0.16	$ 0.19
Diuted earnings per share	$ 0.14	$ 0.19

Note 8 Line of Credit:

The existing revolving line of credit with LaSalle National Bank Association was increased to $5,000,000 during February 2004 and the agreement was amended in April 2004. There were no borrowings on this line as of March 31, 2004. The major features of the line, as amended, include an interest rate stated at prime, security at 60% of the amount of the line in a restricted interest bearing account and timely financial reporting requirements. The line of credit will expire on October 31, 2005.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part 1. Item 1 of this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

Overview

The Company s future focus will be on developing consistent and recurring revenue sources with a concentration in (1) software development for insurance carriers, agents and brokers, (2) expansion of connectivity between consumers, agents, carriers and third party providers, (3) business process outsourcing services, which include software development, call center and back office, either off site or at company facilities, and (4) worldwide sales and support of the agency management systems.

Support revenue from legacy products is expected to decline in the future as current customers switch to other more technologically advanced systems (including Ebix ASP). The Company s focus for the future will be expanding revenues in the international market, software development for carriers, agents and brokers and business process outsourcing services.

Critical Accounting Policies

The Company s critical accounting policies are those that require application of management s most difficult, subjective or complex judgements, often as a result of the need to make estimates about matters that are inherently uncertain and may change in future periods. The Company has identified the following as its critical accounting policies: revenue recognition, estimating the allowance for doubtful accounts receivable and accounting for income taxes. For a discussion of these policies, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

Results of Operations

Three-Month Period Ended March 31, 2004 Compared to the Three-Month Period Ended March 31, 2003

Total Revenue - The Company s revenue has been derived from the licensing and sale of proprietary software and third party software (Software) and from professional services and support services (Services). Services include consulting, implementation, training and project management provided to the Company s customers with installed systems and those in the process of installing systems. Also included in Services are fees for software license maintenance, LifeLink service revenue (for the period February 23, 2004 to March 31, 2004), initial registration and ongoing monthly subscription fees for the EbixASP product and transaction fees generated from the Ebix.mall website, as well as software development and call center revenue. Total revenue for the quarter ended March 31, 2004 increased $322,000, or 8.9%, to $3,934,000 from $3,612,000 for the comparable quarter of the prior year.

Software Revenue - Software revenue is comprised of revenue from the sale of Ebix (formerly cd) products, current legacy products, and other third party software. Total software revenue for the first quarter of 2004 increased $17,000 or 8.1%, from $210,000 for the comparable quarter of the prior year. As the Company has changed its focus to e-commerce products and services, the Company expects future revenue to be comprised primarily of services revenue.

Services Revenue Total services revenue for the first quarter of 2004 increased $305,000, or 9.0%, from $3,402,000 for the comparable quarter of the prior year. This increase was due to LifeLink revenue of approximately $518,000 and an increase in international service revenue of $323,000 partially offset by a decrease in support revenue associated with legacy products of $269,000, a decrease in INS-Site revenue of $110,000 and a decrease in consulting revenue of $157,000.

During the first quarter of 2004 and 2003, approximately $953,000 and $805,000, respectively was recognized as services revenue from BRiT Insurance Holdings PLC (BRiT) and its affiliates. The amounts represented 24% and 22%, respectively, of the Company s total revenues for the first quarter of 2004 and 2003, respectively, and the increase in such revenues of $148,000, represented 46% of the total increase in the Company s revenues for the three month period ended March 31, 2004 compared to the same period of 2003. BRiT owned approximately 34% of the Company s common stock as of March 31, 2004. In addition, the Company has been informed that as of March 31, 2004, BRiT owned approximately 70% of the equity interests of CF Epic Insurance and General Fund, which at March 31, 2004 owned approximately 8% of the Company s outstanding common stock. Increases in revenues from BriT Holdings PLC and its affiliates during each of the periods presented were a result of BRiT Insurance Holdings PLC and its affiliates adding additional development projects and expanding the scope of the current projects.

Support revenue associated with the Company s legacy products is decreasing due to a trend of declining renewals for these older product offerings.

	Support Revenue	Total Revenue
First quarter of 2004	$ 870,000	$ 3,934,000
First quarter of 2003	$ 1,140,000	$ 3,612,000

Support revenue decreased $270,000, or 24%, and as a percentage of total revenue to 22% from 32%, in the first quarter of 2004 compared to the first quarter of 2003.

Based on historical data, the Company expects that legacy support revenue will continue to decrease by approximately 20% each year on a declining balance. The Company expects the legacy support revenue will continue as long as it is economically feasible for the Company to maintain and support the legacy products. As revenue from the legacy support decreases, costs will be reduced. When income from legacy support falls below break even, operations will be reviewed to determined if costs can be further reduced for the activity to be profitable and if not, we plan to discontinue supporting the legacy products. The Company cannot predict when this will occur.

The Company expects that future services revenue will be derived from this support, as well as EbixASP registration and monthly fees, software development and call center and, to a much lesser extent all transaction revenues from Ebix.mall, EbixExchange (INS-Site), conversion and training.

Services and other costs – Cost of services revenue includes costs associated with support, call center, consulting, implementation and training services. Total services and other costs for the quarter increased $158,000 or 15.7%, from $1,005,000 for the comparable quarter of the prior year. This increase was due to an increase in services revenue and an increase in payroll expenses related to the acquisition of LifeLink.

Product Development Expenses – Total product development expenses for the first quarter of 2004 increased $200,000, or 55.6%, from $360,000 for the comparable quarter of the prior year. This increase was due to an increase in payroll expenses related to the acquisition of LifeLink and an increase in headcount in India.

Sales and Marketing Expenses – Total sales and marketing expenses for the first quarter of 2004 decreased $188,000, or 40.8%, from $461,000 for the comparable quarter of the prior year. This decrease was attributable to a decrease in payroll expenses of approximately $125,000 and a decrease in facility costs of $63,000 as a result of the lower headcount.

General and Administrative Expenses Total general and administrative expenses for the quarter increased $223,000, or 19.2%, from $1,164,000 for the comparable quarter of the prior year. This increase was due to an increase in international expenses of approximately$174,000 and a charge for amortization of intangibles of approximately $68,000 related to the LifeLink acquisition partially offset by a decrease in bad debt expense of $12,000 and other expenses of $7,000

Income tax expense **The effective tax rate for the first quarter of 2004 is higher than the rate for the comparable quarter of the prior year due to a different income mix among the various tax jurisdictions in which the Company does business.**

Liquidity and Capital Resources

The Company had cash and cash equivalents of $5,961,000 at March 31, 2004, compared to $7,915,000 at December 31, 2003.

During the three months ended March 31, 2004, the Company experienced negative operating cash flow of $232,000 as compared to $893,000 of positive operating cash flow for the three months ended March 31, 2003. This decrease in cash flow from operations in the three months ended March 31, 2004 resulted primarily from an increase in accounts receivable of $1,035,000 and an increase in accrued payroll and related benefits of $205,000, partially offset by net income for the quarter of $710,000 adjusted for non-cash items and an increase in deferred revenue of $298,000.

Cash used in investing activities of $4,737,000 in the three months ended March 31, 2004 represented expenditures made primarily as a result of the Company s acquisition of LifeLink Corp. Inc. (LifeLink). Cash provided by financing activities of $2,947,000 resulted from the Company s sale of common stock during the quarter.

During early 2004 the Company sold 222,223 shares of its previously unissued common stock to CF Epic Insurance and General Fund, an investment fund located in London of which BriT currently owns approximately 70% of the equity interests, for gross proceeds of $3,000,010, or $13.50 per share. On February 23, 2004 the Company acquired LifeLink Corp Inc. (LifeLink). Under terms of the agreement, the Company acquired all of the outstanding capital stock of LifeLink from its shareholders in exchange for an aggregate purchase price of $10,226,000 payable as follows: $5,000,000 paid in cash at closing, $2,226,000 payable in cash over a deferred period of five years, and $3,000,000 payable in 200,000 shares of the common stock of the Company issued at the time of closing. See note 7 to the condensed consolidated financial statements included in this Form 10-Q.

The existing revolving line of credit with LaSalle National Bank Association was increased to $5,000,000 during February 2004 and the agreement was amended in April 2004. There were no borrowings on this line as of May 14, 2004. The major features of the line, as amended, include an interest rate stated at prime, security at 60% of the amount of the line in a restricted interest bearing account and timely financial reporting requirements. The line of credit will expire on October 31, 2005.

For the three-month period ended March 31, 2004, 24% and 14% of the Company s total revenues were from two customers BRiT (including its affiliates) and AON, respectively. Neither BRiT and its affiliates nor AON have long-term agreements with the Company that provide certainty that such revenues will be recurring.

In planning for its capital needs, the Company takes into account its sources of cash, which include operating cash flow, cash balances and funds from credit facilities, and anticipated future cash needs, which include working capital requirements for operations, capital expenditures, and expenditures for business acquisitions. Based on these considerations, the Company believes it will have sufficient cash for operations and to satisfy its contractual obligations for at least the next several years.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligations are expected to have on the Company s liquidity and cash in future periods (in thousands):

	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years (in thousands)	3- 5 Years	More Than 5 Years
Contractual Obligations:					
Long-Term Debt Obligations (1)	$ 5,200	$ 500	$ 4,200	$ 500	$
Operating Leases Obligations	1,945	488	860	597	
Capital Leases Obligations	43	43			
Total	$ 7,188	$ 1,031	$ 5,060	$ 1,097	$

(1) $2,700,000 is contingent upon exercise of the holder s put option to require the Company to purchase the holder s redeemable common stock. See note 7 to the condensed consolidated financial statements included in this Form 10-Q.

Safe Harbor for Forward-Looking Statements under the Securities Litigation Reform Act of 1995 - This Quarterly Report on Form 10-Q contains various forward-looking statements and information that are based on management s beliefs, as well as assumptions made by, and information currently available to management, including statements regarding future economic performance and financial condition, liquidity and capital resources, acceptance of the Company s products by the market and management s plans and objectives. The Company has tried to identify such forward looking statements by use of words such as expects, intends, anticipates, plans, believes, will, should, and similar e but these words are not the exclusive means of identifying such statements. The forward looking statements included in this Quarterly Report are subject to various risks, uncertainties and other factors which could cause actual results to vary materially from those expressed in, or implied by, the forward looking statements. Such risks, uncertainties and other factors include those discussed in Risk Factors below. Except as expressly required by the federal securities laws, the Company undertakes no obligation to update any such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect changed circumstances or future events or developments or for any other reason.

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Risk Factors

You should carefully consider the risks, uncertainties and other factors described below, along with all of the other information included in this quarterly report on Form 10-Q because they could materially and adversely affect our business, financial condition, operating results, cash flows and prospects and/or the market price of our common stock. This risk factors section is written in response to the Securities and Exchange Commission s plain English guidelines. In this section, the words we, us, our and ours refer to the Company and not any other person.

Risks Related To Our Business and Our Industry

You may have difficulty evaluating our business because of our limited history of Internet, call center and other business process outsourcing.

Although our predecessor began operations in 1976, we did not begin any Internet operations until September 1999 and did not begin generating revenues from these operations until the fourth quarter of 2000. We did not begin any call center or other business process outsourcing operations or begin generating revenues from these operations until the first quarter of 2003. Accordingly, there is a limited history of these operations on which you can evaluate our company and prospects. We cannot be certain that our Internet, call center and other business process outsourcing strategies will be successful, because these strategies are new. Our early-stage Internet, call center and other business process outsourcing operations will be particularly susceptible to the risks and uncertainties described in these risk factors and likely to incur the expenses associated with addressing them. Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in a transitional stage of development, particularly companies in new and rapidly evolving markets, such as electronic commerce, and using new and unproven business models.

Because the support revenue that we have traditionally relied upon has been steadily declining, it is important that new sources of revenue continue to be developed.

Our revenue from the support services we offer in connection with our legacy software products has been decreasing significantly over the course of the past few years. This decline can be attributed to the fact that many of our support clients are not renewing their support agreements with us, in many cases because they are no longer using our legacy software. Even if they are continuing to use our legacy software, our support clients may choose not to renew their support agreements if their legacy software products no longer require support or they use third party support. In addition, some of the clients who use our support services have reduced the level of support that we provide them, which in turn reduces our support revenue. This downward trend in our support revenue makes us particularly dependent upon our other sources of revenue.

Two customers currently provide a significant percentage of our total revenue.

Revenues from one customer, BRiT Insurance Holdings PLC and its affiliates, which at March 31, 2004 owned approximately 34.0% of our common stock and approximately 45% of CF Epic Insurance and General Fund, which at that date owned approximately 8.1% of our common stock, represented approximately 23% of our total revenue in 2003 and 17% of our total revenue in 2002. The revenues from BRIT Insurance Holdings PLC and its affiliates represented approximately 24% and 22% of the Company s total revenues for the three -month periods ended March 31, 2004 and 2003, respectively. If revenues from this customer were to discontinue, our operating results could be adversely affected.

Revenues from another international customer, AON, represented approximately 11% of our total revenue in 2003. The revenues from AON represented approximately 14% and 12% of the Company s total revenues for the three months ended March 31, 2004 and 2003. If revenues from this customer were to discontinue, our operating results could be adversely affected.

Adverse insurance industry economics could adversely affect our revenues.

We are dependent on the insurance industry, which may be adversely affected by current economic and world conditions.

Our operating results may fluctuate dramatically.

Our quarterly operating results may fluctuate significantly in the future due to a variety of factors that could affect our revenues or our expenses in any particular quarter. You should not rely on our results of operations during any particular quarter as an indication of our results for a full year or any other quarter. Factors that may affect our quarterly results include:

Changes in insurance agents and carriers consumer acceptance of Internet commerce;

Loss of a significant insurance agent, carrier or broker relationship or the merger of any of our participating insurance carriers with one another; and

Technical difficulties for our internet focused services that hamper an agent s ability to run its agency system hosted by us.

Our operating expenses are based in part on our expectations of our future revenues and are relatively fixed in the short term. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall.

We could be subject to civil fines and penalties as a result of the SEC s investigation of our financial reporting.

On August 11, 2000, we were advised that the SEC had issued a formal Order of Investigation and subpoenaed documents relating to our financial reporting since April 1, 1997, including, in particular, revenue recognition, software development cost capitalization, royalty costs and classification of cash receipts. We have submitted documents to the SEC upon the SEC s request as part of the investigation. It is possible that the SEC could impose civil fines and penalties against us. An adverse finding against us by the SEC could negatively impact our stock price. In addition, we may continue to incur expenses associated with responding to this investigation, regardless of its outcome, and this investigation may divert the efforts and attention of our management team from normal business operations.

We cannot predict our future capital needs and we may not be able to secure additional financing when we need it.

We may need to raise additional funds in the future in order to fund more aggressive brand promotion or more rapid expansion, to develop new or enhanced services, to respond to competitive pressures or to make acquisitions. Any required additional financing may not be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, we may be unable to meet our business or strategic objectives or compete effectively. If additional funds are raised by our issuing equity securities, stockholders may experience dilution of their ownership interests, and the newly issued securities may have rights superior to those of our common stock. If additional funds are raised by our issuing debt, we may be subject to limitations on our activities.

Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value and harm our operating results.

We recently acquired LifeLink and may in the future acquire or make investments in complementary businesses, technologies, services or products if appropriate opportunities arise. The process of integrating LifeLink or any other acquired business, technology, service or product into our business and operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may consume much of our management s time and attention that could otherwise be available for ongoing development of our business. Moreover, the anticipated benefits of the LifeLink acquisition or any other acquisition may not be realized. Furthermore, we may be unable to identify, negotiate or finance future acquisitions successfully. Future acquisitions could result in potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities or amortization expenses related to intangible assets.

We may not be able to continue to develop new products to effectively adjust for rapid technological changes.

To be successful, we must adapt to rapidly changing technological and market needs, by continually enhancing our website and introducing new products and services to address our users changing demands.

Our segment in the marketplaces in which we operate is characterized by:

rapidly changing technology;

evolving industry standards;

frequent new product and service introductions;

shifting distribution channels; and

changing customer demands.

Our future success will depend on our ability to adapt to this rapidly evolving marketplace. We could incur substantial costs if we need to modify our services or infrastructure in order to adapt to changes affecting our market, and we may be unable to adapt to these changes.

The markets for our products are highly competitive and are likely to become more competitive, and our competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.

We operate in highly competitive markets. In particular, the online insurance distribution market, like the broader electronic commerce market, is rapidly evolving and highly competitive. Our software business also experiences some competition from certain large hardware suppliers that sell systems and systems components to independent agencies and from small, independent or freelance developers and suppliers of software, who sometimes work in concert with hardware vendors to supply systems to independent agencies. Our Internet business may also face indirect competition from insurance carriers that have subsidiaries which perform in-house agency and brokerage functions.

Some of our current competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. In addition, we believe we will face increasing competition as the online financial services industry develops and evolves. Our current and future competitors may be able to:

- undertake more extensive marketing campaigns for their brands and services;
- devote more resources to website and systems development;
- adopt more aggressive pricing policies; and
- make more attractive offers to potential employees, online companies and third-party service providers.

If we are unable to protect our intellectual property, our reputation and competitiveness in the marketplace may be materially damaged.

We regard our intellectual property in general and our software in particular as critical to our success. It may be possible for third parties to copy aspects of our products or, without authorization, to obtain and use information that we regard as trade secrets. Existing copyright law affords only limited practical protection, and our software is unpatented.

If we infringe on the proprietary rights of others, we may be at a competitive disadvantage, and any related litigation could be time consuming and costly.

Third parties may claim that we have violated their intellectual property rights. Any of these claims, with or without merit, could subject us to costly litigation and divert the attention of key personnel. To the extent that we violate a patent or other intellectual property right of a third party, we may be prevented from operating our business as planned, and we may be required to pay damages, to obtain a license, if available, to use the right or to use a non-infringing method, if possible, to accomplish our objectives.

We depend on the continued services of our senior management and our ability to attract and retain other key personnel.

Our future success is substantially dependent on the continued services and continuing contributions of our senior management and other key personnel, particularly Robin Raina, our President and Chief Executive Officer, and Richard J. Baum, our Executive Vice President Finance & Administration, Chief Financial Officer and Secretary. The loss of the services of any of our executive officers or other key employees could harm our business. We have no long-term employment agreements with any of our key personnel, nor do we maintain key man life insurance policies on any of our key employees.

Our future success depends on our continuing to attract, retain and motivate highly skilled employees. If we are not able to attract and retain new personnel, our business will be harmed. Competition for personnel in our industry is intense. We may be unable to retain our key employees or attract, assimilate or retain other highly qualified employees in the future.

Our international operations are subject to a number of risks that could affect our income and growth.

We market our software internationally and plan to expand our Internet services to locations outside of the United States. In addition, commencing in 2002, we began development activities, call center services and other operations in India. Our international operations may not produce enough revenue to justify our investments in establishing them and are subject to other inherent risks, including:

the impact of recessions in foreign economies on the level of consumers insurance shopping and purchasing behavior;

greater difficulty in collecting accounts receivable;

difficulties and costs of staffing and managing foreign operations;

reduced protection for intellectual property rights in some countries;

seasonal reductions in business activity during the summer months in Europe and other parts of the world;

&#16px solid">

Address

Estimated
Square
Feet

Annual Rent

Lease Expiration

Principal Activity

Lakeland Industries, Inc.
202 Pride Lane
Decatur, AL 35603

91,788

Owned

N/A

Manufacturing Administration Engineering Warehousing

Lakeland Industries, Inc.
3420 Valley Ave.
Decatur, AL 35603

49,500

Owned

N/A

Warehousing Administration

Lakeland Industries, Inc.
(Harvey Pride, Jr. – officer- related

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

party)
201 Pride Lane, SW
Decatur, AL 35603

2,400

$18,000

3/31/11

Sales
Administration

Lakeland Industries, Inc.
3428 Pride Lane
Decatur, AL 35603

7,000

$21,000

08/08/09

Warehouse

Lakeland Industries Europe Ltd.
Wallingfen Park
236 Main Road
Newport, East Yorkshire
HU15 2RH U United Kingdom

4,550

Approximately
$57,000 (varies with
exchange rates)

1/31/11

Warehouse
Sales

Lakeland Industries, Inc.
1100 Park Road
Blandon, PA 19510

12,000

$36,000
(Leased from D.
Gallen an employee)

Month to Month

Warehouse

Lakeland Industries, Inc.
31 South Sterley Street
Shillington, PA 19607

18,520

$55,560
(Leased from M.
Gallen an employee)

7/31/10

Manufacturing

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

Warehouse, Sales
Administration

Lakeland Industries, Inc.
312 Hendle Street
Shillington, PA 19607

3520

$9,600

Month to month

Warehouse

Lakeland Glove and Safety Apparel
Private, Ltd.
Plots 81, 50 and 24
Noida Special Economic Zone
New Delhi, India

47,408

Owned (2)

N/A

Manufacturing
Warehouse

Lakeland Industries Inc., Agencia En
Chile
Los Algarrobos nº 2228
Comuna de Santiago
Código Postal 8361401
Santiago, Chile

542

$13,000

03/01/10

Warehouse
Sales

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Address	Estimated Square Feet	Annual Rent	Lease Expiration	Principal Activity
Qualytextil, S.A. Rua do Luxemburgo, 260, Lotes 82/83, Condomicion Industrial Presidente Vargas, Pirajá Salvador, Bahia 41230-130 Brazil	25,209	Owned	N/A	Manufacturing Administration Engineering Warehousing
Qualytextil, S.A. Curtume Street, 708 Warehouse 10 Lapa de Baixo, Sao Paulo, Brazil	13,530	$124,699	10/31/13	Distribution Center Administration
Qualytextil, S.A. Cardeal Avelar B Billela Street, lots 11/12 Granjas Rurais Presidente Vargas, Pirajá Salvador, Bahia Brazil	11,840	$50,480	10/22/10	Distribution Center
Qualytextil, S.A. Rui Barbosa Street, 2237 - Store 09 Imbetiba, Macaè, Rio de Janeiro, Brazil	1,259	12,626	03/01/10	Store
Qualytextil, S.A. Passos da Patria Street, 971 Sao Paulo, Brazil	1,300	17,683	03/24/11	Corporate Apartment
Lakeland Asia Pacific D08, 11/F, Block A Gateway Square, No. 18 Xiaguangli North Road, East Third Ring Beijing, PRC	1184	$20,256	10/15/09	Sales

(1) We own the buildings in which we conduct the majority of our manufacturing operations in China and lease the land underlying the buildings from the Chinese government. We have 37 years and 42 years remaining under the leases with respect to the AnQui City and Jiaozhou facilities, respectively.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

(2) The annual total lease for the underlying land on plots 24, 81 and 50 in India amounts to approximately $10,000 on a land lease expiring October 9, 2011.

Our facilities in Decatur, Alabama; Jerez, Mexico; AnQui, China; Jiaozhou, China; St. Joseph, Missouri, Shillington, Pennsylvania, New Delhi, India and Salvador, Brazil contain equipment used for the design, development and manufacture and sale of our products. Our operations in Brantford, Canada; Newport, United Kingdom; Rio de Janiero and Sao Paulo, Brazil; Beijing, China; and Santiago, Chile are primarily sales and warehousing operations receiving goods for resale from our manufacturing facilities around the world. We had $3.68 million, $3.85 million and $4.22 million of gross long-lived fixed assets, located in China and $0.85 million, $0.86 million and $0.0 of long-lived assets located in Mexico as of January 31, 2006, 2007 and 2008.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to litigation arising in the ordinary course of our business. We are not currently a party to any litigation that we believe could reasonably be expected to have a material adverse effect on our results of operations, financial condition or cash flows.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDERS MATTERS

Our common stock is currently traded on the Nasdaq Global Market under the symbol "LAKE". The following table sets forth for the periods indicated the high and low sales prices for our common stock as reported by the Nasdaq National Market.

	Price Range of Common Stock	
	High	Low
Fiscal 2010		
First Quarter (through April 13, 2009)	$ 8.66	$ 5.03
Fiscal 2009		
First Quarter	$ 13.38	$ 9.62
Second Quarter	$ 13.62	$ 11.60
Third Quarter	$ 14.00	$ 8.38
Fourth Quarter	$ 11.25	$ 5.90
Fiscal 2008		
First Quarter	$ 14.94	$ 13.07
Second Quarter	14.13	12.67
Third Quarter	14.00	11.25
Fourth Quarter	12.02	9.73

Holders

Holders of our Common Stock are entitled to one (1) vote for each share held on all matters submitted to a vote of the stockholders. No cumulative voting with respect to the election of directors is permitted by our Articles of Incorporation. The Common Stock is not entitled to preemptive rights and is not subject to conversion or redemption. Upon our liquidation, dissolution or winding –up, the assets legally available for distribution to stockholders are distributable ratably among the holders of the Common Stock after payment of liquidation preferences, if any, on any outstanding stock that may be issued in the future having prior rights on such distributions and payment of other claims of creditors. Each share of Common Stock outstanding as of the date of this Annual Report is validly issued, fully paid and non-assessable.

On April 13, 2009 the last reported sale price of our common stock on the Nasdaq National Market was $6.96 per share. As of April 13, 2009, there were approximately 69 record holders of shares of our common stock.

Dividend Policy

In the past, we have declared dividends in stock to our stockholders. We paid a 10% dividend in additional shares of our common stock to holders of record on July 31, 2002, on July 31, 2003, on April 30, 2005 and on August 1, 2006. We may pay stock dividends in future years at the discretion of our board of directors.

We have never paid any cash dividends on our common stock and we currently intend to retain any future earnings for use in our business. The payment and rate of future cash or stock dividends, if any, or stock repurchase programs are subject to the discretion of our board of directors and will depend upon our earnings, financial condition, capital or contractual restrictions under our credit facilities and other factors.

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Equity Compensation Plans

The following table sets forth certain information regarding Lakeland's equity compensation plans as of January 31, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price per share of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(1))
Equity Compensation plans approved by security holders	(a)	(b)	(c)
Restricted stock grants-employees	30,415	$0	101,585
Restricted stock grants-directors	12,320	$0	31,680
Matching award program	7,541	$0	25,459
Bonus in stock program-employees	11,346	$0	21,654
Retainer in stock program-directors	1,296	$0	9,704
Total Restricted Stock Plans	62,918	$0	190,082

(1) At minimum levels

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for our fiscal years 2005, 2006, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements, which have been audited by Holtz Rubenstein Reminick LLP. You should read the information set forth below in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in this Form 10-K.

	Year Ended January 31,				
	2005	2006	2007	2008	2009
	(in thousands, except share and per share data)				
Income Statement Data:					
Net sales	$ 95,320	$ 98,740	$ 100,171	$ 95,740	$ 102,268
Costs of goods sold	74,924	74,818	75,895	73,383	74,299
Gross profit	20,396	23,922	24,276	22,357	27,969
Operating expenses:					
Selling and shipping	7,871	8,301	9,473	9,291	10,931
General and administrative	4,871	6,119	8,081	8,083	10,766
Total operating expenses	12,742	14,420	17,554	17,374	21,697
Operating profit	7,654	9,502	6,722	4,984	6,272
Other income (expense):					
Interest expense	(207)	(167)	(356)	(330)	(828)
Interest income	18	49	20	66	125
Gain on Pension Plan Liquidation	-----	-----	353	-----	-----
Other income	98	384	191	145	494
Total other income (expense)	(91)	266	208	(119)	(209)
Income before minority interest	7,563	9,768	6,930	4,865	6,063
Minority interest in net income of variable interest entities	494	-----	-----	-----	-----
Income before income taxes	7,069	9,768	6,930	4,865	6,063
Income tax expenses	2,053	3,439	1,826	1,574	1,514
Net Income	$ 5,016	$ 6,329	$ 5,104	$ 3,291	$ 4,549
Net income per common share (Basic)(1)	$ 1.02	$ 1.15	$ 0.92	$ 0.60	$ 0.84
Net income per common share (Diluted)(1)	$ 1.02	$ 1.15	$ 0.92	$ 0.59	$ 0.83
Weighted average common shares outstanding(1)					
Basic	4,918,856	5,518,751	5,520,881	5,522,751	5,435,829
Diluted	4,924,638	5,524,076	5,527,618	5,542,245	5,475,104
Balance Sheet Data (at period end):					
Current assets	$ 55,128	$ 63,719	$ 62,114	$ 70,269	$ 78,363
Total assets	60,314	72,464	74,198	84,623	101,615
Current liabilities	4,152	3,839	4,326	4,997	7,452
Long-term liabilities	1,695	7,829	3,813	10,753	25,851

Stockholders’ equity	54,467	60,796	66,059	68,873	68,311

(1) Adjusted for periods prior to August 1, 2006 to reflect our 10% stock dividends to stockholders of record as of July 31, 2002, July 31, 2003, April 30, 2005 and August 1, 2006. Earnings per share have been restated in accordance with Statement of Financial Accounting Standards No. 128, “Earnings Per Share.”

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Repurchase of Securities
We repurchased our Common Stock during our fiscal year ending January 31, 2009. The Company initiated a stock repurchase program on February 21, 2008 and has repurchased 125,822 shares as of April 13, 2009.

ITEM 7. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of
Financial Condition and Results of Operations

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this Form 10-K and Annual Report and in the documents that we incorporate by reference into this Form 10-K. This document 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 1,000 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, as well as international hospitals and laboratories. 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. Our net sales attributable to customers outside the United States were $11.5 million, $13.0 million and $25.6 million in fiscal 2007, fiscal 2008 and fiscal 2009, respectively.

Our North American sales of Tyvek declined approximately 26.3% for the four years ended January 31, 2009. The company has partially replaced these sales with increased sales of Hi-Visibility clothing domestically and increased international sales of our products particularly our fire protective apparel. We are experiencing competitive pricing pressure in the marketplace for Tyvek protective clothing, coupled with a 36% decline in this segment in the USA in Q4 as a result of the weak U.S. economy which remains weak. This loss in volume was absorbed yet we had a moderate increase on our ultimate margins, as a result of cost cutting, aggressive purchasing and price increases.

There was a strike of Brazilian customs workers from mid-March to mid-May, 2008. This delayed many orders due to delays of imported raw materials. April sales were significantly lower than normal. May sales included this additional backlog from April. Since the acquisition was effective as of May 1, the revenue and profits included in the quarter ending July 31, 2008 were higher than would otherwise have occurred. Management estimates the benefit to May revenue and net income as approximately $402,000 and $160,000, respectively, or $0.03 earnings per share.

Our cost of goods sold was impacted in Q1 and Q2 by the cost of material purchased in FY08 which lacked rebates. This material was charged to our cost of goods sold under strict FIFO accounting at the end of Q1 and the beginning of Q2, after which we have had a smooth flow of material costs. We expect that distributors will not continue to stock inventory at historical levels as economic conditions in the United States continue to remain weak. However, a large percentage of our net sales are driven in part by government funding and health-related events. Our net sales attributable to chemical suits decreased 1% in the year ended January 31, 2009 compared to the year ended January 31, 2008. These flat sales decreases were due primarily to a lull in government spending utilizing Homeland Defense funds and delays by state and local governmental purchasers in spending their Bio-Terrorism funds. These governmental sales are driven primarily by grants from the federal government under the Fire Act of 2002 and the Bio Terrorism Preparedness and Response Act of 2002 as administered by the Department of Homeland Security.

We have operated manufacturing facilities in Mexico since 1995 and in China since 1996. 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

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increasingly moved production of our products to our facilities in Mexico and China, we have seen improvements in the profit margins for these products. We have completed the moving of production of our reusable woven garments and gloves to these facilities and completed this process by the second quarter of fiscal 2009. As a result, we have seen cost improvements for these particular product lines as well. In FY08, the Company decided to restructure its manufacturing operations in Mexico, by closing its previous facilities in Celaya and opening new facilities in Jerez. The Company's actual costs to close, move and start up has aggregated approximately $500,000 pretax. This restructuring has allowed for lower occupancy and labor costs and a more efficient production configuration, for this year FY09.

We anticipate R&D expenses will increase again in FY 2010, to $350,000, as we aggressively pursue new products for the international market and seek CE certifications for existing products so that they may be sold internationally. Lakeland's R&D activity increased significantly in the 4th quarter as several development activities were identified as having potential significant sales revenue generation in FY 2010 provided they can be commercialized by the end of the 2nd quarter 2010. In addition to short term development activities described previously, Lakeland has also initiated longer term R&D projects of a more strategic nature. While these activities are not expected to account for a significant portion of R&D expenses in FY 2010, they are additional expenses and should they be successful, will require more significant funding in subsequent years.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our audited 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. We derive our sales primarily from our limited use/disposable protective clothing and secondarily from our sales of heat protective apparel, high-end chemical protective suits, fire fighting and, gloves and arm guards, and reusable woven garments. Sales are recognized when goods are shipped to our customers at which time title and the risk of loss passes. 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. Provision is made for slow-moving, obsolete or unusable inventory.

Allowance for Doubtful Accounts. We establish an allowance for doubtful accounts to provide for accounts receivable that may not be collectible. In establishing the allowance for doubtful accounts, we analyze the collectability of individual large or past due accounts customer-by-customer. We establish reserves for accounts that we determine to be doubtful of collection.

Income Taxes and Valuation Reserves. 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. On February 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets,” which provides that goodwill and other intangible assets are no longer amortized, but are assessed for impairment annually and upon occurrence of an event that indicates impairment may have occurred. Goodwill impairment is evaluated utilizing a two-step process as required by SFAS No. 142. Factors that we consider important that could identify a potential impairment include: significant

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underperformance relative to expected historical or projected future operating results; significant changes in the overall business strategy; and significant negative industry or economic trends. When we determine that the carrying value of intangibles and goodwill may not be recoverable based upon one or more of these indicators of impairment, we measure any potential impairment based on a projected discounted cash flow method. Estimating future cash flows requires our management to make projections that can differ materially from actual results.

In August 2005 we purchased Mifflin Valley, a manufacturing facility in Pennsylvania. This purchase resulted in the recording of $871,297 in goodwill as of January 31, 2006. In May 2008, we purchased Qualytextil, S.A in Brazil. See Note 4 for a further discussion of resulting goodwill.

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 increases 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.

Results of Operations

The following table set forth our historical results of operations for the years ended January 31, 2007, 2008 and 2009 as a percentage of our net sales.

	Year Ended January 31,		
	2007	2008	2009
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	75.8%	76.6%	72.7%
Gross profit	24.2%	23.4%	27.3%
Operating expenses	17.5%	18.1%	21.2%
Operating profit	6.7%	5.2%	6.1%
Interest expense, net	.4%	(0.1%)	.2%
Income tax expense	1.8%	1.6%	1.5%
Net income	5.1%	3.4%	4.4%

Significant Balance Sheet fluctuation January 31, 2009 as compared to January 31, 2008

Balance Sheet Accounts. The decrease in cash and cash equivalents of $ .7 million is primarily the result of normal fluctuations in cash management. The increase in borrowings of $15.5 million under the revolving credit agreement is principally due to the borrowing in May 2008 to fund the acquisition of Qualytextil, S.A. in Brazil, as well as an increase in inventories of $9.0 million as we took advantage of discounts in purchasing of raw materials from our major supplier. We have built raw material reserves due to an anticipated increase in the cost of these raw materials. Plant property and equipment increased mainly as a result of the Brazil acquisition.

Year ended January 31, 2009 compared to the year ended January 31, 2008

	For the Year Ended January 31,		For the Three Months Ended January 31,	
	2009	2008	2009	2008
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	27.3%	23.4%	26.8%	24.7%
Operating expenses	21.2%	18.1%	24.2%	17.8%

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligatior

Operating profit	6.1%	5.2%	2.6%	6.9%
Income before tax	5.9%	5.1%	3.9%	6.6%
Net income	4.4%	3.4%	3.0%	4.0%

Net Sales. Net sales increased $6.5 million, or 6.8%, to $102.3 million for the year ended January 31, 2009 compared to $95.7 million for the year ended January 31, 2008. The net increase was comprised mainly of $8.4 million in sales generated by our Qualytextil, S.A. facility which was included in FY09 for the nine months following the acquisition, sales

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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growth of $3.0 million in China, domestic, Asia Pacific Rim and other external sales, $.6 million in Europe, $2.5 million in increased reflective sales in the US, $.1 million increased sales of chemical protection clothing in the US, $.5 million increase in Chile, and $.4 million increase in India. These growth areas were offset by decreases in sales of $7.7 million in US disposables, $.3 million in US gloves, $1.0 million in US wovens, and $.3 million in Canada.

Gross Profit. Gross profit increased $5.6 million or 25.1% to $28.0 million for the year ended January 31, 2009 from $22.4 million for the year ended January 31, 2008. Gross profit as a percentage of net sales increased to 27.3% for the year ended January 31, 2009 from 23.4% for the year ended January 31, 2008, primarily due to the inclusion of Qualytextil, S.A. sales in 2009 which operated at a 51.4% margin for the nine months in FY09 in which Brazil operations were included and in the prior year, a sales rebate program to meet competitive conditions resulting in a reduction in sales and higher Tyvek fabric costs. Such higher Tyvek costs resulted from Tyvek purchased earlier with no rebate, charged to costs of goods sold for the months of April, May and into early June 2007 resulting in higher costs. Start-up expenses included in gross profit related to the new foreign subsidiaries of approximately $.6 million which were partially offset by ongoing cost reduction programs in component and service-purchasing, shifting production from the U.S. to China and Mexico, completion of the plant restructuring in Mexico, rework expenses on a chemical suit contract, and reduced volumes in lower margins in the U.S. fire gear and gloves.

Operating Expenses. Operating expenses increased $4.3 million, or 24.9% to $21.7 million for the year ended January 31, 2009 from $17.4 million for the year ended January 31, 2008. As a percentage of net sales, operating expenses increased to 21.2% for the year ended January 31, 2009 from 18.1% for the year ended January 31, 2008. The $4.3 million increase in operating expenses in the year ended January 31, 2009 compared to the year ended January 31, 2008 was principally due to (decreases) or increases in:

- $2.9 million operating costs in the acquired Brazilian operations not in previous year.
- $0.4 million in additional freight out costs excluding Brazil, resulting from higher rates prevailing in most of FY09, due to higher fuel surcharges.
- $0.4 million in additional sales salaries, commissions and administrative salaries resulting from expanded sales staff.
- $0.3 million in additional costs resulting from the proxy contest earlier in FY09.
- $0.2 million in additional international travel expenses and sales meetings, that tracked international sales growth.
- $0.1 million in additional advertising and printing costs.
- $0.1 million in additional equity compensation resulting from additional grants charged to expense over the vesting period of the Company's Restricted Stock Program.
- $0.1 million in additional currency fluctuation costs
- $0.1 million in additional computer expenses
- $0.1 million in other taxes – mainly property taxes on the Canada warehouse opened in December 2007.
- $(0.1) million in reduced medical insurance costs resulting from favorable experience
- $(0.3) million reduction in professional fees and consulting expenses mainly resulting from an expenditure in the previous fiscal year in India to set up the proper production processes.

Operating Profit. Operating profit increased by $1.3 million, or 25.9% to $6.3 million, from $5.0 million for the prior year. Operating income as a percentage of net sales increased to 6.1% for the year ended January 31, 2009 from 5.2% for the year ending January 31, 2008 primarily due to the Brazil acquisition, partially offset by increased operating expenses and lower volumes as discussed above.

Interest Expense. Interest expense increased by $.5 million for the year ended January 31, 2009 compared to the year ended January 31, 2008 because of increased borrowings due to the Qualytextil acquisition partially offset by interest rate decreases.

Other Income - Net. Other income, net increased $.35 million principally as a result of non-recurring credits resulting from net funds recovered from a Chinese manager's fraud and from a change in accounting estimate relating to certain Chinese cash and accruals recorded in 2004 and prior.

Income Tax Expense. Income tax expenses consist of federal, state and foreign income taxes. Income tax expense decreased $.06 million, or 3.8%, to $1.51 million for the year ended January 31, 2009 from $1.57 million for the year

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ended January 31, 2008. Our effective tax rate was 25% and 32.3% for the years ended January 31, 2009 and 2008, respectively. Our effective tax rate varied from the federal statutory rate of 34% due primarily to lower foreign tax rates, principally in China and Brazil.

Net Income. Net income increased $1.3 million or 38.2%, to $4.5 million for the year ended January 31, 2009 from $3.3 million for the year ended January 31, 2008. The increase in net income was the result of the Brazil acquisition, partially offset by an increase in expenses related to the new foreign facilities in India, Chile, Japan and a decrease in profit by the domestic operations.

Year ended January 31, 2008 compared to the year ended January 31, 2007

	For the Year Ended January 31,		For the Three Months Ended January 31,	
	2008	2007	2008	2007
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	23.4%	24.2%	24.7%	22.0%
Operating expenses	18.1%	17.5%	17.8%	16.5%
Operating profit	5.2%	6.7%	6.9%	5.5%
Income before tax	5.1%	6.9%	6.6%	6.8%
Net income	3.4%	5.1%	4.0%	5.1%

Net Sales. Net sales decreased $4.4 million, or (4.4%), to $95.7 million for the year ended January 31, 2008 compared to $100.2 million for the year ended January 31, 2007. The net decrease was comprised of decreased sales in Tyvek disposable garments of $6.9 million in the U.S. and $1.0 million in Canada primarily due to competitive market conditions, competitors rebate programs, lower government spending in the Company's Chemical Protective garments by $200,000 and less revenue from India of $210,000 as a result of its shutdown for retooling during this fiscal year, counter balanced by growth in sales in Chile and United Kingdom subsidiaries of $1.2 million and by increased external sales from China of $1.1 million. The Company re-opened its Indian facility in March 2008, so the resumption of glove sales should take full effect in the second quarter of fiscal 2009. Sales of wovens and gloves increased by $1.3 million compared to the same period last year. The increase in woven sales was due to the Company's new anti-static product, and to the increase in fire gear sales which was due to all new NFPA standards and Underwriter's Laboratory (UL) certifications regarding the construction of fire gear, which negatively impacted the entire industry in the first two quarters. The $230,000 decline in glove sales was due to the loss of two customers, one of whom went out of business. Wovens sales benefited from the introduction of a new line of aseptic anti-static garments.

Gross Profit. Gross profit decreased $1.9 million or 7.9% to $22.4 million for the year ended January 31, 2008 from $24.3 million for the year ended January 31, 2007. Gross profit as a percentage of net sales decreased to 23.4% for the year ended January 31, 2008 from 24.2% for the year ended January 31, 2007, primarily due to a sales rebate program to meet competitive conditions resulting in a $467,000 reduction in sales and higher Tyvek fabric costs. Such higher Tyvek costs resulted from Tyvek purchased earlier with no rebate, charged to costs of goods sold for the months of April, May and into early June resulting in higher costs of approximately $510,000. The supply of this higher cost raw material has now been exhausted, so gross margin improvement is anticipated relative to the lower cost of materials for new sales as compared to sales in the prior periods. Start-up expenses included in gross profits costs related to the new foreign subsidiaries of approximately $275,000 were partially offset by ongoing cost reduction programs in component and service-purchasing, shifting production from the U.S. to China and Mexico, and a completion of the plant restructuring in Mexico, rework expenses on a chemical suit contract, and reduced volumes in lower margin fire gear and gloves.

Operating Expenses. Operating expenses decreased $0.2 million, or 1.0% to $17.4 million for the year ended January 31, 2008 from $17.6 million for the year ended January 31, 2007. As a percent of net sales, operating expenses increased to 18.1% for the year ended January 31, 2008 from 17.5% for the year ended January 31, 2007. The $0.2 million decrease in operating expenses in the year ended January 31, 2008 compared to the year ended January 31, 2007 was principally due to (decreases) or increases in:

- ($0.25) million miscellaneous net expense decreases.
- $(0.20) million net reduction of SGA costs from new entities in India, Chile and Japan.

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- o $(0.20) million of net reduction in insurance and employee benefits mainly resulting from a more positive experience in our self insured medical plan.
- o $(0.17) million net reduction in sales salaries and commissions, mainly in disposables, chemicals and Canada and related payroll taxes. Several senior level sales personnel were added to support lagging sales in disposables, support new product introductions and coordinate international sales efforts, offset by lower commissions due to lower volume.
- o $0.09 million in share-based compensation.
- o $0.26 million increase in R&D spending as several projects were proven conceptually necessitating further investigation and development. As a result, FY08 R&D expenses were largely related to product testing and certification while FY07 R&D was primarily raw material evaluation.
- o $0.28 million in higher professional and consulting fees, largely resulting from engineering consultants setting up the Indian production facility.

Operating Profit. Operating profit decreased by $1.7 million, or 25.9% to $5.0 million, from $6.7 million for the prior year. Operating income as a percent of net sales decreased to 5.2% for the year ended January 31, 2008 from 6.7% for the year ending January 31, 2007 primarily due to increased operating expenses and lower volumes as discussed above.

Interest Expense. Interest expense decreased by $26,000 for the year ended January 31, 2008 compared to the year ended January 31, 2007 because of reduced borrowings and interest rate decreases.

Other Income - Net. Other income net decreased $.4 million principally as a result of a non-recurring gain on a pension plan liquidation of $.35 million in the previous year.

Income Tax Expense. Income tax expenses consist of federal, state and foreign income taxes. Income tax expense decreased $.25 million, or 13.8%, to $1.6 million for the year ended January 31, 2008 from $1.8 million for the year ended January 31, 2007. Our effective tax rate was 32.3% and 26.3% for the year ended January 31, 2008 and 2007, respectively. Our effective tax rate varied from the federal statutory rate of 34% due primarily to lower foreign tax rates.

Net Income. Net income decreased $1.8 million or 35.5%, to $3.3 million for the year ended January 31, 2008 from $5.1 million for the year ended January 31, 2007. The decrease in net income was the result of an increase in expenses related to the new foreign facilities in India, Chile, Japan and a decrease in profit by the domestic operations.

Liquidity and Capital Resources

Management measures our liquidity on the basis of our ability to meet short-term and long-term operational funding needs and fund additional investments, including acquisitions. Significant factors affecting the management of liquidity are cash flows from operating activities, capital expenditures, and access to bank lines of credit and our ability to attract long-term capital under satisfactory terms.

Internal cash generation, together with currently available cash and investment and an ability to access credit lines if needed are expected to be sufficient to fund operations, capital expenditures, and any increase in working capital that we would need to accommodate a higher level of business activity. We are actively seeking to expand by acquisitions as well as through organic growth of our business. While a significant acquisition may require additional borrowings, equity financing or both, we believe that we would be able to obtain financing on acceptable terms based, among other things, on our earnings performance and current financial position.

Cash Flows

As of January 31, 2009 we had cash and cash equivalents of $2.8 million and working capital of $70.9 million, a decrease of $.7 million and an increase $5.6 million, respectively, from January 31, 2008. Our primary sources of funds for conducting our business activities have been from cash flow provided by operations and borrowings under our credit facilities described below. We require liquidity and working capital primarily to fund increases in inventories and accounts receivable associated with our net sales and, to a lesser extent, for capital expenditures.

Net cash provided by operating activities of $1.6 million for the year ended January 31, 2009 was due primarily to net income of $4.5 million, offset by an increase in inventories of $5.7 million. Net cash used in operations for the year ended January 31, 2008 of $2.1 million was primarily due to net income of $3.3 million and an increase in inventories of $7.7 million.

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Net cash used in investing activities of $16.2 million and $3.4 million in the years ended January 31, 2009 and 2008, respectively, was due to the acquisition of Qualytextil in 2009 and purchases of real estate, property and equipment, the construction of new facilities in Canada in FY08 and the acquisitions of the India facility. Net cash used in and provided by financing activities in the years ended January 31, 2009 and 2008 was primarily attributable to an increased borrowing under our credit facilities primarily to fund the Qualytextil acquisition in FY09, and primarily by borrowings to fund increased inventory levels in FY08, respectively.

Credit Facilities

We currently have one credit facility:

- A five year, $30 million revolving credit facility, of which we had borrowings outstanding as of January 31, 2009 amounting to $24.4 million

Our $30 million revolving credit facility expires on July 31, 2010. Borrowings under this revolving credit facility bear interest at the London Interbank Offering Rate (LIBOR) plus 70 basis points and were 1.02% at January 31, 2009. As of January 31, 2009, we had $5.6 million of borrowing availability under this revolving credit facility. Of the amount outstanding, $18 million is covered by an interest rate swap executed in September 2008. The interest on this amount was 3.66% at January 31, 2009.

Our credit facility requires 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. 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 credit facilities. As of January 31, 2009, we were in compliance with all covenants contained in our credit facilities.

We believe that our current cash position of $2.8 million, our cash flow from operations along with borrowing availability under our $30 million revolving credit facility will be sufficient to meet our currently anticipated operating, capital expenditures and debt service requirements for at least the next 12 months.

Capital Expenditures

Our capital expenditures principally relate to purchases of manufacturing equipment, computer equipment, and leasehold improvement, as well as payments related to the expansion of our facilities in Brazil. In FY09 we added machinery and equipment in our newly rented Weifang, China facility. Our facilities in China are not encumbered by commercial bank mortgages and thus Chinese commercial mortgage loans may be available with respect to these real estate assets if we need additional liquidity. We expect our capital expenditures to be approximately $1.5 million to purchase our capital equipment primarily computer equipment and apparel manufacturing equipment

Contractual Obligations

We had no off-balance sheet arrangements at January 31, 2009. As shown below, at January 31, 2009, our contractual cash obligations totaled approximately $26.9 million, including lease renewals entered into subsequent to January 31, 2009.

Payments Due by Period

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Canada facility loan	$ 1,544,000	$ 82,000	$ 246,000	$ 164,000	$ 1,052,000
Operating leases	876,000	84,000	600,000	192,000	-----
Other liabilities	75,000	-----	75,000	-----	-----
Revolving credit facility	24,408,000	-----	24,408,000	----	-----
Total	$ 26,903,000	$ 166,000	$ 25,329,000	$ 356,000	$ 1,052,000

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Seasonality

Our operations have historically been seasonal, with higher sales generally occurring in February, March, April and May when scheduled maintenance occurs on nuclear, coal, oil and gas fired utilities, chemical, petrochemical and smelting facilities, and other heavy industrial manufacturing plants, primarily due to moderate spring temperatures. Sales decline during the warmer summer and vacation months, and generally increase from Labor Day through February with slight declines during holidays. As a result of this seasonality in our sales, we have historically experienced a corresponding seasonality in our working capital, specifically inventories, with peak inventories occurring between December and May coinciding with lead times required to accommodate the spring maintenance schedules. We believe that by sustaining higher levels of inventory, we gain a competitive advantage in the marketplace. Certain of our large customers seek sole sourcing to avoid sourcing their requirements from multiple vendors whose prices, delivery times and quality standards differ.

In recent years, due to increased demand by first responders for our chemical suits and fire gear, our historical seasonal pattern has shifted. Governmental disbursements are dependent upon budgetary processes and grant administration processes that do not follow our traditional seasonal sales patterns. Due to the size and timing of these governmental orders, our net sales, results of operations, working capital requirements and cash flows can vary between different reporting periods. As a result, we expect to experience increased variability in net sales, net income, working capital requirements and cash flows on a quarterly basis.

With our acquisition of the Brazilian facility and exclusive supply agreement with West Farmers in Australia, this seasonality may decrease as the South American Mercosur markets, Chile, Australia, New Zealand and South Africa markets experience their high seasons during our slow summer months and their low season during our winter months.

Effects of Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. We adopted FIN No. 48 effective as of February 1, 2007.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements" (FAS No. 157"), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively, except in the case of a limited number of financial instruments that require retrospective application. FAS No. 157 did not have a material impact on our financial position and results of operations.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115" (FAS No. 159"). The new statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. FAS No. 159 did not have a material impact on our financial position and results of operations.

Statement of Financial Accounting Standards No. 141(R), Business Combinations ("Statement 141(R)"), was issued in December 2007. Statement 141 (R) requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred. Statement 141(R) also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. Statement 141(R)

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amends Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. Statement 141(R) is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. We adopted Statement 141 (R) on February 1, 2009. Statement 141R's impact on accounting for business combinations is dependent upon future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51," which establishes new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decrease in the parent's ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS No. 160 is effective beginning February 1, 2009. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be to applied retrospectively to all periods presented. The Company believes that this pronouncement will not have a material effect on the financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities — An Amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS 161 on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

We are exposed to changes in foreign currency exchange rates as a result of our purchases and sales in other countries. To manage the volatility relating to foreign currency exchange rates, we seek to limit, to the extent possible, our non-U.S. dollar denominated purchases and sales.

In connection with our operations in China, we purchase a significant amount of products from outside of the United States. However, our purchases in China are primarily made in Chinese Yuan, the value of which had been largely pegged to the U.S. dollar for the last decade. However, the Chinese Yuan has recently been decoupled from the U.S. Dollar and allowed to float by the Chinese government, and therefore, we will be exposed to additional foreign exchange rate risk on our Chinese raw material and component purchases.

Our primary risk from foreign currency exchange rate changes is presently related to non-U.S. dollar denominated sales in Brazil, Canada Europe and, to a smaller extent, in other South American countries. Our sales to customers in Brazil are denominated in Brazilian Reals, in Canada in Canadian dollars and in Europe in Euros and British pounds. If the value of the U.S. dollar increases relative to the Canadian dollar, the Real, the Pound or the Euro, then our net sales could decrease as our products would be more expensive to these international customers because of changes in rate of exchange. Our sales in China are denominated in the Chinese Yuan; however, our sales there were not affected this last year due to a steady exchange rate between the Chinese RMB and the USD. At this time, we do not manage the foreign currency risk through the use of derivative instruments. A 10% decrease in the value of the U.S. dollar relative to foreign currencies would increase the landed costs of our products into the U.S., but would make our selling price for international sales more attractive with respect to foreign currencies. As non-U.S. dollar denominated international purchases and sales grow, exposure to volatility in exchange rates could have a material adverse impact on our financial results.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Interest Rate Risk

We are exposed to interest rate risk with respect to our credit facilities, which have variable interest rates based upon the London Interbank Offered Rate, but of which $18 million is subject to an interest rate swap with the benchmark fixed at 2.96%. At January 31, 2009, we had $24.4 million in borrowings outstanding under this credit facility. If the interest rate applicable to this variable rate debt rose 10% in the year ended January 31, 2009, our interest expense would have increased by a negligible effect.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Consolidated Financial Statements:

All other schedules are omitted because they are not applicable, not required, or because the required information is included in the consolidated financial statements or notes thereto.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Lakeland Industries, Inc. and Subsidiaries
Ronkonkoma, New York

We have audited the accompanying consolidated balance sheets of Lakeland Industries, Inc. and Subsidiaries (the "Company" or "Lakeland") as of January 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three year period ended January 31, 2009. We have also audited the schedule listed in Item 15(a)(2) of this Form 10-K for the years ended January 31, 2009, 2008 and 2007. We have also audited Lakeland's internal control over financial reporting as of January 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lakeland's management is responsible for these consolidated financial statements and schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting" in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and the schedule, and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified a material weakness in relation to its operations in China, specifically relating to inadequate controls over the sale or disposal of inventory scrap or waste units and controls over the proceeds from such sales. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements, as of, and for the year ended January 31, 2009, and our opinion regarding the effectiveness of Lakeland's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, because of the material weakness identified above on the achievement of the objectives of the internal control criteria, Lakeland did not maintain effective internal control over financial reporting as of January 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by COSO.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lakeland Industries, Inc. and Subsidiaries as of January 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three year period ended January 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Holtz Rubenstein Reminick LLP

Melville, New York
April 14, 2009

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Lakeland Industries, Inc.
and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 2,755,441	$ 3,427,672
Accounts receivable, net of allowance for doubtful accounts of $104,500 and $45,000 at January 31, 2009 and 2008, respectively	13,353,430	14,927,666
Inventories, net of reserves of $657,000 and $607,000 at January 31, 2009 and 2008, respectively	57,074,028	48,116,173
Deferred income taxes	2,578,232	1,969,713
Prepaid income tax	531,467	-----
Other current assets	2,070,825	1,828,210
Total current assets	78,363,423	70,269,434
Property and equipment, net	13,736,326	13,324,648
Intanglibles and other assets, net	4,405,833	157,474
Goodwill	5,109,136	871,297
Total assets	$ 101,614,718	$ 84,622,853
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 3,853,890	$ 3,312,696
Accrued compensation and benefits	3,069,409	406,501
Other accrued expenses	434,809	1,183,660
Current maturity of long term debt	94,000	94,000
Total current liabilities	7,452,108	4,996,857
Borrowings under revolving credit facility	24,408,466	8,871,000
Construction loan payable (net of current maturity of $94,000)	1,368,406	1,882,085
Other liabilities	74,611	-----
Total liabilities	33,303,591	15,749,942
Commitments and contingencies		
Stockholders’ equity		
Preferred stock, $.01 par; 1,500,000 shares authorized; none issued		
Common stock, $.01 par; 10,000,000 shares authorized; 5,523,288 shares issued and outstanding at January 31, 2009 and 2008, respectively	55,233	55,233
Less treasury stock, at cost, 107,317 shares at January 31,	(1,255,459)	-----

2009 and 0 shares at January 31, 2008		
Additional paid-in capital	49,511,896	49,211,961
Retained earnings	24,191,258	19,641,790
Other comprehensive loss	(4,191,801)	(36,073)
Total stockholders' equity	68,311,127	68,872,911
Total liabilities and stockholders' equity	$ 101,614,718	$ 84,622,853

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

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Lakeland Industries, Inc.
and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	2009	2008	2007
Net sales	$ 102,268,125	$ 95,740,068	$ 100,170,942
Cost of goods sold	74,298,935	73,382,713	75,895,066
Gross profit	27,969,190	22,357,355	24,275,876
Operating expenses			
Selling and shipping	10,931,285	9,291,263	9,473,404
General and administrative	10,765,595	8,082,618	8,080,567
Total operating expenses	21,696,880	17,373,881	17,553,971
Operating profit	6,272,310	4,983,474	6,721,905
Other income (expense)			
Interest expense	(827,725)	(330,268)	(356,331)
Interest income	124,634	66,722	20,466
Gain on pension plan liquidation	-----	-----	352,843
Other income – net	494,084	144,870	191,163
Total other income (expense)	(209,007)	(118,676)	208,141
Income before income taxes	6,063,303	4,864,798	6,930,046
Income tax expense	1,513,835	1,573,936	1,825,847
Net income	$ 4,549,468	$ 3,290,862	$ 5,104,199
Net income per common share			
Basic	$ 0.84	$ 0.60	$ 0.92
Diluted	$ 0.83	$ 0.59	$ 0.92
Weighted average common shares outstanding			
Basic	5,435,829	5,522,751	5,520,881
Diluted	5,475,104	5,542,245	5,527,618

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

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Lakeland Industries, Inc.
and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Fiscal years ended January 31, 2009, 2008 and 2007

	Common Stock Shares	Common Stock Amount	Additional paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Other Comprehensive Loss	Total
Balance, February 1, 2006	5,017,046	$ 50,170	$ 42,431,221	-----	-----	$ 18,314,645	$ -----	$ 60,796,036
Exercise of stock options	2,662	27	11,849	-----	-----	-----	-----	11,876
Net income	-----	-----	-----	-----	-----	5,104,199	-----	5,104,199
10% stock dividend	502,116	5,021	6,381,894	-----	-----	(6,386,916)	-----	-----
Stock based compensation	-----	-----	147,061	-----	-----	-----	-----	147,061
Balance, January 31, 2007	5,521,824	55,218	48,972,025	-----	-----	17,031,928	-----	66,059,171
Net income	-----	-----	-----	-----	-----	3,290,862	-----	3,290,862
Effect of adoption of FIN 48	-----	-----	-----	-----	-----	(419,000)	-----	(419,000)
Effect of adoption of SAB No. 108	-----	-----	-----	-----	-----	(262,000)	-----	(262,000)
Exercise of stock option	1,464	15	6,675	-----	-----	-----	-----	6,690
Other comprehensive loss								
Translation adjustments regarding Canadian Real Estate	-----	-----	-----	-----	-----	-----	(36,073)	(36,073)
Stock based compensation	-----	-----	233,261	-----	-----	-----	-----	233,261
Balance, January 31, 2008	5,523,288	55,233	49,211,961	-----	-----	19,641,790	(36,073)	68,872,911

Net income	-----	-----	-----	-----	-----	4,549,468	-----	4,549,468
Stock repurchase program	-----	-----	-----	107,317	$ (1,255,459)	-----	-----	(1,255,459)
Other comprehensive loss	-----	-----	-----	-----	-----	-----	-----	-----
Translation adjustments	-----	-----	-----	-----	-----	-----	-----	-----
Canadian Real Estate	-----	-----	-----	-----	-----	-----	(55,152)	(55,152)
Qualytextil, S.A., Brazil	-----	-----	-----	-----	-----	-----	(3,473,196)	(3,473,196)
Interest rate swap	-----	-----	-----	-----	-----	-----	(627,380)	(627,380)
Stock based compensation								
Issuance of director stock options	-----	-----	31,544	-----	-----	-----	-----	31,544
Restricted stock plan	-----	-----	268,391	-----	-----	-----	-----	268,391
Balance, January 31, 2009	5,523,288	$ 55,233	$ 49,511,896	107,317	$ (1,255,459)	$ 24,191,258	$ (4,191,801)	$ 68,311,127

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

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Lakeland Industries, Inc.
and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2009	2008	2007
Cash flows from operating activities			
Net income	$ 4,549,468	$ 3,290,862	$ 5,104,199
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Reserve for inventory obsolescence	49,785	300,626	(58,626)
Provision for bad debts	59,135	(58,000)	55,036
Deferred income taxes	(608,519)	(641,576)	(497,435)
Depreciation and amortization	1,633,846	1,186,840	1,048,380
Stock based and restricted stock compensation	299,935	233,261	147,061
Gain on pension plan liquidation	-----	-----	(352,843)
(Increase) decrease in operating assets:			
Accounts receivable	2,763,878	(89,400)	(338,985)
Inventories	(5,698,718)	(7,723,060)	4,346,377
Prepaid income taxes and other current assets	-----	1,110,311	(1,586,206)
Other assets	(422,309)	(305,961)	(11,056)
Increase (decrease) in operating liabilities			
Accounts payable	(1,418,602)	257,357	518,583
Accrued expenses and other liabilities	429,051	319,538	(31,921)
Pension liability	-----	-----	(116,691)
Net cash provided by (used in) operating activities	1,636,950	(2,119,202)	8,225,873
Cash flows from investing activities			
Purchase of assets in India from RFB Latex	-----	-----	(3,464,994)
Acquisition of Qualytextil, S.A.	(13,780,205)	-----	-----
Purchases of property and equipment	(2,371,914)	(3,427,458)	(912,651)
Net cash used in investing activities	(16,152,119)	(3,427,458)	(4,377,645)
Cash flows from financing activities			
Net borrowings (payments) under credit agreement	2,192,999	5,085,000	(3,486,000)
Purchases of stock under Stock Repurchase program	(1,255,459)	-----	-----
Borrowing to fund Qualytextil acquisition	13,344,466	-----	-----
Other liabilities	74,611	-----	-----
Net proceeds from construction loan	-----	1,976,085	-----
Proceeds from exercise of stock options	-----	6,690	11,876
Net cash provided by (used in) financing activities	13,842,938	7,067,775	(3,474,124)
Net (decrease) increase in cash and cash equivalents	(672,231)	1,521,115	374,104
Cash and cash equivalents at beginning of year	3,427,672	1,906,557	1,532,453
Cash and cash equivalents at end of year	$ 2,755,441	$ 3,427,672	$ 1,906,557

See note for Supplemental Cash Flow information.

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

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Lakeland Industries, Inc.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2009, 2008 and 2007

1. – BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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 market. The principal market for the company's products is in the United States. No customer accounted for more than 10% of net sales during the fiscal years ended January 31, 2009, 2008 and 2007.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Laidlaw, Adams & Peck, Inc. and Subsidiary Weifang Meiyang Protective Products Co. Ltd., (a Chinese corporations), Lakeland Protective Wear, Inc. and Lakeland Protective Real Estate (Canadian corporations), Weifang Lakeland Safety Products Co., Ltd. and Qingdao Lakeland Protective Products Co., Ltd. (Chinese corporations), Lakeland Industries Europe Ltd. (a British corporation), Lakeland Industries Inc. Agencia en Chile, (a Chilean corporation), Lakeland Japan, Inc. (a Japanese corporation), Lakeland India Private, Ltd and Lakeland Gloves and Safety Apparel Private Limited (Indian corporations), Industrias Lakeland S.A. de C.V. (a Mexican corporation) and Qualytextil, S.A. (a Brazilian corporation) All significant intercompany accounts and transactions have been eliminated. On February 23, 2007, Lakeland Gloves and Safety Apparel Private Limited was formed to hold the assets of the Company's recently purchased Indian business. On March 27, 2007, Industrias Lakeland de S.A. de C.V. was formed to operate the new facilities in Jerez, Mexico. In May 2008, Lakeland do Brasil, S.A., a Brazilian corporation was formed as a subsidiary of Lakeland Industries, Inc., which then purchased 100% of the common stock of Qualytextil, S.A., a Brazilian corporation. In November 2008, Lakeland do Brasil was merged into Qualytextil.

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, fire fighting 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 passes 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 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.

Rebates are offered to a limited number of our distributors, who participate in a rebate program. Rebates are predicated on total sales volume growth over the previous year. The Company accrues for any such anticipated rebates on a pro-rata basis throughout the 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.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Lakeland Industries, Inc.

and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2009, 2008 and 2007

1. (continued)

Domestic and international sales are as follows:

	Fiscal Years Ended January 31,					
	2009		2008		2007	
Domestic	$ 76,695,000	75.0%	$ 82,773,000	86.5%	$ 88,667,000	88.5%
International	25,573,000	25.0%	12,967,000	13.5%	11,504,000	11.5%
Total	$ 102,268,000	100.00%	$ 95,740,000	100.0%	$ 100,171,000	100.0%

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.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, on a straight-line basis. Leasehold improvements and leasehold costs are amortized over the term of the lease or service lives of the improvements, whichever is shorter. The costs of additions and improvements which substantially extend the useful life of a particular asset are capitalized. Repair and maintenance costs are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and the gain or loss on disposition is reflected in operating income.

Goodwill

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," goodwill and other indefinite life intangible assets are no longer amortized, and are assessed for impairment annually upon occurrence of an event that indicates impairment may have occurred. Goodwill impairment is evaluated, utilizing a two-step process as required by SFAS No. 142. Factors that the Company considers important that could identify a potential impairment include: significant under performance relative to expected historical or projected future operating results; significant changes in the overall business strategy; and significant negative industry or economic trends. When the Company determines that the carrying value of intangibles and goodwill may not be recoverable based upon one or more of these indicators of impairment, the Company measures any potential impairment based 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.

On August 1, 2005, the Company purchased Mifflin Valley, Inc, a Pennsylvania manufacturer. This acquisition resulted in the recording of $.9 million in goodwill as of January 31, 2006. Management has determined there is no impairment of this goodwill at January 31, 2009, 2008 and 2007.

In May 2008 the Company acquired Qualytextil, S.A., a Brazilian manufacturer. An evaluation of this acquisition was made as of January 31, 2009, which resulted in the recording of $4.2 million of goodwill. Management has determined there is no impairment of this goodwill at January 31, 2009. See Note 4 for further discussion of goodwill.

Intangible Assets

Intangible assets consist primarily of trademarks, tradenames and customer contracts. Trademarks and tradenames are not amortized because they have indefinite lives. Customer contracts are amortized over their estimated useful lives of 51 months remaining at January 31, 2009.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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Lakeland Industries, Inc.
and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2009, 2008 and 2007

1. (continued)

Self-Insured Liabilities

The Company has 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. This estimate is based upon historical trends and amounted to $132,000 for each of the years ended January 31, 2009, 2008 and 2007. The Company maintains separate insurance to cover the excess liability over set single claim amounts and aggregate annual claim amounts.

Stock-Based Compensation

The Company accounts for share based compensation in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards "Share-based Payment" ("FAS" No. 123 (R)"), which replaced FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS No. 123(R) requires compensation costs related to share-based payment transactions including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between FAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

In adopting FAS No. 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS No. 123(R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS No. 123.

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts to provide for accounts receivable that may not be collectible. In establishing the allowance for doubtful accounts, the Company analyzes the collectability of individual large or past due accounts customer-by-customer. The Company establishes reserves for accounts that it determines to be doubtful of collection.

Shipping and Handling Costs

For larger orders, except in its Fyrepel product line, the Company absorbs the cost of shipping and handling. For those customers who are billed the cost of shipping and handling fees, such amounts are included in net sales. Shipping and handling costs associated with outbound freight are included in selling and shipping expenses and aggregated approximately $3.0 million, $2.5 million and $2.5 million in the fiscal years ended January 31, 2009, 2008 and 2007, respectively.

Research and Development Costs

Research and development costs are expensed as incurred and included in general and administrative expenses. Research and development expenses aggregated approximately $321,000, $359,000, and $100,000 in the fiscal years ended January 31, 2009, 2008 and 2007, respectively, and was largely for testing and certification of new products in 2008 and 2009 and for development of new raw materials in 2007.

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Lakeland Industries, Inc.
and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2009, 2008 and 2007

1. (continued)

Income Taxes

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of preparing the 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 the Company's balance sheet. A judgment must then be made of the likelihood that any deferred tax assets will be recovered 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 the Company determines that it 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 income in the period of such determination.

Uncertain Tax Positions

Effective February 1, 2007, the first day of fiscal 2008, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes recognition thresholds that must be met before a tax benefit is recognized in the financial statements and provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. The Company recorded the cumulative effect of applying FIN 48 as a $419,000 decrease to the opening balance of retained earnings as of February 1, 2007, the date of adoption, $207,000 of which was then reversed in FY2009, when the company settled a long dispute with the I.R.S.

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 average common stock equivalents for the years ended January 31, 2009, 2008, and 2007 were 39,275, 19,494, and 6,737, respectively, representing the dilutive effect of stock options and restricted stock awards. The diluted earnings per share calculation takes into account the shares that may be issued upon exercise of stock options, reduced by shares that may be repurchased with the funds received from the exercise, based on the average price during the fiscal year (as adjusted for the 10% stock dividend to holders of record on April 30, 2005 and August 1, 2006).

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs (income) amounted to $32,000, $(76,000), and $30,000 in the fiscal years ended January 31, 2009, 2008 and 2007, respectively, net of co-op advertising allowance received from a supplier. These reimbursements include some costs which are classified in categories other than advertising, such as payroll.

Statement of Cash Flows

The Company considers highly liquid temporary cash investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market funds. The market value of the cash equivalents approximates cost. Foreign denominated cash and cash equivalents were approximately $2.7 million and $3.6 million at January 31, 2009 and 2008, respectively.

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Supplemental cash flow information for the years ended January 31 is as follows:

	2009	2008	2007
Interest paid	$ 827,725	$ 330,268	$ 356,331
Income taxes paid	$ 3,216,000	$ 699,456	$ 3,744,519

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of trade receivables. Concentration of credit risk with respect to these receivables is generally diversified due to the large number of entities comprising the Company's customer base and their dispersion across geographic areas principally within the United States. The Company routinely addresses the financial strength of its customers and, as a consequence, believes that its receivable credit risk exposure is limited. The Company does not require customers to post collateral.

The largest foreign cash balances are deposited in HSBC in China and the UK and in the TD Canada Trust Bank in Canada and Banco do Brasil S.A. and Banco Itaú S.A. banks in Brazil. The utilization of these larger banking institutions minimizes risk of deposits held in foreign countries.

Foreign Operations and Foreign Currency Translation

The Company maintains manufacturing operations in Mexico, India, Brazil and the People's Republic of China and can access independent contractors in Mexico and China. It also maintains sales and distribution entities located in India, Canada, the U.K., Chile, China and Brazil. The Company is vulnerable to currency risks in these countries. The functional currency of foreign subsidiaries is the U.S. dollar, except for the Brazilian operation and the Canadian Real Estate subsidiary.

Pursuant to FAS 52, assets and liabilities of the Company's foreign operations with functional currencies, other than the US dollar, are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average rates prevailing during the periods. Translation adjustments are reported in accumulated other comprehensive loss, a separate component of stockholders' equity.

The monetary assets and liabilities of the Company's foreign operations with the US dollar as the functional currency are translated into U.S. dollars at current exchange rates, while non-monetary items are translated at historical rates. Revenues and expenses are generally translated at average exchange rates for the year. Transaction gains and (losses) that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred and aggregated losses of approximately $149,000, $72,000, and $29,000 for the fiscal years ended January 31, 2009, 2008 and 2007, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include the allowance for doubtful accounts and inventory reserves. It is reasonably possible that events could occur during the upcoming year that could change such estimates.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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The Company believes that the carrying amount of such debt approximates the fair value as the variable interest rates approximate the current prevailing interest rate.

Fair value of Financial Instruments

The Company's principal financial instrument consists of its outstanding revolving credit facility and term loan.

Effects of Recent Accounting Pronouncements

In September 2006, the FASB issued FAS No. 157, “Fair Value Measurements” (FAS No. 157”), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively, except in the case of a limited number of financial instruments that require retrospective application. Management believes the potential impact of FAS No. 157 on our financial position and results of operations is not material.

In February 2007, the FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115” (FAS No. 159”). The new statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item’s fair value in subsequent reporting periods must be recognized in current earnings. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management believes the potential impact of FAS No. 159 on our financial position and results of operations is not material.

Statement of Financial Accounting Standards No. 141(R), Business Combinations (“Statement 141(R)”), was issued in December 2007. Statement 141 (R) requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred. Statement 141(R) also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. Statement 141(R) amends Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. Statement 141(R) is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. We adopted Statement 141 (R) on February 1, 2009. Statement 141R’s impact on accounting for business combinations is dependent upon future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51," which establishes new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decrease in the parent's ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a

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deficit balance. This standard also requires changes to certain presentation and disclosure requirements. SFAS No. 160 is effective beginning February 1, 2009. The provisions of the standard are to be applied to all NCIs prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. The Company believes that this pronouncement will not have a material effect on the financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS 161 on its consolidated financial statements.

Comprehensive income (loss)

Comprehensive income (loss) refers to revenue, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. This includes translation adjustments for foreign subsidiaries where the functional currency is other than the US dollar. No tax benefit or expense has been attributed to any of these items.

Comprehensive Income

	January 31, 2009	January 31, 2008	January 31, 2007
Net income	$ 4,549,468	$ 3,290,862	$ 5,104,199
Translation adjustments			
Canada Real Estate	(55,152)	(36,073)	-----
Qualytextil, S.A. Brazil	(3,473,196)	-----	-----
Interest rate swap	(627,380)	-----	-----
Total	4,155,728	(36,073)	-----
Total comprehensive income	$ 393,740	$ 3,254,789	$ 5,104,199

2 –INVENTORIES, NET

Inventories consist of the following at January 31:

	2009	2008
Raw materials	$ 26,343,875	$ 25,035,569
Work-in-process	2,444,160	2,873,001
Finished goods	28,285,993	20,207,603
	$ 57,074,028	$ 48,116,173

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3 –PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at January 31:

	Useful life in years	2009	2008
Machinery and equipment	3 – 10	$ 8,488,655	$ 6,960,835
Furniture and fixtures	3 – 10	389,746	316,592
Leasehold improvements	Lease term	1,189,312	654,097
Land and building (China)	20	2,412,115	2,412,115
Land, building and equipment (India)	7 - 39	4,010,237	3,949,612
Land and building (Canada)	30	1,985,951	2,434,059
Land and buildings (USA)	39	3,654,008	3,652,252
Land and building (Brazil)	5	535,971	-----
		22,665,995	20,379,562
Less accumulated depreciation and amortization		(8,929,669)	(7,054,914)
		$ 13,736,326	$ 13,324,648

Depreciation and amortization expense for fiscal 2009, 2008 and 2007 amounted to $1,633,846, $1,186,840, and $1,048,380, respectively. Net fixed assets in China were approximately $2,452,282 ($2.45) million and $2,130,889 ($2.13) million at January 31, 2009 and 2008, respectively. Net fixed assets in India were approximately $3.5 million and $3.77 million at January 31, 2009 and 2008, respectively. Net fixed assets in Canada were approximately $2.1 million and $2.6 million at January 31, 2009 and 2008, respectively. Net fixed assets in Brazil were approximately $1.1 million and $0 at January 31, 2009 and 2008, respectively.

In November 2006, the Company purchased the Industrial Glove assets of RFB Latex, Ltd. (RFB) of New Delhi, India for a purchase price of approximately $3.4 million, subject to reconciliation of operations over the prior year and an audit. Such assets consist of long term land leases, buildings and equipment. This purchase price is in addition to the cumulative outlay of approximately $1.5 million through November 15, 2006 which consists of the cost of the purchase option, inventory, receivables, operating losses to date and working capital. Such additional amount has been charged to expense in Fiscal 2007. The Company is in the process of, subject to Indian law, liquidating its existing subsidiary and setting up a new subsidiary which will consummate the purchase transaction. The Company has purchased the assets in question directly and has hired a new Chief Operating Officer to manage and control the Indian operations. Management has begun shipping gloves to the USA in December 2008.

4-BUSINESS COMBINATIONS – Acquisition of Qualytextil, S.A. and Increased Revolving Credit Line

On May 13, 2008, Lakeland Industries, Inc. completed the acquisition of 100% of all outstanding stock of Qualytextil, S.A., a corporation organized under the laws of Brazil, pursuant to a Stock Purchase. Qualytextil is a supplier of protective fire apparel in Brazil.

The acquisition was financed through Lakeland’s existing revolving credit facility as amended. Further, to accommodate the Qualytextil acquisition, Wachovia Bank, N.A. has increased the Revolving Line of Credit from $25,000,000 to $30,000,000 and has reworked several covenants to allow for the acquisition.

The Purchase Price was based upon a multiple of seven times the 2007 EBITDA of Qualytextil, some of which was used to repay outstanding debts at closing. The 2007 EBITDA was $R3,118,000 ($1.9 million) and the total amount paid at closing, including the repayment of such outstanding debts, is $R21,826,000 (approximately $13.3 million).

In connection with the closing of such acquisition, a total of $R6.3 million ($3.9 million) was used to repay outstanding debts of Qualytextil, $R7.8 million ($4.7 million) was retained in the various escrow funds as described, and the balance of $R7.7 million ($4.7 million) was paid to the Sellers at closing.

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There are provisions for an adjustment of the initial Purchase Price, based on results of 2008 EBITDA. The Post-Closing audit as of April 30, 2008 resulted in no adjustments to the Purchase Price.

There is also a provision for a Supplementary Purchase Price - Subject to Qualytextil's EBITDA in 2010 being equal to or greater than $R4,449,200 ($2.7 million), the Purchaser shall then pay to the Sellers the difference between six (6) times Qualytextil's EBITDA in 2010 and seven (7) times the 2007 EBITDA ($R21,826,000.00) ($13.3 million), less any unpaid disclosed or undisclosed contingencies (other than Outstanding Debts) from pre-closing which exceeds $R100,000.00 ($.06 million) ("Supplementary Purchase Price"). The Supplementary Purchase Price in no event shall be greater than $R27,750,000.00 ($16.8 million) additional over the initial Purchase Price, subject to certain restrictions. (USD amounts are based on the exchange rate at the date of the transaction $R1.645 = 1 USD)

All sellers also have executed employment contracts with terms expiring December 31, 2011 which contain a non-compete provision extending seven years from termination of employment. The Company evaluated the non-compete provision in the employment agreements and concluded the resulting intangible asset, if any, to be insignificant to the consolidated financial statements.

The Company has evaluated the fair value of the assets purchased including intangible assets and has assigned the following values to intangible assets of $R870,000 ($372,894) to the value of the Qualytextil contract with a significant customer, to be amortized over the remaining 54 months of the contract, and $R7,044,896 ($3,019,543) to tradenames, which has an indefinite life and is therefore not amortized. There is no significant purchased research and development cost involved.

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4. (continued)

The operations of Qualytextil, S.A. have been included in the Lakeland consolidated results commencing May 1, 2008. A condensed balance sheet at the acquisition date follows:

Current assets		($000 USD)
Cash and equivalents	$	34
Accounts receivables		1,199
Inventory		3,309
Other current assets		210
Total current assets	$	4,752
Deferred tax asset		222
Fixed assets		1,249
Intangible (Trademarks, Tradenames)		186
Other non-current assets		606
Total assets		7,015
Current Liabilities		
Loans		3,093
Trade payables and other current liabilities		3,477
Total current liabilities		6,570
Other non-current liabilities		86
Net assets acquired		359
Total cost of acquisition of Qualytextil, SA		13,780
Less net assets acquired		(359)
Less debt repayment at closing		(3,890)
Less additional values to reflect appraisal, assigned to: (in USD)		
Trademarks		(3,020)
Customer Contract		(373)

Goodwill at closing		6,138
Foreign currency translation		1,900
Goodwill at January 31, 2009 arising from Qualytextil, SA	$	4,238

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4. (continued)

Lakeland results on a pro-forma basis with Qualytextil, S.A. results included as if acquired at beginning of each period shown are as follows (in USD $000 except EPS):

	FY 09 YTD	FY 08 YTD
Sales	$104,233	$104,258
Net Income	4,815	3,942
EPS	$0.89	$0.71

For Brazilian tax purposes, the Company expects to deduct goodwill over a five year period commencing upon the merger of its holding company into the operating company in Brazil, which took place in November 2008.

5. – INTANGIBLES AND OTHER ASSETS, NET

Intangibles and other assets consist of:

	2009	2008
Trademarks and tradenames, resulting from Qualytextil, S.A. acquisition, per appraisal	$ 3,191,891	$ -----
Appraised value of customer contracts acquired in Qualytextil, S.A. acquisition, amortized over estimated remaining life of 51 months from January 31, 2009, net	352,178	-----
Bank fees net of amortization	83,550	16,223
Deferred taxes-non current	519,211	-----
Security deposits	231,318	101,367
Other	27,685	39,884
	$ 4,405,833	$ 157,474

Amortization expense for the next 5 years is as follows:
Bank fees: $55,700 for 2010 and $27,850 for 2011.
Customer contracts: $82,865 per year for 2010 through 2014, subject to exchange rate fluctuations.

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6. -LONG-TERM DEBT

Revolving Credit Facility

In July 2005, as amended, the Company entered into a $30 million five year revolving credit facility with Wachovia Bank, N.A. At January 31, 2009, the balance outstanding under this revolving credit facility amounted to $24.4 million. The credit facility is collateralized by substantially all of the assets of the Company. The credit facility contains financial covenants, including, but not limited to, fixed charge ratio, funded debt to EBIDTA ratio, inventory and accounts receivable collateral coverage ratio, with respect to which the Company was in compliance at January 31, 2009 and for the year then ended.

The maximum amounts borrowed under the credit facilities during the fiscal years ended January 31, 2009, 2008 and 2007 were $28,300,000, $9,900,000, and $10,000,000, respectively, and the weighted average interest rates during the periods were 3.06%, 5.51%, and 5.74%, respectively.

7. – STOCKHOLDERS' EQUITY AND STOCK OPTIONS

The Non-employee Directors' Option Plan (the "Directors' Plan") provides for an automatic one-time grant of options to purchase 5,000 shares of common stock to each non-employee director elected or appointed to the Board of Directors. Under the Directors' Plan, 60,000 shares of common stock have been authorized for issuance. 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 non-employee 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 each of such dates.

Restricted Stock Plan and Performance Equity Plan ("2006 Equity Incentive Plan")

On June 21, 2006, the shareholders of the Company approved a restricted stock plan. A total of 253,000 shares of restricted stock were authorized under this 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, minimum, 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 three to four years after issuance, subject to continuous employment and certain other conditions. Restricted stock have the same voting rights as other common stock. Restricted stock awards do not have voting rights, and the underlying shares are not considered to be issued and outstanding until vested.

The Company has granted up to a maximum of 147,617 restricted stock awards as of January 31, 2009. All of these restricted stock awards are non-vested at January 31, 2009 (104,772 shares at "baseline" and 62,917 shares at "minimum") and have a weighted average grant date fair value of $12.94. The Company recognizes expenses 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 January 31, 2009, unrecognized stock-based compensation expense related to restricted stock awards totaled $732,846 and $1,292,458 and $175,996 at the baseline, maximum and minimum performance levels, respectively. The cost of these non-vested 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 minimum level and expenses have been recorded accordingly. The performance based awards are not considered stock equivalents for EPS purposes.

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7. (continued)

The Company recognized total stock-based compensation costs of $299,935, $233,261 and $147,601, of which $268,391, $223,261 and $122,013 results from the 2006 Equity Incentive Plan, and $31,544 , $0 and $25,588 results from the Directors Plan Directors Option Plan for the years ended January 31, 2009, 2008 and 2007, respectively. These amounts are reflected in selling, general and administrative expenses. The total income tax benefit recognized for stock-based compensation arrangements was $107,977, $83,974 and $53,136 for the years ended January 31, 2009, 2008 and 2007, respectively.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions for the year ended January 31, 2009: expected volatility of 87%; risk-free interest rate of 3.6%; expected dividend yield of 0.0%; and expected life of six years. All stock-based option awards were fully vested at January 31, 2009, 2008 and 2007. During fiscal 2009, 3,000 option shares were granted to three Directors (1,000 each) in June 2008. No options were granted in fiscal 2008.

Additional information with respect to the Directors' Plan for the fiscal year ended January 31, 2009 is summarized as follows:

	Directors' Plan			
	Number of shares	Weighted average exercise price	Weighted average remaining term (years)	Aggregate Intrinsic Value
Shares under option				
Outstanding at beginning of year	17,567	$ 13.48	2.74	
Granted during FY09	3,000	13.10		$ 8,618
Outstanding and exercisable at end of year	20,567	$ 13.42	2.27	$ 1,594
Weighted-average fair value per share of options granted during 2009		$ 13.10		
Weighted-average fair value per share of options exercised during 2009		N/A		

Reserved Shares:	
Directors Plan	29,936

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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8. – INCOME TAXES

The provision for income taxes is based on the following pre-tax income:

	2009	2008	2007
Domestic	$ 2,826,365	$ 3,642,522	$ 5,132,063
Foreign	3,236,938	1,222,276	1,797,983
Total	$ 6,063,303	$ 4,864,798	$ 6,930,046

The provision for income taxes is summarized as follows:

	2009	2008	2007
Current			
Federal	$ 1,063,383	$ 1,680,298	$ 1,669,922
State	154,558	174,369	180,999
Foreign	904,413	343,864	429,343
	2,122,354	2,198,531	2,280,264
Deferred	(608,519)	(624,595)	(454,417)
	$ 1,513,835	$ 1,573,936	$ 1,825,847

The following is a reconciliation of the effective income tax rate to the Federal statutory rate:

	2009	2008	2007
Statutory rate	34.0%	34.0%	34.0%
State income taxes, net of Federal tax benefit	1.7%	2.4%	1.7%
Permanent differences	-----	(.7)%	(.7)%
FIN48 adjustment	(3.4)%	-----	-----
Foreign tax rate differential	(6.2)%	(5.4)%	(7.6)%
Other	(1.1)%	2.0%	(1.0)%
Effective rate	25.0%	32.3%	26.4%

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The tax effects of temporary differences which give rise to deferred tax assets at January 31, 2009, 2008 and 2007 are summarized as follows:

	2009	2008	2007
Deferred tax assets			
Inventories	$ 1,204,998	$ 1,120,426	$ 766,662
Accounts receivable	37,810	17,100	39,140
Accrued compensation and other	293,516	66,742	150,895
Depreciation	22,304	35,666	-----
Stock based compensation	262,502	130,000	-----
Losses in India prior to restructuring	757,102	599,779	398,667
Gross deferred tax assets	2,578,232	1,969,713	1,355,364
Deferred tax liabilities			
Depreciation and other	-----	-----	27,227
Gross deferred tax liabilities	-----	-----	27,227
Net deferred tax asset	$ 2,578,232	$ 1,969,713	$ 1,328,137

In January 2006, the company repatriated through dividends to the parent, approximately $3.2 million of cumulative earnings from its Chinese subsidiaries, thereby incurring approximately $164,000 of additional US taxes.

Tax Audit/Adoption of FIN 48

Effective February 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” (“FIN 48”). FIN 48 prescribes recognition thresholds that must be met before a tax position is recognized in the financial statements and provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. The Company recorded the cumulative effect of applying FIN 48 as a $419,000 debit to the opening balance of accumulated deficit as of February 1, 2007, the date of adoption.

The following able summarized the activity related to our gross unrecognized tax benefits from February 1, 2007 to January 31, 2009 (in $000):

Balance as of February 1, 2007	$ 419
Increases related to prior year tax position – accrued interest	20
Accrued as of January 31, 2008	439
Less taxes refundable from1/04 per company position written off in FY08 as part of FIN48 adjustment	(162)
Balance as of January 31, 2008	277
Payments made to settle the liability	(70)
Reduction in tax expense in FY09 to reflect settlement with IRS	(207)

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

FIN48 liability at January 31, 2009	$ 0

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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The Company's policy is to recognize interest and penalties related to income tax issues as components of income tax expense. The Company had approximately $90,000 of accrued interest as of July 31, 2008, prior to recording the effects of the settlement with the Internal Revenue Service ("IRS").

The Company is subject to U.S. federal income tax, as well as income tax in multiple U.S. 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 and 2005 have been audited by the IRS.

On July 23, 2008, the Company reached a settlement with the IRS regarding its examination of the Company's Federal Income Tax returns for taxable years ending January 31, 2003, 2004 and 2005.

The Company agreed with the IRS to settle the audit for the amount of $91,000, which includes interest of $24,000. The impact of this settlement results in an additional state tax liability of $12,000, which includes interest of $3,000. The settlement also resulted in the Company recording a deferred tax asset of $28,000. Accordingly, the Company reported a reduction in income tax expense of $207,000 for this transaction in its second quarter report for July 31, 2008. An audit of the Company's US federal tax returns for the year ended January 31, 2007 has just commenced.

Our two major foreign tax jurisdictions are China 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 fifteen years. Our China subsidiaries were audited during the tax year 2007 for the tax years through 2006, 2005 and 2004, respectively. Those audits are associated with ordinary course of business. China tax authorities did not perform tax audits associated with ordinary course of business during tax year 2008. China tax authority performed a fraud audit but the scope was limited to the fraud activities found in late tax year 2008. This audit covered tax year from 2003 through 2008, please see Note 17 for further details. Qualytextil, S.A. has never been audited under Brazilian Federal tax authorities, but by law in Brazil they are allowed to audit the five most recent years. We do not anticipate significant tax liability upon any future tax audits in Brazil.

9. – BENEFIT PLANS

Defined Benefit Plan

On January 30, 2007, Lakeland purchased a Single Premium Group Annuity Contract from the John Hancock Life Insurance Company ("John Hancock") to cover all participants in the Fireland Pension Fund in connection with Lakeland's termination of the plan. The cost of such annuity contract was approximately $1,421,000 for which John Hancock set up a Single Premium Non-participation Group Annuity plan to cover all participants in the plan. The termination of the plan was approved by the Pension Benefit Guarantee Corporation. Such cost of $1,421,000 was funded by plan assets of approximately $1,303,000 and net cash contributed by Lakeland of approximately $118,000. After the completion of this transaction, the company had a remaining accrued benefit cost liability of approximately $353,000, recognized as a pre-tax gain of approximately $353,000. This transaction meets the definition of "settlement" pursuant to FAS 88. The Fireland Pension Fund was a frozen defined benefit pension plan that covered former employees of an entity acquired in fiscal 1987.

Defined Contribution Plan

Pursuant to the terms of the Company's 401(k) plan, substantially all U.S. employees over 21 years of age with a minimum period of service are eligible to participate. The 401(k) plan is administered by the Company and provides for voluntary employee contributions ranging from 1% to 15% of the employee's compensation. The Company made discretionary contributions of $238,207, $216,283, and $197,075 in the fiscal years ended January 31, 2009, 2008, and 2007, respectively.

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10. – MAJOR SUPPLIER

The Company purchased approximately 46.4%, 62.0%, and 62.6% of its raw materials from one supplier under licensing agreements for the fiscal years ended January 31, 2009, 2008 and 2007, respectively. The Company expects this relationship to continue for the foreseeable future. Required similar raw materials could be purchased from other sources; although, the Company's competitive position in the marketplace could be affected.

11. – COMMITMENTS AND CONTINGENCIES

Employment Contracts

The Company has employment contracts with seven principal officers and the Chairman of the Board of Directors, expiring through January 31, 2010. Pursuant to such contracts, the Company is committed to aggregate annual base remuneration of $905,000 and $370,000 for the fiscal years ended January 31, 2009 and 2010.

Three of such contracts provide for bonuses based on reported EPS for the fiscal year 2009. The Company has accrued an aggregate of $77,000 for these bonuses.

The Company has employment contracts with the four principal sellers of Qualytextil, S.A. who have remained with Qualytextil, S.A. as managers. All four contracts expire December 31, 2011 and call for aggregate base compensation of approximately $R1.1 million.

Leases

On March 1, 1999, the Company entered into a one-year (renewable for four additional one- year terms) lease agreement with Harvey Pride, Jr., an officer of the Company, for a 2,400 sq. ft. customer service office for $18,000 annually located next to the existing Decatur, Alabama facility mentioned above. This lease was renewed on April 1, 2009 through March 31, 2011 with a 5% yearly increase rental rate.

The Company believes that all rents paid to Harvey Pride, Jr. by the Company are comparable to what would be charged by an unrelated party, as three different rent fairness appraisals were performed in 1999, 2002 and 2004. The total rent paid to Harvey Pride, Jr. by the Company for use of the customer service office for each of the years ended January 31, 2009, 2008 and 2007 amounted to $18,000.

In the fiscal year ended January 31, 2009, Qualytextil, S.A., in connection with the expansion needed to accommodate the importation and sales of Lakeland branded products in Brazil, has signed several leases for additional warehousing, corporate and sales space, in Salvador, Rio de Janiero and Sao Paulo, aggregating approximately 28,000 square feet at an aggregate annual rental of approximately $205,000, with expiration dates ranging from 3/2010 to 10/2013.

In July 2005 as part of the acquisition of Mifflin Valley Inc., (merged into Lakeland Industries, Inc. on September 1, 2006) the Company entered into a five year lease with Michael Gallen (an employee) to lease an 18,520 sq. ft.

manufacturing facility in Shillington, PA for $55,560 annually or a per square foot rental of $3.00 with an annual increase of 3.5%. This amount was obtained prior to the acquisition from an independent appraisal of the fair market rental value per square foot. In addition the Company, commencing January 1, 2006, is renting 12,000 sq ft of warehouse space in a second location in Pennsylvania from this employee, on a month by month basis, for the monthly amount of $3,350 or $3.35 per square foot annually. Mifflin Valley utilizes the services of Gallen Insurance (an affiliate of Michael & Donna Gallen) to provide certain insurance in Pennsylvania. Such payments for insurance aggregated of approximately $40,000, $34,000 and $27,000 in fiscal 2009, 2008 and 2007, respectively.

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11. (continued)

Total rental costs under all operating leases is summarized as follows:

Year ended January 31,	Gross rental	Rentals paid to related parties
2009	$ 550,513	$ 117,855
2008	$ 566,845	$ 167,904
2007	$ 769,101	$ 226,560

Minimum annual rental commitments for the remaining term of the Company's non-cancelable operating leases relating to manufacturing facilities, office space and equipment rentals at January 31, 2009 including lease renewals subsequent to year-end are summarized as follows:

Year ending January 31,	
2010	$ 691,561
2011	504,765
2012	318,603
2013	265,696
2014	101,339

Real Estate Purchases

Building purchase in India:

On November 22, 2006 the Company closed on its contract to buy the Industrial glove assets of RFB Latex, Ltd. of New Delhi, India. Included in this contract are 3 buildings of 58,945 square feet on three land plots which has an appraised value of $3.5 million.

Canadian building:

In June 2006, the Company entered into an agreement to construct a distribution facility in Brantford, Ontario at a fixed cost of approximately $2,400,000. In order to finance the acquisition, the Company has arranged a term loan in the amount of $2,000,000 (Canadian) bearing interest at the Business Development Bank of Canada's floating base rate minus 1.25% (currently equal to 6.75%) and is repayable in 240 monthly principal installments of $8,350 (Canadian) plus interest. The Company has drawn down the full amount of this loan, and has included $33,899 (Canadian) as capitalized interest reflected in the asset cost. Such building was completed, and the Company took occupancy in December 2007. The term loan is collateralized by the land and buildings in Brantford, Ontario, as well as certain personal property of our Canadian subsidiaries. In addition, $700,000 (Canadian) of the term loan is guaranteed by the parent Company.

A five year commitment schedule for this is as follows:

Year ended January 31,	(Canadian)
2010	96,600
2011	96,600
2012	96,600
2013	96,600
2014	96,600

Litigation

The Company is involved in various litigation arising during the normal course of business which, in the opinion of the management of the Company, will not have a material effect on the Company's financial position, results of operations, or cash flows.

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11. (continued)

US Customs Audit

The Company has received notice in March 2009 that it has been selected for a NAFTA verification audit by US Customs in Brownsville. Management believes this will not result in a significant liability to the Company.

Related Party-outside contractor

The Company leased its facility in Mexico from Louis Gomez Guzman (an employee in Mexico until December 2005), pursuant to a lease which expired July 31, 2007 at an annual rental of $121,224. Mr. Guzman was acting as a contractor for our Mexican facility both before and following his employment with the Company. His company, Intermack, enabled our Mexican facility to increase or decrease production as required without the Company needing to expand its facility. During fiscal 2009, 2008 and 2007, Lakeland de Mexico paid Intermack $1,889,309, $518,968 and $721,748, respectively, for services relating to contract production.

12. – RESTRUCTURING

The Company closed its Celaya, Mexico manufacturing facility and opened a new and larger facility in Jerez, Mexico. The change in facilities is primarily to reduce the unit cost of production. Jerez presents better labor, rental and transportation values than did our Celaya plant and the Company believes it has realized savings of approximately $500,000 annually. In December 2007, the production move was fully implemented. The new Jerez facility will also double our capacity in Mexico and will be used for specialty woven items that are not made in China due to high tariffs and/or quotas imposed by most customs departments in North and South America on such goods, but not dutiable if made in Mexico under the NAFTA and other Latin American Trade Treaties. The Company has recorded a $506,000 pretax expense in fiscal 2008, which is included in “cost of goods sold” primarily attributable to $275,000 in legally mandated severance costs to its Celaya employees, $134,000 in other termination costs and $97,000 in moving and start-up costs.

13. – DERIVATIVE INSTRUMENTS AND FOREIGN CURRENCY EXPOSURE

The Company has foreign currency exposure, principally through sales in Canada, Brazil and the UK and production in Mexico and China. Management has commenced a hedging program to partially offset this risk by purchasing forward contracts to sell the Canadian Dollar, Euro and Great Britain Pound. Such contracts for the Euro and Pound 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.

The Company accounts for its foreign exchange derivative instruments under Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended. This standard requires recognition of all derivatives as either assets or liabilities at fair value and 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.

The Company had no derivative instruments outstanding at January 31, 2009 and one derivative instrument outstanding at January 31, 2008 which was treated as a cash flow hedge intended for forecasted purchases of merchandise by the Company's Canadian subsidiary. The change in the fair market value of the effective hedge portion of the foreign currency forward exchange contracts was an unrealized loss of $36,073, for the year ended January 31, 2008 and was recorded in other comprehensive loss. It will be released into operations over the remaining 9 months of the contract based on the timing of the sales of the underlying inventory. The release to operations will be reflected in cost of products sold.

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13. (continued)

During the year ended January 31, 2008 and 2009, the Company recorded a loss in cost of goods sold for the remaining portion of the foreign currency forward exchange contract that did not qualify for hedge accounting treatment. The derivative instrument was in the form of a foreign currency “participating forward” exchange contract. The “participating forward” feature affords the Company full protection on the downside and the ability to retain 50% of any gains, in exchange for a premium at inception. Such premium is built into the contract in the form of a different contract rate in the amount of $0.0160.

Interest Rate Risk Management

We are exposed to interest rate risk from debt. We have hedged against the risk of changes in the interest rate associated with our variable rate Revolving Credit (See Note 6) by entering into a variable-to-fixed interest rate swap agreement, designated as fair value hedges, with a total notional amount of $18 million as of January 31, 2009. We assume no hedge ineffectiveness as each interest rate swap meets the short-cut method requirements under SFAS 133 for fair value hedges of debt instruments. As a result, changes in the fair value of the interest rate swaps are offset by changes in the fair value of the debt, both are reported in interest and other income and not net gain or loss is recognized in earnings.

The fair values of all derivatives recorded on the consolidated balance sheet are as follows:

	January 31, 2009	January 31, 2008
Unrealized Gains:		
Foreign currency exchange contracts	-----	-----
Unrealized (Losses):		
Foreign currency exchange contracts	-----	$77,000
Interest rate swaps	$(627,380)	-----

The Brazilian financial statements, when translated into USD pursuant to FAS 52, “Foreign Currency Translation” resulted in a Currency Translation Adjustment (CTA) of $(3,473,196), which is included in Other Comprehensive Loss on the Balance Sheet.

14. – MANUFACTURING SEGMENT DATA

The Company manages its operations by evaluating its geographic locations. The Company’s North American operations include its facilities in Decatur, Alabama (primarily disposables, chemical suit and glove production), Celaya, Mexico (primarily disposables, chemical suit and glove production) and St. Joseph, Missouri (primarily woven products). The Company also maintains contract manufacturing facilities in China (primarily disposable and chemical suit production). The Company’s China facilities, Jerez, Mexico and Salvador, Brazil facilities produce the majority of the Company's products. The accounting policies of these operating entities are the same as those described in Note 1. The Company evaluates the performance of these entities based on operating profit, which is defined as income before income taxes and other income and expenses. The Company has a small sales force in Canada and Europe who distribute products shipped from the United States and China, the table below represents information about reported manufacturing segments for the years noted therein:

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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14. (continued)

	2009	2008	2007
Net Sales:			
North America and other foreign	$ 92,408,341	$ 97,922,742	$ 104,804,921
China	22,182,628	14,823,755	12,007,656
India	489,755	132,350	449,022
Brazil	8,383,726	-----	-----
Less inter-segment sales	(21,196,325)	(17,138,779)	(17,090,657)
Consolidated sales	$ 102,268,125	$ 95,740,068	$ 100,170,942
Operating Profit:			
North America & other foreign	$ 2,890,601	$ 3,262,062	$ 5,879,388
China	3,071,886	2,082,988	1,858,226
India	(845,791)	(624,042)	(974, 678)
Brazil	1,469,542	-----	-----
Less intersegment profit	(313,928)	262,466	(41,031)
Consolidated operating profit	$ 6,272,310	$ 4,983,474	$ 6,721,905
Identifiable Assets:			
North America and other foreign	$ 70,302,861	$ 76,306,269	$ 63,479,434
China	13,270,793	9,904,174	4,353,599
India	4,351,075	(1,587,590)	6,365,327
Brazil	13,689,989	-----	-----
Consolidated assets	$ 101,614,718	$ 84,622,853	$ 74,198,360
Depreciation:			
North America and other foreign	$ 830,314	$ 665,182	$ 633,754
China	286,773	352,009	402,233
India	365,262	169,649	12,393
Brazil	134,612	-----	-----
Consolidated depreciation	$ 1,616,961	$ 1,186,840	$ 1,048,380

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15. – UNAUDITED QUARTERLY RESULTS of OPERATIONS (In thousands, except for per share amounts):

	1/31/09	10/31/08	7/31/08	4/30/08
Net Sales	$ 22,263	$ 25,160	$ 27,565	$ 27,280
Cost of Sales	16,304	17,989	19,404	20,202
Gross Profit	$ 5,959	$ 7,171	$ 8,161	$ 6,678
Net Income	$ 659	$ 1,373	$ 1,625	$ 893
Basic and Diluted income per common Share:				
Basic	$ 0.12	$ 0.25	$ 0.30	$ 0.16
Diluted	$ 0.12	$ 0.25	$ 0.30	$ 0.16
	1/31/08	10/31/07	7/31/07	4/30/07
Net Sales	$ 24,959	$ 23,453	$ 21,732	$ 25,596
Cost of Sales	18,789	17,749	16,538	20,307
Gross Profit	$ 6,170	$ 5,704	$ 5,194	$ 5,289
Net Income	$ 998	$ 930	$ 767	$ 596
Basic and Diluted income per common Share:				
Basic	$ 0.18	$ 0.17	$ 0.14	$ 0.11
Diluted	$ 0.18	$ 0.17	$ 0.14	$ 0.11

16. – ADOPTION OF SAB NO. 108

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” The transition provisions of SAB 108 permit the Company to adjust for the cumulative effect on retained earnings of immaterial errors relating to prior years. SAB 108 also requires the adjustment of any prior quarterly financial statements within the fiscal year of adoption for the effects of such errors on the quarters when the information is next presented. Such adjustments do not require previously filed reports with the SEC to be amended. The Company adopted SAB 108 at the end of fiscal 2007. In accordance with SAB 108, the Company has adjusted beginning retained earnings for fiscal 2008 in the accompanying consolidated financial statements for the items described under “Elimination of Intercompany Profit in Inventory” below. The Company considers these adjustments to be immaterial to prior periods.

Elimination of Intercompany Profit in Inventory
As part of the Company’s routine testing for Sarbanes-Oxley compliance, it was determined that a report used for the calculation of the elimination of intercompany profit in inventory did not include finished goods inbound in transit, thereby serving to understate the amount of intercompany profit to be eliminated.

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The Company analyzed the effect of this adjustment on prior years to fiscal 2005 and has quantified an adjustment of $262,000, net of taxes, over the effected period through fiscal 2007. In accordance with the provisions of SAB 108, the Company decreased beginning retained earnings for fiscal year 2008 by $262,000 within the accompanying Condensed Consolidated Financial Statements.

The Company does not believe that the net effect of this adjustment was material, either quantitatively or qualitatively, in any of the years covered by the review. In reaching that determination, the following quantitative measures were considered:

(in thousands) Fiscal Year		Net Decrease to Net Income	Net Income As Reported	Net Adjustment, After Tax as a % of Net Income As Reported
2007		154	5,104	3.02
2006		20	6,329	0.32%
2005		88	5,016	1.75%
Total	$	262	16,449	1.59%

Impact of Adjustments - The impact of each of the items noted above, net of tax, on fiscal 2008 beginning balances are presented below:

(in thousands)		Total
Inventory	$	$(262)
Retained Earnings		$(262)
Total	$	—

17. – FRAUD INVOLVING CHINA PLANT MANAGER

In October 2008, a senior manager in charge of one of the Company's plants in China was terminated. He has been charged by Chinese authorities with selling non-woven fabric waste from garment production over the last eight years and personally keeping the proceeds. Such proceeds amount to approximately RMB4,000,000 (approximately USD $580,000) which the company has recovered. Such proceeds allegedly originated periodically over the last eight years and were not significant in any one year. The company has completed negotiations with Chinese government agencies regarding income tax, fine and interest at $81,000 and $169,000, respectively. The company is still negotiating with customs authorities, and have reserved $163,000 as custom duties and fines. A net pretax total of $247,000 is reported as other income and $81,000 is reported as income tax expense in association with this matter.

Further, the Company had been searching for an additional building to expand its China operations. In May 2008, this senior manager steered the Company into purchasing a building only 5 miles from our existing plants in AnQui City. The Company agreed to purchase this building for RMB4.2 million (approximately $614,000). This senior manager was an undisclosed owner of this building. Further, a forged land lease was also issued. The Company has unwound this transaction and has received the return in full of the RMB4 million it paid in Q3 for this building. The Company also negotiated a four year lease for this property which will be reflected as prepaid rent for the RMB1.5 million spent by the Company for improvements.

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The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

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18. – OTHER INCOME

In 2003 and 2004, one of the Company's China subsidiaries reserved RMB1,399,000 ($204,000) out of which RMB901,000 was reserved for workers social benefits and RMB498,000 was reserved for potential liabilities resulted in cash returned by a previous employee who was terminated in 2004. Upon inquiries with the local government agencies, we concluded that we are no longer liable for these items. As a result, we reported the equivalent of RMB1,399,000 ($204,000) as other income for the year ended January 31, 2009.

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SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C Additions		Column D	Column E
	Balance at Beginning of period	Charge to costs and expenses	Charged to other accounts	Additions / Deductions	Balance at end of period
Year ended January 31, 2009					
Allowance for doubtful accounts (a)	$ 45,000			$ 59,500	$ 104,500
Allowance for slow moving inventory	$ 607,000			$ 50,000	$ 657,000
Year ended January 31, 2008					
Allowance for doubtful accounts (a)	$ 103,000			$ (58,000)	$ 45,000
Allowance for slow moving inventory	$ 306,000			$ 301,000	$ 607,000
Year ended January 31, 2007					
Allowance for doubtful accounts (a)	$ 323,000			$ (220,000)	$ 103,000
Allowance for slow moving inventory	$ 365,000			$ (59,000)	$ 306,000

(a) Deducted from accounts receivable.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of the our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation 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 January 31, 2009. 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 January 31, 2009 for the reasons discussed below, to ensure them that information relating to the Company (including our consolidated subsidiaries) required to be included in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Our Chief Executive Officer and Chief Financial Officer have concluded that we have a material weakness over our China operations and financial reporting as of January 31, 2009.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Management has assessed the effectiveness of the Company's internal control over financial reporting as of January 31, 2009. 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 on this evaluation, management has concluded that the Company's internal control over financial reporting was not effective as of January 31, 2009. Our Chief Executive Officer and Chief Financial Officer have concluded that we have a material weakness over our inventory relating to sales of raw material waste in China at January 31, 2009.

In response to the fraud in China (as fully explained in Note 17), and the material weakness identified at October 31, 2008, we have initiated a China Internal Control Committee. Such Committee reviews, examines and evaluates China operating activities, and plans, designs and implements internal control procedures and policies. The Committee reports to the Chief Financial Officer. In particular, the Committee focuses on: strengthening controls over waste/scrap sales, upgrading local accounting manager authority and responsibility, and creating new banking and inventory controls.

We believe the above remediation steps will provide us with the infrastructure and processes necessary to accurately prepare our financial statements on a quarterly basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Previous Material Weaknesses- In its report at April 30, 2008, management had previously identified a material weakness in its period-end financial reporting process relating to employee withholding for medical insurance. The employee withholding for medical insurance was not offset against the expenses as a result of human error and was not identified on review due to the favorable claim experience resulting in lowered expenses. This control deficiency resulted in an adjustment to our April 30, 2008 financial statements and could have resulted in an overstatement of cost of sales and operating expenses that would have resulted in an understatement of net earnings in the amount of $127,000 to the interim financial statements if not detected and prevented.

In response to the material weakness identified at April 30, 2008, we have initiated additional review procedures to reduce the likelihood of future human error on the assets and liabilities trial balance amounts. Management believes that the remediation relating to the weakness relating to the Chinese subsidiaries is now completely in effect.

Management had also previously identified two material weaknesses at January 31, 2008, in its period-end financial reporting process relating to the elimination of inter-company profit in inventory and the inadequate review of inventory cutoff procedures and financial statement reconciliations from one of our China subsidiaries. The material weakness which related to the elimination of inter-company profit in inventory resulted from properly designed controls that did not operate as intended due to human error. The material weakness that resulted in the inventory cut-off error was as a result of the improper reconciliation of the conversion of one of our China subsidiaries' financial statements from Chinese GAAP to U.S. GAAP. We engaged a CPA firm in China to assist management in this conversion, and the Chinese CPA firm's review as well as management's final review did not properly identify the error in the reconciliation. These control deficiencies resulted in audit adjustments to our January 31, 2008 financial statements and could have resulted in a misstatement to cost of sales that would have resulted in a material misstatement to the annual and interim financial statements if not detected and prevented.

Remediation - In response to the material weaknesses identified at January 31, 2008, we continue the process of initiating additional review procedures to reduce the likelihood of future human error and are transitioning to internal accounting staff with greater knowledge of U.S. GAAP to improve the accuracy of the financial reporting of our Chinese subsidiary. We have automated key elements of the calculation of intercompany profits in inventory and formalized the review process of the data needed to calculate this amount. With the implementation of this corrective action we believe that the previously identified material weakness relating to intercompany profit elimination has been remediated as of the first quarter of the fiscal year 2009.

Effective in full at October 31, 2008, management has taken primary responsibility to prepare the US GAAP financial reporting based on China GAAP financial statements. This function was previously performed by outside accountants in China. Further, US corporate management is now also reviewing the China GAAP financial statements. In addition, in July 2008, an internal auditor was hired in China who will report directly to the US corporate internal audit department and who will work closely with US management.

As described below under the heading "Changes in Internal Controls Over Financial Reporting," we have previously taken a number of steps designed to improve our accounting for our Chinese subsidiaries, the elimination of intercompany profit in inventory, and employee withholding for medical insurance.

Changes in Internal Control Over Financial Reporting – Except as described above, there have been no changes in our internal control over financial reporting since January 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management is in the process of reviewing, evaluating and upgrading the systems of internal control existing at our new subsidiary in Brazil, Qualytextil, S.A.

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Lakeland Industries, Inc.’s management, with the participation of Lakeland Industries, Inc.’s Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in the Company’s internal control over financial reporting occurred during the fourth quarter of fiscal 2009. Based on that evaluation, management concluded that other than the China Internal Control Committee discussed above, there have not been changes in Lakeland Industries, Inc.’s internal control over financial reporting during the fourth quarter of fiscal 2009 that have materially affected, or is reasonably likely to materially affect, Lakeland Industries, Inc.’s internal control over financial reporting.

Holtz Rubenstein Reminick LLP, the Company's independent registered public accounting firm has issued a report on management’s assessment of the Company’s internal control over financial reporting. That report dated April 14, 2009 is included herein.

Changes in Internal Control over Financial Reporting

Other than the China Internal Control Committee discussed above, there have been no other changes in Lakeland Industries, Inc.’s internal control over financial reporting during the fourth quarter of fiscal 2009 that have materially affected, or is reasonably likely to materially affect, Lakeland Industries, Inc.’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a list of the names and ages of all of our directors and executive officers, indicating all positions and offices they hold with us as of April 10, 2009. Our directors hold office for a three-year term and until their successors have been elected and qualified. Our executive officers hold offices for one year or until their successors are elected by our board of directors.

Name	Age	Position
Raymond J. Smith	70	Chairman of the Board of Directors
Christopher J. Ryan	57	Chief Executive Officer, President, Secretary, General Counsel and Director
Gary Pokrassa	61	Chief Financial Officer
Gregory D. Willis	52	Executive Vice President
Harvey Pride, Jr.	62	Senior Vice President - Manufacturing
Paul C. Smith	42	Vice President
Gregory Pontes	48	Vice President - Manufacturing
Phillip Willingham	51	Vice President - MIS
John J. Collins	66	Director
Eric O. Hallman	65	Director
John Kreft	58	Director
Stephen M. Bachelder	58	Director

Raymond J. Smith, one of our co-founders of Lakeland, has been Chairman of our Board of Directors since our incorporation in 1982 and was President from 1982 to November 30, 2003. Prior to starting Lakeland, Mr. Smith was first the National Sales Manager then the President of Abandaco, Inc. from 1966 to 1982, and a Sales Executive at International Paper from 1961 to 1966. Mr. Smith received his B.A. from Georgetown University in 1960. Mr. Smith as served as a director since 1982 and his term as a director will expire at our annual meeting of stockholder in 2010.

Christopher J. Ryan has served as our Chief Executive Officer and President of Lakeland since February 1, 2004, Secretary since April 1991, General Counsel since February 2000 and a director since May 1986. Mr. Ryan was our Executive Vice President - Finance from May 1986 until becoming our President on February 1, 2004 and his term as director will expire at our annual meeting of stockholders in 2008. Mr. Ryan also worked as a Corporate Finance Partner at Furman Selz Mager Dietz & Birney, Senior Vice President-Corporate Finance at Laidlaw Adams & Peck, Inc., Managing-Corporate Finance Director of Brean Murray Foster Securities, Inc and Senior Vice President-Corporate Finance of Rodman & Renshaw, respectively between 1983-1991. Mr. Ryan served as a Director of Lessing, Inc. from 1995-2008, a privately held restaurant chain based in New York. Mr. Ryan received his BA from Stanford University, his MBA from Columbia Business School and his J.D from Vanderbilt Law School. Mr. Ryan is a member of the National Association of Corporate Directors (NACD)

Gary Pokrassa is a CPA with 38 years experience in both public and private accounting. Mr. Pokrassa was the CFO for Gristedes Foods, Inc. (AMEX-GRI) from 2000-2003 and Syndata Technologies from 1997-2000. Mr. Pokrassa received a BS in Accounting from New York University and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation

Gregory D. Willis has served as our Executive Vice President since May 1, 2005 and has held the position of National Sales Manager for us since November 1991. Prior to joining Lakeland he held the positions of National Sales Manager and Global Marketing Manager for Kappler Inc. from 1983 to 1991. Mr. Willis received his BBA degree in Business from Faulkner University and is currently a member of International Safety Equipment Association (ISEA) and National Fire Protection Agency (NFPA).

Harvey Pride, Jr. has been our Vice President of manufacturing since May 1986 and was promoted to Senior Vice President of manufacturing in 2006. He was Vice President of Ryland (our former subsidiary) from May 1982 to June 1986 and President of Ryland until its merger into Lakeland on January 31, 1990.

Paul C. Smith, son of Raymond J. Smith, has served as Vice President since February 1, 2004. Prior to that, Mr. Smith was our Northeast Regional Sales Manager since September 1998. From April 1994 until September 1998, Mr. Smith was a sales representative for the Metropolitan Merchandising and Sales Co.

Gregory D. Pontes has served as Vice President of Manufacturing since September of 2006. He served as the Operations Manager from 2003-2006; and worked as Lakeland's Senior Engineer from 1994-2003. Prior to joining Lakeland Mr. Pontes worked at Kappler Inc. as their Project/Cost Engineer from 1989-1994.

Phillip L. Willingham has served as Vice President of MIS since January of 2009. He served as our IT Manager from 2000-2008. Prior to joining Lakeland, Mr. Willingham worked at the Chrysler Corporation as a Systems Analyst from 1986-2000.

John J. Collins, Jr. was Executive Vice President of Chapdelaine GSI, a government securities firm, from 1977 to January 1987. He was Senior Vice President of Liberty Brokerage, a government securities firm, between January 1987 and November 1998. Presently, Mr. Collins is self employed, managing a direct investment portfolio of small business enterprises for his own accounts. Mr. Collins has served as one of our directors since 1986 and his term as a director will expire at our annual meeting of stockholders in June 2009.

Eric O. Hallman was President of Naess Hallman Inc., a ship brokering firm, from 1974 to 1991. Mr. Hallman was also affiliated between 1991 and 1992 with Finanshuset (U.S.A.), Inc., a ship brokering and international financial services and consulting concern, and was an officer of Sylvan Lawrence, a real estate development company, between 1992 and 1998. Between 1998 and 2000, Mr. Hallman was President of PREMCO, a real estate management company, and currently is Comptroller of the law firm Murphy, Bartol & O'Brien, LLP. Mr. Hallman has served as one of our directors since our incorporation in 1982 and his term as a director will expire at our annual meeting of stockholders in June 2009.

A. John Kreft has been President of Kreft Interests, a Houston based private investment firm, since 2001. Between 1998 and 2001, he was CEO of Baker Kreft Securities, LLC, a NASD broker-dealer. From 1996 to 1998, he was a co-founder and manager of TriCap Partners, a Houston based venture capital firm. From 1994 to 1996 he was employed as a director at Alex Brown and Sons. He also held senior positions at CS First Boston including employment as a managing director from 1989 to 1994. Mr. Kreft has served as a director since November 17, 2004 and his term as a director will expire at our annual meeting of Stockholders June 2011. Mr. Kreft received his MBA from the Wharton School of Business in 1975. Mr. Kreft is a member of the National Association of Corporate Directors (NACD).

Stephen M. Bachelder was with Swiftview, Inc. a Portland, Oregon based software company since 1999-2007 and President since 2002. Swiftview, Inc. was sold to a private equity firm in October 2006. Mr. Bachelder is currently working on plans for a new venture. From 1991 to 1999 Mr. Bachelder ran a consulting firm advising technology companies in the Pacific Northwest. Mr. Bachelder was the president and owner of an apparel company, Bachelder Imports, from 1982 to 1991 and worked in executive positions for Giant Foods, Inc. and Pepsico, Inc. between 1976 and 1982. Mr. Bachelder is a 1976 Graduate of the Harvard Business School. Mr. Bachelder has served as a director since 2004 and his term as a director will expire at our annual meeting of stockholders in June 2009.

Committees of the Board

Our board of directors has a designated Audit Committee that reviews the scope and results of the audit and other services performed by our independent accountants. The Audit Committee is comprised solely of independent directors and consists of Messrs. Kreft, Bachelder, Hallman and Collins, chaired by Mr. Kreft. The board of directors has also designated a Compensation Committee that establishes objectives for our senior executive officers, sets the compensation of directors, executive officers and our other employees and is charged with the administration of our employee benefit plans. The Compensation Committee is comprised solely of independent directors and consists of Messrs. Kreft, Bachelder, Collins and Hallman. There is also a Nominating Committee comprised of the independent directors, chaired by Mr. Bachelder.

Compensation of Directors

Each non-employee director receives a fee of $6,250 (committee chairman receive an additional $500) per quarter plus per-meeting fees of $1500 for in-person attendance or $500 for telephone attendance. Non-employee directors are reimbursed for their reasonable expenses incurred in connection with attendance at or participation in such meetings. In addition, under our 1995 Director Plan, each non-employee director who becomes a director is granted an option to purchase 5,000 shares of our common stock. Messrs. Hallman and Collins were each granted an option to purchase 5,000 shares of our common stock in 1988 under our previous 1986 Plan at the time of their respective appointments or reelections to the board of directors. Such grants and the terms thereof were renewed on April 18, 1997, May 5, 1996 and

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May 5, 1996, respectively, in accordance with stockholder approval of the 1995 Director Plan at our 1995 annual meeting of stockholders. Messrs. Kreft and Bachelder each received an option to purchase 5,000 shares of our Common Stock upon appointment to our Board of Directors in November 2004.

Directors who are employees of Lakeland receive no additional compensation for their service as directors. However, such directors are reimbursed for their reasonable expenses incurred in connection with travel to or attendance at or participation in meetings of our board of directors or committees of the board of directors.

ITEM 11. EXECUTIVE COMPENSATION

See information under the caption "Compensation of Executive Officers" in the Company's Proxy Statement, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See the information under the caption "Voting Securities and Stock Ownership of Officers, Directors and Principal Stockholders" in the Company's Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Leases
On March 1, 1999, we entered into a one year (renewable for four additional one year terms) lease agreement with Harvey Pride, Jr., our Vice President – Manufacturing, for a 2,400 sq. ft. customer service office located next to our existing Decatur, Alabama facility. We paid an annual rent of $18,000 for this facility under the lease agreement in fiscal 2004 through 2008. This lease was renewed on April 1, 2008 at the same rental rate of $18,000 for FY09 with 5% increments for FY10 and FY11.

In July 2005 as part of the acquisition of Mifflin Valley Inc., (merged into Lakeland Industries, Inc. on September 1, 2006) the Company entered into a five year lease with Michael Gallen (an employee) to lease an 18,520 sq. ft. manufacturing facility in Shillington, PA for $55,560 annually or a per square foot rental of $3.00 with an annual increase of 3.5%. This amount was obtained prior to the acquisition from an independent appraisal of the fair market rental value per square foot. In addition the Company, commencing January 1, 2006 is renting 12,000 sq ft of warehouse space in a second location is Pennsylvania from this employee, on a month by month basis, for the monthly amount of $3,350 or $3.35 per square foot annually. Mifflin Valley utilizes the services of Gallen Insurance (an affiliate of Michael & Donna Gallen) to provide certain insurance in Pennsylvania. Such payments for insurance aggregated of approximately $40,000, $34,000 and $27,000 in fiscal 2009, 2008 and 2007, respectively.

Related Party-outside contractor

The Company leased its facility in Mexico from Louis Gomez Guzman, an employee in Mexico until December 2005, pursuant to a lease which expired on July 31, 2007 at an annual rental of $121,224. Mr. Guzman also acted as a contractor for our Mexican facility in FY07 and part of FY08. During fiscal 2008 and 2007, Lakeland de Mexico paid Intermack $518,968 and $721,748 for services relating to contract production. In August 2008, the Company moved to a larger leased facility in Jerez, Mexico, and leases this property from an unaffiliated landlord.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligatior

See the information under the caption “Report of the Audit Committee” in the Company’s Proxy Statement, which information is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8 – K

(a) The following documents are filed as part of this report:

1 Consolidated Financial Statements (See Page 40 of this report which includes an index to the consolidated financial statements)

2 Financial Statement Schedules:

Schedule II- Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable, not required, or because the required information is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits:

Exhibit	Description
3.1	Restated Certificate of Incorporation of Lakeland Industries, Inc., as amended, (Incorporated by reference to Exhibit 3.1 of Lakeland Industries, Inc.'s Form 8-K dated April 15, 2008)
3.2	Bylaws of Lakeland Industries Inc., as amended (Incorporated by reference to Exhibit 3.2 of Lakeland Industries, Inc.'s Form 8-K dated April 15, 2008)
10.1	Amendment dated February 1, 2007 to the original lease Agreement, dated August 1, 2001, between Southwest Parkway, Inc., as lessor, and Lakeland Industries, Inc., as lessee (Incorporated by reference to Exhibit 10.1 of Lakeland Industries, Inc. Form 10-K for fiscal year ended January 31, 2008 filed April 14, 2008)
10.2	Lakeland Industries, Inc. Stock Option Plan (Incorporated by reference to Exhibit 10(n) of Lakeland's Registration Statement on Form S-18 (File No. 33-7512 NY))
10.3	Employment Agreement, dated April 16, 2007, between Lakeland Industries, Inc. and Raymond J. Smith (Incorporated by reference to Exhibit 10-4 of Lakeland Industries, Inc.'s Quarterly Report on Form 10-Q filed June 7, 2007)
10.4	Employment Agreement, dated April 11, 2008, agreement between Lakeland Industries, Inc. and Harvey Pride, Jr. (filed herein)
10.5	Employment Agreement, dated April 13, 2008, between Lakeland Industries, Inc. and Christopher J. Ryan. (filed herein)
10.6	Lease Agreement dated April 1, 2008 amendment to the original lease Agreement, dated March 1, 2004, between Harvey Pride, Jr., as lessor, and Lakeland Industries, Inc., as lessee for the property at 201 Pride Lane, Decatur, Al. (filed herein)

10.7	Modification to the Term Loan and Security Agreement, dated July 7, 2005, between Lakeland Industries, Inc. and Wachovia Bank, N.A. (filed herein)
10.8	Employment Agreement, dated April 18, 2007, between Lakeland Industries, Inc. and James M. McCormick (Incorporated by reference to Exhibit 10-12 of Lakeland Industries, Inc.'s Quarterly Report on Form 10-Q filed June 7, 2007)
10.9	Employment Agreement, dated April 18, 2007, between Lakeland Industries, Inc. and Paul C. Smith (Incorporated by reference to Exhibit 10-13 of Lakeland Industries, Inc.'s Quarterly Report on Form 10-Q filed June 7, 2007)
10.10	Employment Agreement, dated January 31, 2008, between Lakeland Industries, Inc. and Gary Pokrassa, CPA. (Incorporated by reference to exhibit 10.1 of Lakeland Industries, Inc. Form 8-K filed February 6, 2008)

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10.11	Employment Agreement, dated April 16, 2007, between Lakeland Industries Inc., and Gregory D. Willis (Incorporated by reference to exhibit 10.15 of Lakeland Industries, Inc. Quarterly Report on Form 10-Q filed June 7, 2007)
10.12	Asset Purchase Agreement, dated July, 2005 between Lakeland Industries, Inc. and Mifflin Valley, Inc. and Lease Agreement and Employment Contract between Lakeland Industries, Inc., and Michael Gallen (Incorporated by reference to exhibit 10.15, 10.16, and 10.17 of Lakeland Industries, Inc.'s Quarterly Report on form 10-Q filed September 7, 2005)
10.13	Lease Agreement, dated March 1, 2006, between Carlos Tornquist Bertrand, as lessor, and Lakeland Industries, Inc., as lessee (Incorporated by reference to exhibit 10.21 of Lakeland Industries, Inc.'s 10-K for the year ended January 31, 2007)
10.14	Lease Agreement, dated 2006, between Michael Robert Kendall, June Jarvis, and Barnett Waddingham Trustees Limited, as lessor, and Lakeland Industries, Inc., as lessee (Incorporated by reference to exhibit 10.22 of Lakeland Industries, Inc.'s 10-K for the year ended January 31, 2007)
10.15	Lease Agreement, dated November 10, 2008, between Mifflin Management, as Landlord, and Lakeland Industries, Inc., as Tenant, for the property at 312 Hendel Street, Shillington, PA (filed herein)
10.16	Employment Agreement, dated December 1, 2008, between Lakeland Industries, Inc. and Phillip Willingham (filed herein)
14.1	Amendment dated February 13, 2009 to the Lakeland Industries, Inc. Code of Ethics (filed herein)
21.1	Subsidiaries of Lakeland Industries, Inc. (wholly-owned): Lakeland Protective Wear, Inc. Lakeland Protective Real Estate Industrias Lakeland S.A. de C.V. Laidlaw, Adams & Peck, Inc. and Subsidiary (Meiyang Protective Products Co., Ltd.) Weifang Lakeland Safety Products Co., Ltd. Qing Dao Lakeland Protective Products Co., Ltd. Lakeland Industries Europe Ltd. Lakeland Glove and Safety Apparel Private Ltd. Lakeland India Private Ltd. Lakeland Industries, Inc. Agencia en Chile Lakeland Japan, Inc. Qualytextil, S.A.
23	Consent of Independent Registered Public Accounting Firm
31.1	

	Certification of Christopher J. Ryan, Chief Executive Officer, President, Secretary and General Counsel, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Gary Pokrassa, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Christopher J. Ryan, Chief Executive Officer, President, Secretary and General Counsel, pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Gary Pokrassa, Chief Financial Officer, pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8 - K.

The documents which we incorporate by reference consist of the documents listed below that we have previously filed with the SEC:

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a. On April 14, 200 the Company filed a Form 8-K regarding the Company's FY 2008 financial results for the reporting period ended January 31, 2008.
b. On April 15, 2008 the Company filed a Form 8-K regarding the Company’s Restated Certificate of Incorporation and Amended and Restated Bylaws.
c. On April 16, 2008 the Company filed a Form 8-K regarding the issue of a press release calling on Seymour Holtzman to withdraw his notice of nomination.
d. On April 22, 2008 the Company filed a Form 8-K regarding the issue of a press release confirming receipt of notice from Seymour Holtzman withdrawing his notice of intent to nominate two individuals for election at the 2008 annual meeting.
e. On May 6, 2008 the Company filed a Form 8-K regarding the final closing date for the acquisition of Qualytextil, S.A.
f. On May 15, 2008 the Company filed a Form 8-K regarding the Stock Purchase Agreement, Employment Agreements, the Completion of Acquisition with Qualytextil, S.A. and the Amendment to Revolving Line of Credit.
g. On May 16, 2008 the Company filed a Form 8-K regarding the issue of a press release announcing it intends to seek stockholder approval for the repeal of the supermajority voting requirements applicable to certain business combinations that are currently contained in its Restated Certificate of Incorporation.
h. On June 9, 2008 the Company filed a Form 8-K regarding the issue of a press release announcing the Company’s Q1 FY09 financial results for the reporting period ended April 30, 2008.
i. On June 20, 2009, the Company filed a Form 8-K regarding the employment agreement, dated April 13, 2008, between Lakeland Industries, Inc. and Christopher J. Ryan, the approval and adoption of the Amended and Restated Bylaws of the Company by the Board of Directors, and the Amendments to Lakeland’s Restated Certificate of Incorporation.
j. On July 25, 2008, the Company filed a Form 8-K/A amending the May 15, 2008 Form 8-K regarding the completion of the Qualytextil acquisition in order to include audited historical financial statements of Qualytextil and pro forma financial information that was not included in the initial Form 8-K.
k. On August 1, 2008, the Company filed a Form 8-K regarding the settlement with the Internal Revenue Service.
l. On August 7, 2008, the Company filed a Form 8-K/A amending the June 20, 2008 Form 8-K solely to correct a number of typographical errors contained in the discussion of the advance notice provision of the Company’s Amended and Restated Bylaws.
m. On September 9, 2008, the Company filed a Form 8-K regarding the issue of a press release announcing the Company’s Q2 FY09 financial results for the reporting period ended July 31, 2008.
n. On September 23, 2008, the Company filed a Form 8-K announcing it has entered into an interest rate swap agreement with Wachovia Bank, NA.
o. On December 10, 2008, the Company filed a Form 8-K regarding the issue of a press release announcing the Company’s Q3 FY09 financial results for the reporting period ended October 31, 2008.
p. On December 12, 2008, the Company filed a Form 8-K announcing the resignation of Michael Cirenza from its Board of Directors.
q. On March 4, 2009, the company filed a Form 8-K announcing it will make a presentation at an investor conference in Las Vegas, Nevada sponsored by EdgeWater Research Partners.

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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.

Dated: April 15, 2009

LAKELAND INDUSTRIES, INC.

By: / s / Christopher J. Ryan
Christopher J. Ryan,
Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Raymond J. Smith Raymond J. Smith	Chairman of the Board	April 15, 2009
/s/ Christopher J. Ryan Christopher J. Ryan	Chief Executive Officer, President, General Counsel, Secretary and Director	April 15, 2009
/s/ Gary Pokrassa Gary Pokrassa	Chief Financial Officer	April 15, 2009
/s/ Eric O. Hallman Eric O. Hallman	Director	April 15, 2009
/s/ John J. Collins, Jr. John J. Collins, Jr.	Director	April 15, 2009
/s/ John Kreft John Kreft	Director	April 15, 2009
/s/ Stephen M. Bachelder Stephen M. Bachelder	Director	April 15, 2009

The following summarizes the Company s contractual obligations at March 31, 2004, and the effect such obligation