

BROADWING COMMUNICATIONS INC
Form SC TO-I/A
September 02, 2003

[QuickLinks](#) -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on September 2, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**AMENDMENT NO. 1
TO
SCHEDULE TO
TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) or 13(e)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934**

BRCOM INC.

(Name of Subject Company (Issuer))

CINCINNATI BELL INC.

(Name of Filing Person (Offeror))

**12½% SERIES B JUNIOR
EXCHANGEABLE PREFERRED STOCK DUE 2009,
PAR VALUE \$0.01 PER SHARE**

(Title of Class of Securities)

11161PAA4

(CUSIP Number of Class of Securities)

**CHRISTOPHER J. WILSON, ESQ.
GENERAL COUNSEL
CINCINNATI BELL INC.
201 EAST FOURTH STREET
CINCINNATI, OHIO 45202
(513) 397-9900**

(Name, Address and Telephone Number of Person Authorized to Receive
Notices and Communications on Behalf of Filing Person)

WITH COPIES TO:

**William V. Fogg, Esq.
Cravath, Swaine & Moore LLP
825 Eighth Avenue
New York, New York 10019
(212) 474-1000**

**Arnold B. Peinado, III, Esq.
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, New York 10005
(212) 530-5000**

Check the following box if the filing is a final amendment reporting the results of the tender offer:

Edgar Filing: BROADWING COMMUNICATIONS INC - Form SC TO-I/A

This Amendment No. 1 to the tender offer statement on Schedule TO relates to the results of an offer by Cincinnati Bell Inc., an Ohio corporation, to exchange 14,148,518 shares of Cincinnati Bell Common Stock, par value \$0.01 per share, for the 395,210 outstanding shares of 12 $\frac{1}{2}$ % Series B Junior Exchangeable Preferred Stock, par value \$0.01, of BRCOM Inc., a Delaware corporation, upon the terms and subject to the conditions contained in the prospectus and solicitation statement dated July 31, 2003 and the related consent and letter of transmittal, copies of which are attached to this Schedule TO as Exhibits (a)(1) and (a)(2), respectively.

Cincinnati Bell reports that as of Friday, August 29, 2003, 99.3% of the outstanding shares of the BRCOM Preferred Stock were tendered in the exchange offer. In connection with the exchange offer, the requisite number of BRCOM Preferred Stock holders consented to amendments eliminating restrictive covenants and voting rights in the certificate of designation under which the BRCOM Preferred Stock were issued.

Cincinnati Bell also expects shortly to complete a subsidiary level merger in which any remaining shares of BRCOM Preferred Stock will be converted into the same number of shares of Cincinnati Bell common stock that the holders would have received had they tendered their shares in the exchange offer, subject to any exercise of properly perfected appraisal rights under Delaware law. Cincinnati Bell expects to issue 14,148,518 shares of its common stock to holders of BRCOM Preferred Stock following the exchange offer and merger.

This tender offer statement on Schedule TO is being filed in satisfaction of the reporting requirements of Rule 13e-4(c)(4) promulgated under the Securities Exchange Act of 1934, as amended.

ITEMS 1-11.

Not applicable.

2

ITEM 12. EXHIBITS.

- (a)(1)(i) Prospectus and solicitation statement dated July 31, 2003 (incorporated by reference to Cincinnati Bell's amended registration statement on Form S-4 filed on July 30, 2003, Registration No. 333-104557 (the "Registration Statement")).
- (a)(1)(ii) Form of consent and letter of transmittal (incorporated by reference to Exhibit 99(a) to the Registration Statement).
- (a)(1)(iii) Form of Notice of Guaranteed Delivery (incorporated by reference to Exhibit 99(b) to the Registration Statement).
- (a)(1)(iv) Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees (incorporated by reference to Exhibit 99(c) to the Registration Statement).
- (a)(1)(v) Form of Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees (incorporated by reference to Exhibit 99(d) to the Registration Statement).
- (a)(2) None.
- (a)(3) None.
- (a)(4) Filed herewith as Exhibit (a)(1)(i)
- (a)(5) Press release released by Cincinnati Bell on August 1, 2003 (previously filed herewith).
- (b) None.
- (d)(1) Exchange and Voting Agreement, dated as of March 24, 2003, by and among Broadwing Inc., and the beneficial owners of (or investment managers or advisors for accounts or funds that own) the 12 $\frac{1}{2}$ % Series B Junior Exchangeable Preferred Stock due 2009 of Broadwing Communications Inc., a subsidiary of Broadwing Inc. (the "Exchange and Voting Agreement") (incorporated by reference to Annex B to the Registration Statement).

- (d)(2) Amendment to the Exchange and Voting Agreement, dated as of July 30, 2003 (incorporated by reference to Annex C to the Registration Statement).
- (g) None.
- (h) None.

ITEM 13. INFORMATION REQUIRED BY SCHEDULE 13E-3.

Not applicable.

3

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

CINCINNATI BELL INC.

By: /s/ JAMES H. REYNOLDS

Name: James H. Reynolds
Title: Principal Accounting Officer, Vice President and Controller

Dated: September 2, 2003

4

QuickLinks

[ITEMS 1-11.](#)

[ITEM 12. EXHIBITS.](#)

[ITEM 13. INFORMATION REQUIRED BY SCHEDULE 13E-3.](#)

[SIGNATURE](#)

STYLE="font-size: 7pt"> \$62,095,776

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

8

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Nine months ended October 31, 2012 and 2011

	For the Nine Months Ended October 31,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ (8,194,991	) \$ 1,170,654
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Arbitration award in Brazil	7,873,847	—
Provision for inventory obsolescence	300,000	(37,000
Provision for doubtful accounts	(30,000) —
Deferred income taxes	(1,209,562	) 28,786
Depreciation and amortization	1,128,784	1,207,135
Stock based and restricted stock compensation	353,635	499,493
(Increase) decrease in operating assets:		
Accounts receivable	(3,416,523	) (1,030,161
Inventories	2,591,044	(2,158,394
Prepaid income taxes and other current assets	(760,075	) (1,095,559
Other assets	(370,858	) 1,692,670
Assets of discontinued operations	8,507	688,760
Increase (decrease) in operating liabilities:		
Accounts payable	3,482,073	(1,114,219
Accrued expenses and other liabilities	408,254	(1,431,087
Liabilities of discontinued operations	(45,129	) 332,267
Arbitration settlement payments	(503,539) —
Net cash provided by (used in) operating activities	1,615,467	(1,246,655
Cash flows from investing activities:		
Purchases of property and equipment	(1,291,197	) (3,734,007
Net cash used in investing activities	(1,291,197	) (3,734,007
Cash flows from financing activities:		
Net borrowings (repayments) under credit agreement, net of reclassification to term loans	(1,898,925	) 1,219,934
Proceeds from term loans net of repayments	2,280,000	3,725,000
Canada loan repayments	(175,150	) (73,420
Brazil borrowings (repayments)	(542,489	) 587,337
Purchases of stock under stock repurchase program	—	(339,371
Other liabilities	(15,558	) (925
Shares returned in lieu of taxes under restricted stock program-cash paid	(131,223	) (50,429
VAT taxes payable	10,040	3,035

Edgar Filing: BROADWING COMMUNICATIONS INC - Form SC TO-I/A

Net cash provided by (used in) financing activities	(473,305	)	5,071,161	
Effect of exchange rate changes on cash	(10,268	)	(96,917)
Net decrease in cash and cash equivalents	(159,303	)	(6,418)
Cash and cash equivalents at beginning of period	5,711,038		5,953,069	
Cash and cash equivalents at end of period	\$ 5,551,735		\$ 5,946,651	

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

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

Lakeland Industries, Inc. and Subsidiaries (the "Company"), a Delaware corporation organized in April 1982, manufactures and sells a comprehensive line of safety garments and accessories for the industrial protective clothing and homeland security markets. The principal market for our products is in the United States. No customer accounted for more than 10% of net sales during the nine-month periods ended October 31, 2012 and 2011.

2. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments (consisting of only normal and recurring adjustments) which are, in the opinion of management, necessary to present fairly the consolidated financial information required therein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended January 31, 2012.

The results of operations for the three and nine-month periods ended October 31, 2012 are not necessarily indicative of the results to be expected for the full year.

In this Form 10-Q, "FY" means fiscal year; thus, for example, FY13 refers to the fiscal year ending January 31, 2013.

3. Principles of Consolidation

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

4. Inventories:

Inventories consist of the following:

	October 31, 2012	January 31, 2012
Raw materials	\$17,333,438	\$21,213,423
Work-in-process	1,773,586	1,790,510
Finished goods	22,130,271	22,664,422
	\$41,237,295	\$45,668,355

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

5. Earnings Per Share:

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

The following table sets forth the computation of basic and diluted earnings per share based upon income (loss) from continuing operations at October 31, 2012 and 2011.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
Numerator				
Net income (loss) from continuing operations	\$282,646	\$145,634	\$(8,194,991)	\$2,095,470
Denominator				
Denominator for basic earnings per share (Weighted-average shares which reflect 356,441 and 356,441 and 356,441 and 356,441 weighted average common shares in the treasury as a result of the stock repurchase program for the three months and nine months in each of 2012 and 2011, respectively)	5,330,286	5,225,020	5,276,288	5,224,371
Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options	36,957	131,815	0	123,801
Denominator for diluted earnings per share (adjusted weighted average shares)	5,367,243	5,356,835	5,276,288	5,348,172
Basic earnings (loss) per share	\$0.05	\$0.03	\$(1.55)	) \$0.40
Diluted earnings (loss) per share	\$0.05	\$0.03	\$(1.55)	) \$0.39

6. Revolving Credit Facility

At October 31, 2012, the total balance outstanding under our revolving credit facility amounted to \$9.6 million. In January 2010, the Company entered into a one-year \$23.5 million revolving credit facility (as amended from time to time, the "Loan Agreement") with TD Bank, N.A. ("TD Bank"). In January 2011, TD Bank agreed to a two-year extension to expire January 2013 and in June 2011, TD Bank agreed to extend the term to June 2014 and add a \$6.5 million term loan facility to be used to fund capital expansion in Brazil, Mexico and Argentina, as well as the ability to refinance existing debt in Canada. In April 2012, TD Bank agreed to add a \$3.0 million term loan facility to be used to refinance a portion of the revolver. Borrowings under this \$9.5 million term loan facility are in the form of a five-year term loan, with maturity June 2014. As a result of the arbitration award issued against the Company in May 2012 (see Note 14) and the subsequent entry into a Settlement Agreement in respect thereof, as well as due to the recent operating results of the Company mentioned below, one or more events of default have occurred under the TD Bank revolving credit facility and term loan facility including an event of default for failure to comply with the minimum EBITDA covenant, which would have allowed TD Bank, at its option, to accelerate the loan.

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

Pursuant to the Amendment, TD Bank has reduced the Company's revolving line of credit from the aggregate principal amount of \$30,000,000 to \$17,500,000 and increased the maximum interest rate payable on the revolving credit balance from LIBOR plus 2.50% to LIBOR plus 3.50%. There is currently approximately \$15,400,000 of outstanding borrowings under the Loan Agreement. The maturity date of amounts outstanding under the revolving credit facility was changed from June 30, 2014 to June 30, 2013. The Loan Agreement requires payment of certain access fees for all unused portions of the total borrowing capacity provided to the Company.

The Company has engaged Raymond James & Associates, Inc. to assist the Board of Directors in its evaluation of a broad range of financial and strategic alternatives for the Company.

7. Major Supplier

We did not purchase in excess of 10% of our cost of goods sold from any one supplier during the nine-month period ended October 31, 2012.

8. Employee Stock Compensation

Shares of our common stock may currently be awarded under our 2012 stock incentive plan and a nonemployee director option plan. Upon the approval of the 2012 plan by stockholders of the Company in June 2012, the ability to make grants under the 2009 restricted stock plan was terminated. The 2012 plan has the structure and includes all of the components described below:

	Nature and terms
Restricted Stock Plan - employees	Long-term incentive compensation-three-year plan. Employees are granted potential share awards at the beginning of the three-year cycle at baseline and maximum amounts. The level of award and final vesting is based on the Board of Director’s opinion as to the performance of the Company and management in the entire three year cycle. All vesting is three-year “cliff” vesting - there is no partial vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.
Restricted Stock Plan – Directors	Long-term incentive compensation-three-year plan. Directors are granted potential share awards at the beginning of the three-year cycle at baseline and maximum amounts. The level of award and final vesting is based on the Board of Director’s opinion as to the performance of the Company and management in the entire three-year cycle. All vesting is three-year “cliff” vesting-there is no partial vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.
Matching award program	All participating employees are eligible to receive one share of restricted stock awarded for each two shares of Lakeland stock purchased on the open market. Such restricted shares are subject to three-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.
Bonus in stock program - employees	All participating employees are eligible to elect to receive any cash bonus in shares of restricted stock. Such restricted shares are subject to two-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the two-year period. Since the employee is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the grant date stock price.
Director fee in stock program	All directors are eligible to elect to receive any director fees in shares of restricted stock. Such restricted shares are subject to two- year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the two-year period. Since the director is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the grant date stock price.
Non-employee director stock	The plan provides for an automatic one-time grant of options to purchase 5,000 shares of common stock to each nonemployee director newly elected or appointed. Options are granted at not less

option plan

than fair market value, become exercisable commencing six months from the date of grant and expire six years from the date of grant. In addition, all nonemployee directors re-elected to the Company's Board of Directors at any annual meeting of the stockholders will automatically be granted additional options to purchase 1,000 shares of common stock on that date.

12

Equity Incentive Plans

On June 17, 2009, the stockholders of the Company authorized the issuance of 253,000 shares under a restricted stock plan (the “2009 Equity Incentive Plan”). Under the 2009 Equity Incentive Plan, eligible employees and directors were eligible to be awarded performance-based restricted shares of the company common stock. The amount recorded as expense for the performance-based grants of restricted stock are based upon an estimate made at the end of each reporting period as to the most probable outcome of this plan at the end of the three-year performance period (e.g., baseline, maximum or zero). In addition to the grants with vesting based solely on performance, certain awards pursuant to the plan have a time-based vesting requirement, under which awards vest from two to three years after grant issuance, subject to continuous employment and certain other conditions. Restricted stock has no voting rights until fully vested and issued, and the underlying shares are not considered to be issued and outstanding until vested.

Under the 2009 Equity Incentive Plan, the Company has issued 104,989 fully vested shares as of October 31, 2012. The Company has granted up to a maximum of 35,989 restricted stock awards as of October 31, 2012. All of these restricted stock awards are nonvested at October 31, 2012 and have a weighted average grant date fair value of \$8.36. The Company recognizes expense related to performance-based awards over the requisite service period using the straight-line attribution method based on the outcome that is probable.

On June 20, 2012, the stockholders of the Company authorized 310,000 shares under the Company’s 2012 Stock Incentive Plan the (“2012 Equity Incentive Plan”). Under the 2012 Incentive Plan, eligible employees and directors may be awarded restricted stock, restricted stock units, performance shares, performance units and other share-based awards. The amount recorded as expense for the performance-based grants of restricted stock are based upon an estimate made at the end of each reporting period as to the most probable outcome of this plan at the end of the three-year performance period (e.g., baseline, maximum or zero). In addition to the grants with vesting based solely on performance, certain awards pursuant to the plan have a time-based vesting requirement, under which awards vest from two to three years after grant issuance, subject to continuous employment and certain other conditions. Restricted stock has no voting rights until fully vested and issued, and the underlying shares are not considered to be issued and outstanding until vested.

Under the 2012 Equity Incentive Plan, the Company has granted 222,621 restricted stock awards as of October 31, 2012, assuming all maximum awards are achieved. All of these restricted stock awards are nonvested at October 31, 2012 (161,121 shares at “baseline”), and have a weighted average grant date fair value of \$6.43. The Company recognizes expense related to performance-based awards over the requisite service period using the straight-line attribution method based on the outcome that is probable.

As of October 31, 2012, unrecognized stock-based compensation expense related to restricted stock awards totaled \$51,437 pursuant to the 2009 Equity Incentive Plan and \$1,261,762 pursuant to the 2012 Equity Incentive Plan, before income taxes, based on the maximum performance award level, less what has been charged to expense on a

cumulative basis through October 31, 2012, which was set at baseline. Such unrecognized stock-based compensation expense related to restricted stock awards totaled \$51,437 for the 2009 Equity Incentive Plan and \$865,702 for the 2012 Equity Incentive Plan at the baseline performance level. The cost of these nonvested awards is expected to be recognized over a weighted-average period of three years. The Board has estimated its current performance level to be at the baseline level, and expenses have been recorded accordingly. The performance based awards are not considered stock equivalents for earnings per share ("EPS") calculation purposes.

The following table represents our stock options granted, exercised and forfeited during the nine-months ended October 31, 2012.

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 31, 2012	18,200	\$ 7.31	3.38 years	\$ 10,230
Granted during the nine months ended October 31, 2012	10,000	\$ 6.44	5.66 years	\$ 100
Forfeited during the nine months ended October 31, 2012	4,200	\$ 10.67	—	—
Outstanding at October 31, 2012	24,000	\$ 7.47	4.20 years	\$ 1,300
Exercisable at October 31, 2012	24,000	\$ 7.47	4.20 years	\$ 1,300
Reserved for future issuance:				
Directors' Plan	21,300			

There were no exercises during the nine-months ended October 31, 2012.

Stock-Based Compensation

The Company recognized total stock-based compensation costs of \$349,530 and \$499,493 for the nine-months ended October 31, 2012 and 2011, respectively, of which \$0 and \$4,253 result from the 2006 Equity Plan, \$124,342 and \$476,692 result from the 2009 Equity Incentive Plan, \$204,663 and \$0 result from the 2012 Equity Incentive Plan and \$20,525 and \$18,548, from the Directors Option Plan, for the nine-months ended October 31, 2012 and 2011, respectively. These amounts are reflected in selling, general and administrative expenses. The total income tax benefit recognized for stock-based compensation arrangements was \$127,578 and \$182,315 for the nine-months ended October 31, 2012 and 2011, respectively.

Shares under 2009 Plan	Outstanding unvested grants at maximum at beginning of FY13	Granted during FY13 through October 31, 2012	Becoming Vested during FY13 through October 31, 2012	Forfeited during FY13 through October 31, 2012	Outstanding unvested grants at maximum at October 31, 2012
Restricted stock grants - employees	129,536	—	79,313	50,223	—
Restricted stock grants - directors	63,184	—	45,232	17,952	—
Matching award program	3,500	—	—	—	3,500
Bonus in stock - employees	25,801	3,289	3,000	—	26,090
Retainer in stock - directors	5,572	1,116	—	—	6,688

Edgar Filing: BROADWING COMMUNICATIONS INC - Form SC TO-I/A

Total restricted stock plan	227,593	4,405	127,545	68,175	36,278
Weighted average grant date fair value	\$ 8.04	\$ 8.82	\$ 8.03	\$ 8.00	\$ 8.27

Shares under 2012 Plan	Outstanding unvested grants at maximum at beginning of FY13	Granted during FY13 through October 31, 2012	Becoming Vested during FY13 through October 31, 2012	Forfeited during FY13 through October 31, 2012	Outstanding unvested grants at maximum at October 31, 2013
Restricted stock grants - employees	—	164,500	—	—	164,500
Restricted stock grants - directors	—	49,500	—	—	49,500
Matching award program	—	—	—	—	—
Bonus in stock – employees	—	4,331	—	—	4,331
Retainer in stock – directors	—	4,290	—	—	4,290
Total restricted stock plan	—	222,621	—	—	222,621
Weighted average grant date fair value	—	\$ 6.43	—	—	\$ 6.43

9. Manufacturing Segment Data

Domestic and international sales from continuing operations are as follows:

	Three Months Ended October 31, (in millions of dollars)			Nine Months Ended October 31, (in millions of dollars)				
	2012	2011		2012	2011			
Domestic	\$9.8	41 %	\$12.7	51 %	\$28.7	40 %	\$41.0	53 %
International	14.4	59 %	12.0	49 %	43.0	60 %	35.2	47 %
Total	\$24.2	100%	\$24.7	100%	\$71.7	100%	\$76.2	100%

We manage our operations by evaluating each of our geographic locations. Our North American operations include our facilities in Decatur, Alabama (primarily the distribution to customers of the bulk of our products and the manufacture of our chemical, glove and disposable products), Jerez, Mexico (primarily disposable, glove and chemical suit production) and Sinking Spring, Pennsylvania (primarily woven products production). We also maintain three manufacturing facilities in China (primarily disposable and chemical suit production). Our China facilities, the Jerez Mexico, Salvador Brazil and our Decatur, Alabama facility produce the majority of the Company's products. The accounting policies of these operating entities are the same as those described in Note 1 to our Annual Report on Form 10-K for the fiscal year ended January 31, 2012. We evaluate the performance of these entities based on operating profit, which is defined as income before income taxes, interest expense and other income and expenses. We have sales forces in Canada, Europe, Chile and China, which sell and distribute products shipped from the United States, Mexico or China. The table below represents information about reported manufacturing segments for the three-month and nine-month periods noted therein:

Edgar Filing: BROADWING COMMUNICATIONS INC - Form SC TO-I/A

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	(in millions of dollars)		(in millions of dollars)	
	2012	2011	2012	2011
Net Sales from Continuing Operations:				
USA	\$ 10.72	\$ 13.61	\$ 31.30	\$ 44.36
Other foreign	6.67	4.37	18.18	14.09
China	9.53	6.54	27.80	21.35
Brazil	4.29	4.87	14.17	12.96
Less intersegment	(6.97)	(4.65)	(19.73)	(16.60)
Consolidated	\$ 24.24	\$ 24.74	\$ 71.72	\$ 76.16
External Sales from Continuing Operations:				
USA	\$ 9.83	\$ 12.74	\$ 28.69	\$ 41.00
Other foreign	5.92	3.90	16.41	12.54
China	4.20	3.23	12.45	9.66
Brazil	4.29	4.87	14.17	12.96
Consolidated	\$ 24.24	\$ 24.74	\$ 71.72	\$ 76.16
Intersegment Sales from Continuing Operations:				
USA	\$ 0.89	\$ 0.87	\$ 2.61	\$ 3.36
Other foreign	0.75	0.47	1.77	1.55
China	5.33	3.31	15.35	11.69
Brazil	0.00	0.00	0.00	0.00
Consolidated	\$ 6.97	\$ 4.65	\$ 19.73	\$ 16.60
Operating Profit (Loss) from Continuing Operations:				
USA	\$ (0.85)	\$ (0.61)	\$ (3.11)	\$ (0.46)
Other foreign	0.43	0.09	0.87	0.49
China	1.01	0.46	2.16	1.94
Brazil	(0.37)	0.46	(0.25)	0.27
Less intersegment	0.05	0.17	0.77	0.73
Consolidated	\$ 0.27	\$ 0.57	\$ 0.44	\$ 2.97
Depreciation and Amortization Expense from Continuing Operations:				
USA	\$ 0.15	\$ 0.16	\$ 0.44	\$ 0.51
Other foreign	0.05	0.04	0.16	0.11
China	0.09	0.08	0.26	0.24
Brazil	0.09	0.10	0.27	0.35
Consolidated	\$ 0.38	\$ 0.38	\$ 1.13	\$ 1.21
Interest Expense from Continuing Operations:				
USA	\$ 0.17	\$ 0.11	\$ 0.41	\$ 0.27
Other foreign	0.05	0.06	0.15	0.18
China	0.00	0.00	0.00	0.00
Brazil	0.24	0.08	0.76	0.18
Less intersegment	(0.19)	(0.09)	(0.55)	(0.21)
Consolidated	\$ 0.27	\$ 0.16	\$ 0.77	\$ 0.42
Income Tax Expense (Benefit) from Continuing Operations:				
USA	\$ (0.32)	\$ (0.27)	\$ (1.06)	\$ (0.29)

Edgar Filing: BROADWING COMMUNICATIONS INC - Form SC TO-I/A

Other foreign	0.02	0.45	0.14	0.70
China	0.03	0.18	0.40	0.56
Brazil	(0.14)	(0.06)	(0.43)	(0.20)
Less intersegment	0.11	(0.39)	0.28	(0.36)
Consolidated	\$ (0.30)	\$ (0.09)	\$ (0.67)	\$ 0.41
Total Assets (at Balance Sheet Date):				
USA			\$ 29.64	\$ 37.43
Other foreign			17.69	14.75
China			26.49	22.32
India assets of discontinued operations			2.67	3.73
Brazil			24.49	27.16
Consolidated			\$ 100.98	\$ 105.39
Long-lived Assets (at Balance Sheet Date)				
USA			\$ 5.02	\$ 5.33
Other foreign			1.70	0.03
China			3.02	2.49
Brazil			2.88	2.49
India			1.52	3.25
Consolidated			\$ 14.14	\$ 13.59

10. Income Tax Audit/Change in Accounting Estimate

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

There was no activity during FY12 or FY13, and the uncertain tax liability at October 31, 2012, was \$0. The Company's policy is to recognize interest and penalties related to income tax issues as components of income tax expense.

The Company is subject to USA federal income tax, as well as income tax in multiple USA state and local jurisdictions and a number of foreign jurisdictions. The Company's federal income tax returns for through FY07 have been audited by the Internal Revenue Service ("IRS"). The FY07 audit has been completed by the IRS and the Company has received a final "No Change Letter". The Company has received notice from the IRS that it will shortly commence an audit for the FY09 tax return.

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

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

The Company's Brazilian subsidiary is under a tax audit, which raised some issues regarding the tax impact related to the merger in 2008 and the goodwill resulting from the structure which was set up at the Company's Brazilian counsel's advice. The Company has received a formal claim from the authorities in the amount of USD\$1.1 million (\$R2.3 million) (mostly fines and penalty). The Company has filed a lawsuit in order to cancel this claim. We are still in first administrative level, in case of loss we can appeal another administrative level. Management believes it is possible that we will have success in our defense at the administrative level. In the event we go to judicial level, management believes the chance of loss is remote.

The structure of our 2008 acquisition is relatively common in acquisitions of Brazilian operations made by non-Brazilian companies. In general, acquisitions with this structure have survived challenge by the taxing authorities in Brazil. The cumulative amount of tax benefits recognized on the Company's books through October 31, 2012, resulting from the tax deduction of the goodwill amortization is approximately USD\$870,000. This results from the goodwill on the Brazilian books which, for Brazilian tax purposes, is eligible for tax write-off over a five year period dating from November 2008.

11. Derivative Instruments and Foreign Currency Exposure

The Company has foreign currency exposure, principally through sales in Canada, Brazil, China, Argentina, Chile and the UK, and production in Brazil, Mexico and China. Management has commenced a derivative instrument program to partially offset this risk by purchasing forward contracts to sell the Canadian Dollar, the Chilean Peso, the Euro, the Great Britain Pound and the Argentina Peso. Such contracts are largely timed to expire with the last day of the fiscal quarter, with a new contract purchased on the first day of the following quarter, to match the operating cycle of the Company. Management has decided not to hedge its long position in the Chinese Yuan. Management previously had not hedged the Brazilian Real, but commenced doing so in May 2012. We designated the forward contracts as nonhedging instruments with loss and gain recognized in the current earnings. In the three and nine-months ended October 31, 2012, the Company sustained a pre-tax gain on foreign exchange in Brazil of \$61,791 or \$0.01 per share and a pre-tax loss of (\$840,319) or (\$0.13 per share, respectively included in pre-tax income from continuing operations. In the three and nine months ended October 31, 2011, the Company recorded a loss on foreign exchange in Brazil of (\$343,803) or (\$0.05) per share and (\$94,953) or (\$0.01) per share, respectively included in pre-tax income from continuing operations.

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

We also enter cash flow hedge contracts with financial institutions to manage our currency exposure on future cash payments denominated in foreign currencies. The effective portion of gain or loss on cash flow hedge is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. Our hedge positions are summarized below:

Derivatives not designated as hedging instruments (in thousands)

Foreign Exchange Forward Contracts

	Three Months Ended		Nine Months Ended	
	October 31, 2012	October 31, 2011	October 31, 2012	October 31, 2011
Notional Value in USD	\$ 11,175	\$ 3,444	\$ 36,501	\$ 9,950
Gain and loss reported in current operating income (expense)	\$ 205	\$ 41	\$ 261	\$ (130)

Derivatives designated as hedging instruments (in thousands)

Asset Derivative from Foreign Currency Cash Flow Hedge

	As of	As of
	<u>October 31, 2012</u>	<u>January 31, 2012</u>
Notional value in USD	\$6,777	\$ 6,904
Gain and (loss) reported in equity as other comprehensive income	\$ 11	\$ 123
Reported in Balance Sheet	Other payables	Other assets
Effect of Derivative on Income Statement from Foreign Currency Cash Flow Hedge		

	Nine Months Ended	Nine Months Ended
	October 31, 2012	October 31, 2011
Gain reclassified from other comprehensive income into current earnings during nine months ended October 31, 2012 reported in operating income	\$ 33	\$ 30

The cash flow hedge is designed to hedge the payments made in Euros and USA dollars to our China subsidiaries. Fair value of \$10,775 and \$87,614 were both recorded as other assets as of October 31, 2012 and 2011.

12. VAT Tax Issue in Brazil

Asserted Claims

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

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

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

An audit for the 2007-2009 period has been completed by the State of Bahia. In October 2010, the Company received a claim for 2007-2009 from the State of Bahia for taxes of R\$6.2 (US\$3.1) million and fines and penalties of R\$6.1 (US\$3.0) million, for a total of R\$12.3 (US\$6.2) million, which had been expected per above. The Company intends to defend and wait for the next amnesty period. Of these claims, our attorney informs us that R\$0.4 (US\$0.2) million in respect of fines and penalties will likely be successfully defended based on state auditor misunderstanding.

Lakeland intends to apply for amnesty and make any necessary payments upon the forthcoming, anticipated amnesty periods imposed by the local Brazilian authorities. Of this R\$6.2 (US\$3.1) million exposure, R\$3.4 (US\$1.7) million is eligible for future credit.

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

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

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

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

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

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

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

Future Accounting for Funds

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

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

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

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

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

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

R\$3.1 (US\$1.6) million
2004-2006 Judicial deposit

Management has been able to satisfy the remaining balance of R\$3.1 (US\$1.6) million judicial deposits by pledging real estate owned rather than paying cash

R\$6.2 (US\$3.1) million
2007-2009 claim into amnesty

From Quarter One Fiscal year 2014 to Quarter Two Fiscal year 2014

At the next amnesty period:

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

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

The desenvolve is scheduled to expire on February 2013 and has been partially phased out starting February 2011. Based on the anticipated timing of the next amnesty, there may be little amounts of lost desenvolve since it would largely expire on its own terms in any case.

Balance Sheet Treatment

The Company has reflected the above items on its October 31, 2012, balance sheet as follows:

	(R\$ millions)	US\$ millions
Noncurrent assets VAT taxes eligible for future credit	4.0	1.9
Long-term liabilities Taxes payable	6.2	3.2

13. Termination of License Agreement with DuPont

The Company received notice, dated July 12, 2011, from E.I. DuPont de Nemours and Company (“DuPont”) stating that DuPont was terminating the DuPont Wholesaler Agreement dated January 1, 2011. DuPont fulfilled orders for purchases of finished garments containing Tychem® and Tyvek® through September 10, 2011.

While products made from DuPont-branded fabrics have long been an important part of Lakeland's product mix, in recent years we have been successfully growing our own branded product lines. This was according to a prudent strategy to reduce excessive reliance upon any one supplier.

We have also aggressively globalized our business over the last decade to take advantage of the fast growth in emerging markets/BRIC countries, and we are achieving positive results in Canada and Europe. As a result, we are in a position where the loss of DuPont-supplied fabrics will have a smaller impact on our overall business and profit than it would have a few years ago.

These DuPont-branded garments, which were sold with the DuPont brand and marketed under restrictive agreements with DuPont, delivered a gross margin in the previous fiscal year significantly lower than the margin on the balance of all products marketed and sold by the Company worldwide which carry the Lakeland brand, so the impact of the decline on the bottom line is less significant than on the top line.

With the dissolution of the agreement with DuPont, we will for the first time have removed the obstacles that prevented us from fully and adequately addressing the US market, such as licensing restrictions that prevented aggressive advertising and promotion of Company-branded disposable products. We have earlier this year launched our broad scale marketing of Lakeland branded products in the US.

Supporting these product introductions is the re-organization and increase in the size of the US sales force and other marketing and product strategies that had already begun just prior to the termination of the agreement with DuPont. The fact that Lakeland uniquely among its competitors does not rely upon contract manufacturers — and thus has more control over quality — is highly valued by its customers, who also prefer to deal directly with the manufacturer.

14. Brazil Management and Share Purchase Agreement-Arbitration

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

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

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

On September 11, 2012, the Company and the former officers entered into a settlement agreement (the "Settlement Agreement") which fully and finally resolved all alleged outstanding claims against the Company arising from the arbitration proceeding. Pursuant to the Settlement Agreement, the Company agreed to pay to the former officers an aggregate of approximately US \$8.5 million (the "Settlement Amount") over a period of six (6) years. The Settlement Amount is payable in combined Brazilian Real and United States dollars as follows: (i) R\$3 million (approximately US \$1.5 million) was paid on the effective date of the Settlement Agreement, of which amount (A) R\$2.294 million (approximately US \$1.15 million) in cash was released from the escrow account established in connection with the Qualytextil, S.A. acquisition, and (B) R\$706,000 (approximately US \$350,000) was paid directly by the Company; (ii) R\$2 million (approximately US \$1.0 million) is payable on or before December 31, 2012; and (iii) the balance of \$6.0 million of the Settlement Amount will be made in United States dollars consisting of 24 consecutive quarterly installments of US \$250,000 beginning on March 31, 2013. In the event the Company fails to pay the remainder of the Settlement Amount in accordance with terms of the Settlement Agreement, the former officers will be entitled to seek payment by the Company of R\$25,148,252.47 (approximately US \$12,575,000) as adjusted for inflation, plus interest and penalties, less prior payments, which represents the original arbitral award inclusive of all taxes, expenses, interest and applicable adjustments.

In addition, pursuant to the Settlement Agreement, as additional security for payment of the Settlement Amount, Lakeland Brasil agreed to grant the former officers a second mortgage interest on certain of its property in Brazil, which mortgage is expressly behind the lien securing the payment of tax debts to a state within Brazil related to certain notices of tax assessment on such property (see Note 12). Lakeland also agreed to become a co-obligor, in lieu of a guarantor, for payment of the Settlement Amount.

The Company has recorded a settlement liability at net present value of \$7.0 million, by applying a risk-free interest rate of 1.58% to discount the non-interest bearing payment schedule. Together with estimated total fees for the settlement of \$856,000, the total cost for the settlement is estimated at \$7.9 million.

The Company continues to strongly believe that the Brazilian arbitration decision is inconsistent with the underlying facts. However, the Company entered into the Settlement Agreement to eliminate the uncertainty, burden, risk, expense and distraction of further arbitration or litigation

The Company further believes that its available resources, together with additional outside funding through debt or equity financings or asset sales, will enable it to make timely payment of the Settlement Amount and continue its operations on a viable basis. There can, however, be no assurance that such outside funding will ultimately be obtained. The Company is continuing to work with Raymond James & Associates, Inc. in its evaluation of a broad range of financial and strategic alternatives for the Company.

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

15. Goodwill

The changes in the carrying amount of goodwill during fiscal year 2012 are summarized in the following:

	USA	Brazil	Total
Balance as of January 31, 2012	\$871,297	\$5,261,657	\$6,132,954
During fiscal year 2013 through October 31, 2012			
Effect of foreign currency translation	-	(603,791)	(603,791)
Balance as of October 31, 2012	\$871,297	\$4,657,866	\$5,529,163

16. Recent Accounting Pronouncements

In June 2011, the FASB issued amendments to the presentation of comprehensive income, which became effective for interim and annual periods beginning after December 15, 2011. The amendments eliminated the previous reporting option of displaying components of other comprehensive income within the statement of changes in stockholders' equity. Under the new guidance, the Company is required to present either a single continuous statement of comprehensive income or an income statement immediately followed by a statement of comprehensive income. In addition, the amendment requires the reclassification adjustments from other comprehensive income to net income be shown on the face of the financial statements; however the FASB has postponed the implementation regarding the reclassification indefinitely.

17. Discontinued Operations in India

The Company decided to discontinue operations in its India glove manufacturing facility and put the assets and business up for sale. The Company decided to sell this division primarily because it has incurred significant operating losses since inception, and the Company has been unsuccessful in developing sufficient sales to reach at least break even. The Company was attempting to sell the operations as an ongoing operation but shut down its operations in December 2011.

Prior year financial statements for the three and nine months ended October 31, 2011 have been restated to present the operations of the India glove manufacturing subsidiary as a discontinued operation.

In conjunction with the discontinuance of operations in FY12, the Company recognized a pretax loss on disposal of \$1.4 million, primarily consisting of \$0.9 million in fixed asset write-downs, \$0.4 million in inventory write-downs and \$0.1 million in professional fees relating to the sale and \$0.3 million in shutdown expenses. The assets and liabilities of the discontinued operations are presented separately under the captions "Assets of discontinued operations in India" and "Liabilities of discontinued operations in India," respectively, in the accompanying Balance Sheets at October 31, 2012 and January 31, 2012, and consist of the following:

	October 31, 2012	January 31, 2012
Cash	\$ 219,949	\$ 230,502
Accounts receivable	16,494	6,772
Inventory	220,603	200,000
Other current asset	11,246	27,262
Property and equipment	1,521,771	1,534,034
Total assets of discontinued operations	1,990,063	1,998,570

Liabilities of discontinued operations:

Accounts payable	14,668	5,715
Other liabilities	4,983	59,065
Total liabilities of discontinued operations	19,651	64,780
Net assets of discontinued operations	\$ 1,970,412	\$ 1,933,790

The following table illustrates the reporting of the discontinued operations reclassified on the face of the Statements of Operations for the nine months ended October 31, 2012 and 2011:

	Three Months Ended October 31, 2012	2011	Nine Months Ended October 31, 2012	2011
Net sales	—	\$ 225,307	—	\$ 742,055
Cost of goods sold	—	372,691	—	1,056,757
Gross profit	—	(147,384	)	(314,702
Operating expense	—	100,312	—	249,630
Operating profit (loss)	—	(247,696	)	(564,332
Shutdown expense accrual	—	880,694	—	880,694
Loss from discontinued operations before income taxes	—	(1,128,390	)	(1,445,026
Benefit from income taxes from discontinued operations	—	406,120	—	520,210
Net loss from discontinued operations	—	(722,270	)	(924,816

The above amounts presented for the previous fiscal year have been reclassified to conform to the current presentation.

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

This Form 10-Q may contain certain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. See Part I, Item 1.

Overview

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

We have operated manufacturing facilities in Mexico since 1995, in China since 1996 and in Brazil since 2008. Beginning in 1995, we moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. Our facilities and capabilities in China and Mexico allow access to a less expensive labor pool than is available in the United States and permit us to purchase certain raw materials at a lower cost than are available domestically. As we have increasingly moved production of our products to our facilities in China, Mexico and Brazil, we have seen improvements in the profit margins for these products (other than issues with the Brazilian Navy contract as discussed herein) and for cost increases early in the second quarter of FY13 for which transfer pricing has been adjusted effective in the third quarter of FY13.

Critical Accounting Policies and Estimates

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

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

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

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

Lakeland offers a growth rebate to certain distributors each year on a calendar-year basis. Sales are tracked on a monthly basis, and accruals are based on sales growth over the prior year. The growth rebate accrual is booked on a monthly basis as a reduction to revenue and an increase to liabilities if the accrual is increased and the reverse if the trend goes in the opposite direction over the prior year in a given month. Based on volume and products purchased, distributors can earn anywhere from 1% to 6% rebates in the form of either a quarterly or annual credit to their account, depending on the specific agreement. In estimating the accrual needed, management tracks sales growth over the prior year.

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

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

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

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

customers to make required payments. The Company recognizes losses when information available before the financial statements are issued or available to be issued indicates that it is probable that an asset has been impaired based on criteria noted above at the date of the financial statements, and the amount of the loss can be reasonably estimated. Management considers the following factors when determining the collectability of specific customer accounts:

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

Uncertain Tax Positions. The Company only recognizes or continues to recognize tax positions that meet a "more likely than not" threshold. This guidance prescribes recognition thresholds that must be met before a tax benefit is recognized in the financial statements and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under this guidance, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold.

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

Valuation of Goodwill and Other Intangible Assets. Goodwill represents the excess of purchase price over the fair value of the net assets acquired. The Company does not amortize goodwill but does assess the recoverability of goodwill each year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. The fair value of the Company's identified reporting units were estimated using the present value of expected future discounted cash flows.

The Company amortizes the cost of other intangible assets over their estimated useful lives, unless such lives are deemed indefinite. Intangible assets with indefinite lives are tested each year for impairment, or more often if indicators warrant. There were no impairment charges related to goodwill or other intangible assets for fiscal year 2013 and 2012.

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

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

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

separate insurance to cover the excess liability over set single claim amounts and aggregate annual claim amounts.

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

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

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

Significant Balance Sheet Fluctuation October 31, 2012, As Compared to January 31, 2012

The Company maintains operations in many countries, each of which require working capital. There are restrictions on movements of cash other than trade payables and potential tax liabilities if profits are repatriated. Accordingly, a substantial portion of the Company's cash is not readily available to pay corporate obligations from the United States, including the payments due pursuant to the Settlement Agreement (described herein and in Note 14). Cash decreased by \$0.2 million as borrowings from TD Bank decreased by \$1.9 million at October 31, 2012, with all TD borrowings including \$5.8 million in term loans now classified as current. Accounts receivables increased \$3.0 million, primarily due to the increase of sales in the nine months ended October 31, 2012 in Brazil of \$14.2 million or 21.7% from the nine months ended January 31, 2012, primarily resulting from our Brazilian Navy contract. Inventory decreased by \$4.4 million, including the \$2.6 million of which decrease was in the U.S., with \$0.7 million in chemical, as we changed our inventory mix to Lakeland branded products only. Our wovens division inventory decreased \$1.4 million as a planned reduction as we physically moved this division from Missouri to Alabama. Accounts payables increased \$2.8 million due primarily to the \$1.2 million increase in China payables as more materials are sourced and purchased in China and in Brazil in respect of raw material for the Navy Contract, all of which are paid on a more prolonged schedule than the average payable. As a result of the Settlement Agreement in Brazil, the balance sheet now reflects a total accrual of \$6.7 million, with \$4.9 million in non-current with \$1.8 million current maturity and \$0.7 million in accrued fees at October 31, 2012.

At October 31, 2012, the Company had an outstanding loan balance of \$9.6 million under its revolving facility with TD Bank compared with \$11.5 million at January 31, 2012. The term loan balance at October 31, 2012 was \$5.8 million. Total stockholders' equity decreased \$11.2 million principally due to the arbitration award and subsequent Settlement Agreement in Brazil and changes in foreign exchange translations in other comprehensive income of \$3.2 million.

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

Net Sales. Net sales from continuing operations decreased \$0.5 million, or 2%, to \$24.2 million for the three months ended October 31, 2012, from \$24.7 million for the three months ended October 31, 2011. The net decrease was due to a \$2.9 million decrease in domestic sales offset in part by a \$2.4 million increase in foreign sales. USA domestic sales of disposables decreased by \$3.1 million, chemical suit sales decreased by \$0.5 million, gloves decreased by \$0.2 million, as reflective sales increased by \$0.5 million, wovens sales increased by \$0.1 million and fire product related sales increased by \$0.3 million. The decrease in domestic sales was mainly due to the loss of the DuPont product sales as a result of the termination of the DuPont supply contract in July 2011, and partially due to a shortage in stock situation that management believes has been resolved (but may have continuing impact resulting from lost

customers), and also to operating inefficiencies resulting from the move from St. Joseph, Missouri to Decatur, Alabama and Mexico which resulted in additional lost sales. The sales team continues to make progress in converting customers from Tyvek, previously supplied DuPont product, to Lakeland branded products. Currently, the decreased sales due to the loss of the DuPont contract have not been offset by such sales of Lakeland branded products; however, the sales achieved from Lakeland branded products have greater gross profit margins than the DuPont Tyvek products, lessening the impact of the revenue reduction. While the Company's sales of Lakeland branded products show strong gains over the Lakeland branded product sales from the same period in the prior year, there can be no assurance that the lost sales volume can be rebuilt. Domestic sales in China and to the Asia Pacific Rim remain strong. UK sales increased by \$1.2 million, or 83.4%. Chile and Argentina sales increased by 91%, Beijing sales increased by \$0.4 million or 33.5% and Mexico sales increased by \$0.2 million or 39.9%.

Gross Profit. Gross profit decreased \$0.1 million, or 1.7%, to \$7.3 million for the three months ended October 31, 2012, from \$7.4 million for the three months ended October 31, 2011. Gross profit as a percentage of net sales was flat at 30.1% for the three months ended October 31, 2012, from 30% for the three months ended October 31, 2011. Factors driving the changes in gross margins were:

Disposables margins increased 4.3 percentage points in the third quarter of FY13 over the third quarter of FY12, *resulting mainly from changed sales mix of nearly all Lakeland branded products this year, while last year had more than 50% sales of DuPont products at a lower margin. This year's margin was lower than it otherwise would be as a result of lower volume and an increase in inventory reserves against Tyvek items remaining.

China manufacturing gross margin at our Qingdao plant increased 10.7 percentage points over last year due to low *volume in the previous year forcing us to accept orders from customers not in our normal product range at lower margins in order to keep our plant busy during a slow time.

Brazil margin decreased by 17.8 percentage points in the third quarter of FY13 from the third quarter of FY12 due to issues with the Brazilian Navy contract. This contract was to supply coveralls to the Brazilian Navy made from Fire-Resistant cotton for a total value of approximately USD \$5.0 million. The Brazilian currency weakened *significantly in May 2012, thereby greatly increasing the material cost purchased from a USA supplier. Further, due to the length of time elapsed since the bid was submitted there were increases in the material invoiced cost, along with a need to change certain components at a higher cost. There were also similar issues with several utility contracts.

*Chile gross margin increased by approximately 18 percentage points in the second quarter of FY13 over the second quarter of FY12 due to a very strong quarter.

* Gloves gross margins improved by 8.9 percentage points resulting from improved mix.

Operating Expenses. Operating expenses increased by \$0.2 million to \$7.0 million for the three months ended October 31, 2012, from \$6.8 million for the three months ended October 31, 2011. As a percentage of sales, operating expenses were flat at 28% for the three months ended October 31, 2012 and the three months ended October 31, 2011. Factors affecting operating expenses included:

\$0.2 million increase in sales salaries resulting from additional sales personnel in China and the USA.

\$0.1 million increase in bad debts primarily resulting from one large account in Chile

\$0.1 million miscellaneous increases

\$0.1 million increase in professional fees due to additional legal matters relating to various banking compliance issues and accrual for several payroll terminations

\$(0.1) million decrease in freight out, mainly from lower volume in disposables in the USA

\$(0.2) million decrease in payroll administration salaries due to reductions in Brazil

Operating Profit. Operating profit decreased 53.3% to \$0.3 million for the three months ended October 31, 2012, from \$0.6 million for the three months ended October 31, 2011. Operating margins were 1.1% for the three months ended October 31, 2012, compared to 2.3% for the three months ended October 31, 2011, due to lower gross profit and higher operating expenses as described above.

Interest Expenses. Interest expenses increased \$0.1 million to \$0.3 million for the three months ended October 31, 2012, from \$0.2 million for the three months ended October 31, 2011, due to higher borrowing levels outstanding and higher interest rates in the current year.

Income Tax Expense. Income tax expenses consist of federal, state and foreign income taxes. There was an income tax benefit of \$0.3 million for the three months ended October 31, 2012, as compared to an income tax benefit of \$0.1 million for the three months ended October 31, 2011. Our effective tax rates were not meaningful for either the third quarter FY13 or the third quarter FY12. Our effective tax rate for both periods varied from the 34% federal statutory rate primarily due to goodwill amortization in Brazil and tax loss benefits in the USA at higher rates than China profits were taxed, certain losses in China which are carried forward and the arbitration settlement.

Net Income (Loss). Net income increased by \$0.9 million to \$0.3 million for the three months ended October 31, 2012, from (\$0.6) million for the three months ended October 31, 2011, reflecting the large foreign exchange charge in Brazil in the prior quarter, the charge for discontinued operations in the prior quarter and the larger income tax credit this quarter.

For the quarter ended October 31, 2011, there was a net \$722,270 charge for loss from discontinued operations in relation to the discontinued India glove manufacturing facility; there was no such charge in the more recent quarter.

Nine months ended October 31, 2012, As Compared to the Nine Months Ended October 31, 2011

Net Sales. Net sales from continuing operations decreased \$4.5 million, or 5.8%, to \$71.7 million for the nine months ended October 31, 2012, from \$76.2 million for the nine months ended October 31, 2011. The net decrease was due to a \$12.3 million decrease in domestic sales, offset in part by a \$7.8 million increase in foreign sales. USA domestic sales of disposables decreased by \$11.9 million, chemical suite sales decreased by \$0.5 million, as wovens increased by \$0.5 million, and glove sales increased by \$0.1 million. The decrease in domestic sales is due primarily to the loss of the DuPont Tyvek sales, to a shortage in stock situation that management believes has been resolved (but may have continuing impact resulting from lost customers), and also to operating inefficiencies resulting from the move from St. Joseph, MO to Decatur, AL and Mexico which resulted in additional lost sales. External sales from China were up \$4.5 million from the year ago period. In addition, domestic sales in China and to the Asia Pacific Rim remain strong recording a \$1.5 million increase for the nine months ended October 31, 2012. UK sales increased by \$2.7 million, or 57.2%, and Chile and Argentina sales increased by 67.4%. Sales in Brazil increased by \$1.2 million or 9.4%. The increase in foreign sales is primarily due to introduction of new products and new marketing material targeting specific markets.

Gross Profit. Gross profit from continuing operations decreased \$1.8 million, or 7.4%, to \$21.7 million for the nine months ended October 31, 2012, from \$23.5 million for the nine months ended October 31, 2011. Gross profit as a percentage of net sales decreased to 30.3% for the nine months ended October 31, 2012, from 30.8% for the nine months ended October 31, 2011. Factors driving the changes in gross margins were:

Disposables gross margins increased 4.7 percentage points over last year, resulting mainly from changed sales mix of nearly all Lakeland branded products this year, while last year had more than 50% sales derived from lower margin DuPont products. This year's margin was lower than it otherwise would have been mainly as a result of lower volume.

* China manufacturing gross margins at our Weifang plant decreased by approximately 5 percentage points over last year due to a 12% labor cost increase in April 2012 and the negative impact to margins from sales to our UK operations in Euros earlier in the year when the Euro was weaker.

* China margins in our Qingdao plant increased 5.4 percentage points based on continued strong operations and strong internal demand resulting in higher volume.

Brazil margins decreased by 8.7 percentage points in the nine months in FY13 from the nine months in FY12 primarily due to issues with the Brazilian Navy contract. The Brazilian currency weakened significantly in May, thereby greatly increasing its material the cost of material purchased from a USA supplier. Further, due to the length of time elapsed since the bid was submitted in respect of the Navy contract, there were increases in the material cost, along with a need to change certain components at a higher cost. There were also similar issues with several utility contracts.

Wovens gross margins decreased by approximately 3.6 percentage points in the nine months ended October 2012 over the prior year as a result of the facility closure in the first quarter of FY13, partially offset by improvements in the third quarter of FY13.

* Chemical gross margins decreased by 8.2 percentage points resulting from a different sales mix, with improvements in the third quarter of FY13 over the second quarter of FY13.

* Gloves gross margins improved by 6.6 percentage points resulting from improved mix.

Operating Expenses. Operating expenses from continuing operations increased \$0.8 million, or 3.8%, to \$21.3 million for the nine months ended October 31, 2012, from \$20.5 million for the nine months ended October 31, 2011. As a percentage of sales, operating expenses increased to 29.7 % for the nine months ended October 31, 2012, from 26.9% for the nine months ended October 31, 2011. The \$0.8 million increase in operating expenses in the nine months ended October 31, 2012, as compared to the nine months ended October 31, 2011, was comprised of:

\$0.7 million increase in sales salaries resulting from new hires in China and the USA

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

\$0.2 million increase in professional fees primarily due to additional legal matters relating to various banking compliance issues and several payroll terminations

- \$0.1 million increase in employee benefits primarily due to unemployment compensation insurance premiums resulting from reductions in force
- \$0.1 million increase in entertainment and auto expense due to increased sales staff in the USA
- \$0.1 million increase in computer expense primarily due to USA hardware upgrades
- \$0.1 million increase in bad debt due to one account in Chile
- \$(0.2) million reduction in equity compensation mainly resulting from differences in the new 2012 plan compared with the previous plan
- \$(0.2) million decrease in currency fluctuation due to major weakness in the Euro in the prior year
- \$(0.3) million reduction in freight out resulting from lower volume in disposables in the USA.
- \$(0.4) million decrease in payroll administrative expense due to reductions in Brazil and the USA

Operating Profit. Operating profit from continuing operations decreased to \$0.4 million for the nine months ended October 31, 2012 from \$3.0 million for the nine months ended October 31, 2011. Operating margins were 0.6% for the nine months ended October 31, 2012, compared to 3.9% for the nine months ended October 31, 2011.

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

Interest Expenses. Interest expenses from continuing operations increased by \$0.3 million for the nine months ended October 31, 2012, as compared to the nine months ended October 31, 2011, due to higher borrowing levels outstanding.

Income Tax Expense. Income tax expenses from continuing operations consist of federal, state and foreign income taxes. There was an income tax benefit of \$0.3 million for the nine months ended October 31, 2012, as compared to an expense of \$0.1 million for the nine months ended October 31, 2011. Our effective tax rates were not meaningful for either the first nine months of FY13 or the first nine months of FY12. Our effective tax rate for the third quarter of FY13 varied from the 34% federal statutory rate primarily due to goodwill amortization in Brazil and tax benefits from operating losses in the USA at higher rates than China profits were taxed along (resulting in a lower overall net rate) with certain losses in China which are carried forward with no tax benefit recorded.

Net Income (Loss). Loss from continuing operations was \$(8.2) million for the nine months ended October 31, 2012 and income from continuing operations was \$2.1 million for the nine months ended October 31, 2011. Without the \$7.9 million charge in respect of the Brazilian arbitration and settlement, the loss from continuing operations would have been \$0.3 million for the more recent period.

For the nine months ended October 31, 2011, there was a net \$924,816 charge for loss from discontinued operations in relation to the discontinued India glove manufacturing facility; there was no such charge in the more recent quarter.

Liquidity and Capital Resources

Cash Flows. As of October 31, 2012, we had cash and cash equivalents of \$5.6 million and working capital of \$44.5 million. Cash and cash equivalents decreased \$0.1 million, and working capital decreased \$19.8 million from January 31, 2012, mainly resulting from reclassifying all TD Bank debt as current and the arbitration accrual. Our primary sources of funds for conducting our business activities have been cash flow provided by operations and borrowings under our credit facilities described below. We require liquidity and working capital primarily to fund operating losses while we transition to Lakeland branded product sales in the USA and, to a lesser extent, for capital expenditures.

Net cash provided by operating activities of \$1.6 million for the nine months ended October 31, 2012 was due primarily to a \$2.8 million increase in accounts payable mainly in China as they source directly from local suppliers and in Brazil as part of the Brazilian Navy contract, partially offset by a \$3.0 million increase in accounts receivable.

On October 17, 2012, the Company entered into an Amendment No. 5 and Waiver (the “Amendment”) to the Loan and Security Agreement, dated January 14, 2010 (as amended from time to time, the “Loan Agreement”), with TD Bank. The Amendment was required as a result of the Company’s entry into a settlement agreement in August 2012 with former officers of its Brazilian subsidiary, as disclosed in Note 14 to the financial statements included herein and the Company’s recent operating results, which collectively caused certain events of default under the Loan Agreement, allowing for TD Bank, at its option, to accelerate the loan. Under the Amendment, TD Bank has agreed to waive the Company’s non-compliance with the consolidated leverage ratio requirements and consolidated EBITDA requirements of the Loan Agreement, in each case, for the fiscal quarters ended April 30, 2012 and July 31, 2012. TD Bank has also agreed, with respect to the October 31, 2012 quarter compliance standards, not to test or has revised these and one other financial covenant. Pursuant to the Amendment, TD Bank has reduced the Company’s revolving line of credit from the aggregate principal amount of \$30,000,000 to \$17,500,000 and has increased the maximum rate of interest payable on the revolving credit balance from LIBOR plus 2.5% to LIBOR plus 3.5%. In addition, the maturity date of amounts outstanding under the revolving credit facility was changed from June 30, 2014 to June 30, 2013. As a result of the waivers, the Company is currently in compliance with the Loan Agreement.

Pursuant to the Amendment, TD Bank has reduced the Company’s revolving line of credit from the aggregate principal amount of \$30,000,000 to \$17,500,000 and increased the maximum interest rate payable on the revolving credit balance from LIBOR plus 2.50% to LIBOR plus 3.50%. There is currently approximately \$15,400,000 of outstanding borrowings under the Loan Agreement. The maturity date of amounts outstanding under the revolving credit facility was changed from June 30, 2014 to June 30, 2013. The Loan Agreement requires payment of certain access fees for all unused portions of the total borrowing capacity provided to the Company.

We believe that we have available resources, together with additional outside funding through debt or equity financings or asset sales, to enable us to satisfy the payments required under the Settlement Agreement and enable us to meet our currently anticipated operating, capital expenditures and debt service requirements for at least the next 12 months. While we are in discussions with TD Bank and others about obtaining financing beyond June 2013, no assurances can be given that we will be able to work out a satisfactory arrangement with TD Bank or find new lenders. In addition, the Company has engaged Raymond James & Associates, Inc. to assist the Board of Directors in its evaluation of a broad range of financial and strategic alternatives for the Company. There can be no assurance that we will successfully consummate a fund-raising transaction that will enable us to make payments in accordance with the Settlement Agreement or otherwise satisfy our future cash flow needs.

The Company presently has sufficient availability on its revolving credit to fund its payment under the settlement agreement of \$1.0 million due December 31, 2012. Furthermore, the Company is building cash reserves in addition to the availability on its revolver to fund this payment.

Capital Expenditures. Our capital expenditures principally relate to purchases of manufacturing equipment, computer equipment and leasehold improvements. 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 for the remainder of FY13 to be insignificant.

Foreign Currency Exposure. The Company has foreign currency exposure, principally through its investment in Brazil, sales in China, Canada and the UK and production in Mexico and China. Management has in place a hedging program to offset this risk by purchasing forward contracts to sell the Canadian Dollar, Chilean Peso, Euro and Great Britain Pound. Such contracts are largely timed to expire with the last day of the fiscal quarter, with a new contract purchased on the first day of the following quarter, to match the operating cycle of the Company. Management has decided not to hedge its long position in the Chinese Yuan and previously the Brazilian Real. In May 2012 we began a limited program to hedge the Brazilian Real on very short term forward contracts.

Health Care Reform. During March 2010, a comprehensive health care reform legislation was signed into law in the USA under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the “Acts”). Included among the major provisions of the law is a change in tax treatment of the federal drug subsidy paid with respect to Medicare-eligible retirees. This change did not have a significant impact because the Company operates its principal drug plan for Medicare-eligible retirees as secondary to Medicare and manages Medicare Part D reimbursement through a third-party administrator. The effect of the Acts on the Company’s other long-term employee benefit obligation and cost depends on finalization of related regulatory requirements. The Company will continue to monitor and assess the effect of the Acts as the regulatory requirements are finalized.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in market risk from that disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2012.

Item 4. Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of October 31, 2012. 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 effective as of October 31, 2012.

Changes in Internal Control over Financial Reporting

There have been no changes in Lakeland Industries, Inc.’s internal control over financial reporting that occurred during Lakeland’s third quarter of fiscal 2013 that have materially affected, or are reasonably likely to materially affect, Lakeland Industries, Inc.’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. **Exhibits:**

- 10.1 Lakeland Industries, Inc. 2012 Stock Incentive Plan (incorporated by reference to Registrant's Registration Statement on Forms S-8 filed September 13, 2012).
- 10.2 Amendment No. 5 and Waiver, dated October 17, 2012, to Loan and Security Agreement with TD Bank, N.A. (incorporated by reference to Registrant's Current Report on Form 8-K filed October 17, 2012).
- 10.3 Second amended and restated Revolving Credit Note, dated October 17, 2012 (incorporated by reference to Registrant's Current Report on Form 8-K filed October 17, 2012).

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 101.INS XBRL instance Document*
- 101.SCHXBRL Taxonomy Extension Schema Document*

101.CALXBRL Taxonomy Extension Definitions Document*

101.DEF XBRL Taxonomy Extension Labels Document*

101.LAB XBRL Taxonomy Extension Labels Document*

101.PRE XBRL Taxonomy Extension Presentations Document*

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

SIGNATURES

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

LAKELAND INDUSTRIES, INC.

(Registrant)

Date: December 13, 2012 /s/ Christopher J. Ryan
Christopher J. Ryan,
Chief Executive Officer, President and Secretary

(Principal Executive Officer and Authorized Signatory)

Date: December 13, 2012 /s/Gary Pokrassa
Gary Pokrassa,
Chief Financial Officer

(Principal Accounting Officer and Authorized Signatory)