LAKELAND INDUSTRIES INC
Form 10-K
April 12, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **January 31, 2007**

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ______________

Commission File Number: 0 – 15535

LAKELAND INDUSTRIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**13-3115216**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
701 Koehler Ave., Suite 7, Ronkonkoma, NY	**11779**
(Address of Principal Executive Offices)	**(Zip Code)**

(Registrant's telephone number, including area code) (631) 981-9700

Securities registered pursuant to Section 12 (b) of the Act:
Common Stock $0.01 Par Value
(Title of Class)
Name of Exchange on which listed - NASDAQ
Securities registered pursuant to Section 12(g) of the Act:
Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yeso No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yesx Noo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated file, or a non- accelerated filer (as defined in Rule 12-b-2 of the Exchange Act).
Large accelerated filer Accelerated Filer ý Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).
Yeso No x

As of July 31, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $57,041,653 based on the closing price of the common stock as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

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

Class	Outstanding at April 12, 2007
Common Stock, $0.01 par value per share	5,521,824

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DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Annual Report to Stockholders for the Fiscal Year Ended January 31, 2007 (Annual Report)	Parts [I, II, and IV]

Portions of the proxy statement for the annual meeting of stockholders to be held on June 20, 2007, are incorporated by reference into Part III.

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This Annual Report on Form 10-K contains forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks, uncertainties and assumptions as described from time to time in registration statements, annual reports and other periodic reports and filings of the Company filed with the Securities and Exchange Commission. All statements, other than statements of historical facts, which address the Company's expectations of sources of capital or which express the Company's expectation for the future with respect to financial performance or operating strategies, can be identified as forward-looking statements. As a result, there can be no assurance that the Company's future results will not be materially different from those described herein as "believed," "anticipated," "estimated" or "expected," "may," or "should," or other similar words which reflect the current views of the Company with respect to future events. We caution readers that these forward-looking statements speak only as of the date hereof. The Company hereby expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which such statement is based.

PART I

Lakeland Industries, Inc. (the "Company" or "Lakeland," "we," "our," or "us") was incorporated in the State of Delaware in 1986. Our executive offices are located at 701 Koehler Avenue, Suite 7, Ronkonkoma, New York 11779, and our telephone number is (631) 981-9700. Our web site is located at www.lakeland.com. Information contained on our web site is not part of this report.

ITEM 1. BUSINESS

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 800 safety and mill supply distributors. These distributors in turn supply end user industrial customers such as chemical/petrochemical, automobile, steel, glass, construction, smelting, munition plants, janitorial, pharmaceutical and high technology electronics manufacturers, as well as hospitals and laboratories. In addition, we supply federal, state and local governmental agencies and departments such as fire and police departments, airport crash rescue units, the Department of Defense, the Department of Homeland Security, and the Centers for Disease Control. In fiscal 2007, we had net sales of $100.2 million which represent a growth rate of 1.4% over our previous fiscal year. Our net sales attributable to customers outside the United States were $9.0 million, $10.3 million and $12.4 million, in fiscal 2005, fiscal 2006 and fiscal 2007, respectively.

Our major product categories and their applications are described below:

Limited Use/Disposable Protective Clothing. We manufacture a complete line of limited use/disposable protective garments offered in coveralls, lab coats, shirts, pants, hoods, aprons, sleeves and smocks. These garments are made from several non-woven fabrics, primarily Tyvek® and Tychem® (both DuPont manufactured fabrics) and also our proprietary fabrics Micromax and Micromax NS manufactured pursuant to customer order. These garments provide protection from low-risk contaminants or irritants, such as chemicals, pesticides, fertilizers, paint, grease and dust, and from limited exposure to hazardous waste and toxic chemicals, including acids, asbestos, lead and hydro-carbons (or PCBs) that pose health risks after exposure for long periods of time. Additional applications include protection from viruses and bacteria, such as AIDS, streptococcus, SARS and hepatitis, at hospitals, clinics and emergency rescue sites and use in clean room environments to prevent human contamination in the manufacturing processes. This is our largest product line.

High-End Chemical Protective Suits. We manufacture heavy duty chemical suits made from TyChem® SL, TK and BR, and F, which are DuPont patented fabrics and Pyrolon CRFR. These suits are worn by individuals on hazardous material teams to provide protection from powerful, highly concentrated and hazardous or potentially lethal chemical and biological toxins, such as toxic wastes at Super Fund sites, toxic chemical spills or biological discharges, chemical or biological warfare weapons (such as saran gas, anthrax or ricin), and chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. These suits can be used in conjunction with a fire protective shell that we manufacture to protect the user from both chemical and flash fire hazards. Homeland Security measures and government funding of personal protective equipment for first responders to terrorist threats

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or attack have since September 11, 2001 resulted in increased demand for our high-end chemical suits and we believe demand for these suits will continue in the future as state and local Bioterrorism grants are spent.

Fire Fighting and Heat Protective Apparel. We manufacture an extensive line of fire fighting and heat protective apparel for use by fire fighters and other individuals that work in extreme heat environments. Our branded fire fighting apparel Fyrepel™ is sold to local municipalities and industrial fire fighting teams. Our heat protective aluminized fire suits are manufactured from Nomex®, a fire and heat resistant material, and Kevlar®, a cut and heat resistant, high-strength, lightweight, flexible and durable material both produced by DuPont. This apparel is also used for maintenance of extreme high temperature equipment, such as coke ovens, kilns, glass furnaces, refinery installations and smelting plants, as well as for military and airport crash and rescue teams.

Gloves and Arm Guards. We manufacture gloves and arm guards from Kevlar®, Spectra®, and Dyneema cut resistant fibers made by DuPont , Honeywell and DSM Corp. respectively as well as engineered composite yarns with Microgard antimicrobial for food service markets. Our gloves are used primarily in the automotive, glass, metal fabrication and food service industries to protect the wearer's hand and arms from lacerations and heat without sacrificing manual dexterity or comfort.

Reusable Woven Garments. We manufacture a line of reusable and washable woven garments that complement our fire fighting and heat protective apparel offerings and provide alternatives to our limited use/disposable protective clothing lines. Product lines include electrostatic dissipative apparel used in the automotive industry for control of static electricity in the manufacturing process, clean room apparel to prevent human contamination in the manufacturing processes, and flame resistant Nomex® and FR cotton coveralls used in chemical and petroleum plants and for wildland fire fighting and extrication suits for police and ambulance workers.

High Visibility Clothing. In August 2005, we acquired the assets of Mifflin Valley, Inc. of Shillington, PA. Mifflin is a manufacturer of protective clothing specializing in safety and visibility, largely for the Emergency Services market, but also for the entire public safety and traffic control market. Mifflin's high visibility products include flame retardant and reflective garments for the Fire Industry, Nomex clothing for utilities, and high visibility reflective outerwear for industrial uniforms and Departments of Transportation. Mifflin products are our strategic fit for our Woven and Fire Lines of garments and we expect higher than normal sales growth out of this subsidiary as our existing sales force starts promoting this new line.

We believe we are one of the largest independent customers of DuPont's Tyvek® and TyChem® apparel grade fabrics. We purchase Tyvek® and TyChem® under North American Trademark licensing agreements and other DuPont materials, such as Kevlar®, under international Trademark licensing agreements. While we have operated under these trademark agreements since 1995, we have been a significant customer of these DuPont materials since 1982. The trademark agreements require certain quality standards as a prerequisite for the use of DuPont trademarks and tradenames on the finished product manufactured by us. We believe this brand identification with DuPont and Tyvek® significantly benefits the marketing of our largest product line, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing. We believe our relationship with DuPont to be excellent.

We maintain manufacturing facilities in Decatur, Alabama; Celaya, Mexico; AnQui City, China; Jiaozhou, China; New Delhi, India, Shillington, PA, and St. Joseph, Missouri, where our products are designed, manufactured and sold. We also have a relationship with a sewing subcontractor in Mexico, which we can utilize for unexpected production surges. Our China, Mexico, and India facilities allow us to take advantage of favorable labor and component costs, thereby increasing our profit margins on products manufactured in these facilities. Our China and Mexico facilities are designed for the manufacture of limited use/disposable protective clothing as well as our high-end chemical protective suits. We have significantly improved our profit margins in these product lines by shifting production to our international facilities and we continue to expand our international manufacturing capabilities to include our gloves and reusable woven protective apparel product lines.

Industry Overview

The industrial work clothing market includes our limited use/disposable protective or safety clothing, our high-end chemical protective suits, our fire fighting and heat protective apparel and our reusable woven garments.

The industrial protective safety clothing market in the United States has evolved over the past 35 years as a result of governmental regulations and requirements and commercial product development. In 1970, Congress enacted the Occupational Safety and Health Act, or OSHA, which requires employers to supply protective clothing in certain work environments. Almost two million workers are subject to OSHA standards today. Certain states have also

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enacted worker safety laws that supplement OSHA standards and requirements.

The advent of OSHA coincided with DuPont's development of Tyvek® which, for the first time, allowed for the economical production of lightweight, disposable protective clothing. The attraction of disposable garments grew in the late 1970s as a result of increases in labor and material costs of producing cloth garments and the promulgation of federal, state and local safety regulations.

In 1990, additional standards proposed and developed by the National Fire Protection Association and the American Society for Testing and Materials were adopted by OSHA. These standards identify four levels of protection, A through D, and specify the equipment and clothing required to adequately protect the wearer at each level:

- **Level A** requires total encapsulation in a vapor proof chemical suit with "self contained breathing apparatus", or SCBA, and appropriate accessories.

- **Level B** calls for SCBA or a positive pressure supplied respirator with escape SCBA, plus hooded chemical resistant clothing (coveralls), one or two piece chemical splash suit, or disposable chemical resistant coveralls.

- **Level C** requires hooded chemical resistant clothing, such as coveralls, two piece chemical splash suit, or disposable chemical resistant coveralls.

- **Level D** involves work and/or training situations that require minimal coverall protection.

In response to the terrorist attacks that took place on September 11, 2001, the federal government has provided for additional protective equipment funding through programs that are part of the Homeland Security initiative. The Fire Act of 2002 created the federal Assistance to Firefighters Grant Program, or AFGP, to provide funds directly to local fire districts to help improve their readiness and capability to respond to terrorist attacks. Funds are allocated under AFGP to the following areas: fire operations/firefighter safety; fire prevention; emergency medical services; and firefighting vehicle acquisition. AFGP has provided more than $3.345 billion in funding through 2006, with approximately $750 million appropriated for 2003, $750 million in 2004, $650 million more in 2005 and $648 million in 2006 and $547 million for 2007. The Bio Terrorism Preparedness and Response Act of 2002, which we refer to as the Bio Terrorism Act, appropriated $3.643 billion for Bioterrorism Preparedness and $1.641 billion for grants to improve state, local and hospital preparedness for and response to Bioterrorism and other public health emergencies between 2002 and 2006. Hospital Preparedness is where we expect to see future garment sales. The 2006 appropriations bill provided $550 million for Hospital Preparedness. The $514.6 million of bioterrorism hospital preparedness monies appropriated in 2005 are expected to be disbursed in 2006 and 2007, and the funding for 2006 should be disbursed in 2007 and 2008.

Since 2001, federal and state purchasing of industrial protective clothing and federal grants to fire departments have increased demand for industrial protective clothing to protect first responders against actual or threatened terrorist incidents. Specific events such as the anthrax letters incidents in 2001, the 2002 U.S. Winter Olympics, the SARS epidemic in 2003 and the ricin letter incidents in 2004 have also resulted in increased peak demand for our products.

Industry Consolidation

The industrial protective clothing industry is highly fragmented and consists of a large number of small, closely-held family businesses. DuPont, Lakeland and Kimberly Clark are the dominant disposable industrial protective apparel manufacturers. Since 1997, the markets for manufacturing and distribution have consolidated. A number of large distributors with access to capital have acquired smaller distributors. The acquisitions include Vallen Corporation's acquisitions of Safety Centers, Inc., All Supplies, Inc., Shepco Manufacturing Co., and Century Safety (Canada) and

Hagemeyer's acquisition of Vallen Corporation; W.W. Grainger's acquisitions of Allied Safety, Inc., Lab Safety Supply, Inc., Acklands Limited, Gempler's safety supply division and Ben Meadows, Inc.; Air Gas' acquisitions of Rutland Tool & Supply Co., Inc., IPCO Safety Supply, Inc., Lyon Safety, Inc., Safety Supply, Inc., Safety West, Inc. and Delta Safety Supply, Inc.; and Fisher Scientifics' acquisitions of Safety Services of America, Cole-Parner, Retsch and Emergo. Thermo Electron recently merged with Fisher Scientific.

As these safety distributors consolidate and grow, we believe they are looking to reduce the number of safety manufacturing vendors they deal with and support, while at the same time shifting the burden of end user selling to

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the manufacturer. This creates a significant capital availability issue for small safety manufacturers as end user selling is more expensive, per sales dollar, than selling to safety distributors. As a result, the manufacturing sector in this industry is seeing follow-on consolidation. DuPont has acquired Marmac Manufacturing, Inc., Kappler, Inc., Cellucup, Melco, Mfg., and Regal Manufacturing since 1998, while in the related safety product industries Norcross Safety Products L.L.C. has acquired Morning Pride, Ranger-Servus, Salisbury, North and Pro Warrington and Christian Dalloz has acquired Bacou, USA which itself acquired Uvex Safety, Inc., Survivair, Howard Leight, Perfect Fit, Biosystems, Fenzy, Titmus, Optrel, OxBridge and Delta Protection.

We believe a larger industrial protective clothing manufacturer has competitive advantages over a smaller competitor including:

- economies of scale when selling to end users, either through the use of a direct sales force or independent representation groups;
- broader product offerings that facilitate cross-selling opportunities;
- the ability to employ dedicated protective apparel training and selling teams;
- the ability to offer volume and growth incentives to safety distributors; and
- access to international sales.

We believe we have a substantial opportunity to pursue acquisitions in the industrial protective clothing industry, particularly because many smaller manufacturers share customers with us.

Business Strategy

Key elements of our strategy include:

- *Dealing with Price Increases in Raw Materials.* One major supplier, DuPont, increased the price of Tyvek® fabrics by 3.7% in January, 2005, by 4 to 6% in June 2005 and by 4.9% in November 2005. However, in June of 2005 DuPont also published new garment price increases of 4% to 6%, depending on style, and again increased garment prices in November 2005 by approximately 6%. These increases were mostly predicated upon increases in oil and natural gas which are prime components in the manufacturing of Tyvek®. We reacted to such increases by increasing our inventories of Tyvek® roll goods prior to such announced increases. Additionally, we have negotiated discounts or rebates with many suppliers of roll goods based upon volume purchases. Nonetheless, Tyvek® garment pricing to prime volume accounts was very competitive in all of fiscal 2007. In order to offset any negative effect of these prices increases we are continuing the operating cost reduction program already in effect and have initiated new measures. We will continue to meet competitive pricing conditions to maintain or increase market shares and such actions may reduce our margins in the future

For example:

1. We continue to press our raw material and component suppliers for price reductions and better payment terms.
2. We are sourcing more raw materials and components from our China based operations as opposed to sourcing in Europe and North America.
3. We are re-engineering many products so as to reduce the amount of raw materials used and reduce the direct labor in such products.

Subsequent to January 31, 2007, we have seen a strong competitive push in the marketplace for disposable protective clothing, with a large competitor offering an aggressive rebate program. We are meeting competitive offers by increasing our supply and logistic efficiencies. We expect to lose a modest amount of our volume in this area with only a moderate net effect on our ultimate margins.

- *Increase International Sales Opportunities.* We also intend to increase our penetration of the International markets for our product lines. We have recently opened new sales offices in Beijing, China; Tokyo, Japan; and

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Santiago, Chile: Our sales in our older United Kingdom operations grew by 46.6% in fiscal 2007 and 55.9% in 2006. We expect our newer operations in Chile, China, India and Japan to ramp up sales on a similar basis to our UK operations.

- *Introduction of New Products*. We continue our history of product development and innovation by introducing new proprietary products across all our product lines. Our innovations have included Micromax® disposable protective clothing line, our Despro™ patented glove design, Microgard antimicrobial products for food service and our engineered composite glove products for high cut and abrasion, our Thermbar glove and sleeve products for heat protection, Grapolator™ sleeve lines for hand and arm cut protection and our Thermbar™ Mock Twist glove for hand and arm heat protection. We own 20 patents on fabrics and production machinery and have 11 additional patents in application. We will continue to dedicate resources to research and development.

- *Improve Marketing in Existing Markets*. We believe significant growth opportunities are available to us through the better positioning, marketing and enhanced cross-selling of our reusable woven protective clothing, glove and arm guards and high-end chemical suit product lines, along with our limited use/disposable lines as a bundled offering. This allows our customers one stop shopping using combined freight shipments.

- *Decrease Manufacturing Expenses by Moving Production to International Facilities*. We have additional opportunities to take advantage of our low cost production capabilities in Mexico and China. Beginning in 1995, we successfully moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. Beginning January 1, 2005, pursuant to the United States World Trade Organization Treaty with China, the reduction in quota requirements and tariffs imposed by the U.S. and Canada on textiles goods, such as our reusable woven garments, have made it more cost effective to move production for some of these product lines to our assembly facilities in China. We are two thirds through this process and expect to complete this process by the third quarter of fiscal 2008. As a result, we expect to see profit margin improvements for these product lines, which will allow us to compete more effectively as quota restrictions are removed and tariffs lowered.

- *Acquisitions*. We believe that the protective clothing market is fragmented and presents the opportunity to acquire businesses that offer comparable products or specialty products that we do not offer. We intend to consider acquisitions that afford us economies of scale, enhanced opportunity for cross-selling, expanded product offerings and an increased market presence. We acquired a facility in New Delhi, India in November 2006 where we are producing Nitrile, Latex and Neoprene Gloves. We also acquired Mifflin Valley, Inc., a manufacturer of high visibility protective clothing in August 2005.

- *Increase Sales to the First Responder Market.* Our high-end chemical protective suits meet all of the regulatory standards and requirements and are particularly well qualified to provide protection to first responders to chemical or biological attacks. For example, our products have been used for response to recent threats such as the 2001 anthrax letters, the 2003 SARS epidemic and the 2004 ricin letters. A portion of appropriations for the Fire Act of 2002 and the Bio Terrorism Act of 2002 are available for purchase of products for first responders that we manufacture, and we are aggressively targeting this Homeland Security market.

- *Emphasize Customer Service*. We continue to offer a high level of customer service to distinguish our products and to create customer loyalty. We offer well-trained and experienced sales and support personnel, on-time delivery and accommodation of custom and rush orders. We also seek to advertise our brand names.

Our Competitive Strengths

Our competitive strengths include:

- *Industry Reputation*. We devote significant resources to creating customer loyalty by accommodating custom and rush orders and focusing on on-time delivery. Additionally, our ISO 9001 certified facilities manufacture high-quality products. As a result of these factors, we believe that we have an excellent reputation in the industry.

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- *Long-standing Relationship with DuPont*. We believe we are the largest independent customer for DuPont's Tyvek® and TyChem® material for use in the industrial protective clothing market. Our trademark agreements with DuPont for Tyvek®, TyChem® and Kevlar® require strict quality standards as a prerequisite for using the DuPont trademarks and tradenames on the finished product. We believe this brand identification with DuPont significantly benefits the marketing of our product lines, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing. We believe our relationship with DuPont to be excellent.

- *International Manufacturing Capabilities*. We have operated our own manufacturing facilities in Mexico since 1995 and in China since 1996. Our three facilities in China total over 160,000 sq. ft. of manufacturing, warehousing and administrative space while our facility in Mexico totals over 25,000 sq. ft. of manufacturing, warehousing and administrative space. Our facilities and capabilities in China and Mexico allow access to a less expensive labor pool than is available in the United States and permits us to purchase certain raw materials at a lower cost than they are available domestically.

- *India*. In November 2006 we purchased three facilities comprising 58,945 square feet in New Delhi, India where we are producing nitrile, latex and neoprene gloves which are being sold in Europe and South America presently. We intend to enter the North American market in summer 2007 with a newly designed line of gloves.

- *International Sales Offices*. We have sales offices around the world to service various major markets, Toronto, Canada for Canada, Newport, United Kingdom for the European Common Market, Beijing, China for China and Southeast Asia, Tokyo, Japan for Japan and Santiago, Chile and Jerez, Mexico for the South American market.

- *Comprehensive Inventory*. We have a large product offering with numerous specifications, such as size, styles and pockets, and maintain a large inventory of each in order to satisfy customer orders in a timely manner. Many of our customers traditionally make purchases of industrial protective gear with expectations of immediate delivery. We believe our ability to provide timely service for these customers enhances our reputation in the industry and positions us strongly for repeat business, particularly in our limited use/disposable protective clothing lines.

- *Manufacturing Flexibility*. By locating labor-intensive manufacturing processes such as sewing in Mexico and China, and by utilizing sewing sub-contractors, we have the ability to increase production without substantial additional capital expenditures. Our manufacturing systems allow us flexibility for unexpected production surges and alternative capacity in the event any of our independent contractors become unavailable.

- *Experienced Management Team*. We have an experienced management team. Our executive officers other than the CFO average greater than 21 years of experience in the industrial protective clothing market. The knowledge, relationships and reputation of our management team helps us maintain and build our customer base.

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Products

The following table summarizes our principal product lines, the raw materials used to manufacture them, their applications and end markets:

Product Line	Raw Material	Protection Against	End Market
Limited use/disposable protective clothing	· Tyvek® and laminates of Polyethylene, Spunlaced Polyester, SMS, Polypropylene, and Company Micromax, Micromax NS, Pyrolon®, and other non-woven fabrics	· Contaminants, irritants, metals, chemicals, fertilizers, pesticides, acids, asbestos, PCBs, lead, dioxin and many other hazardous chemicals · Viruses and bacteria (AIDS, streptococcus, SARS and hepatitis)	· Chemical/petrochemical industries · Automotive and pharmaceutical industries · Public utilities · Government (terrorist response) · Janitorial · Medical Facilities
High-end chemical protective suits	· TyChemâQC · TyChem® SL · TyChem® TK · TyChem® F · TyChem® BR · Pyrolon CRFR · Other Lakeland patented co-polymer laminates	· Chemical spills · Toxic chemicals used in manufacturing processes · Terrorist attacks, biological and chemical warfare (anthrax, ricin and sarin)	· Hazardous material teams · Chemical and nuclear industries · Fire departments · Government (first responders)
Fire fighting and heat protective apparel	· Nomex® · Aluminized Nomex® · Aluminized Kevlar® · PBI Matrix · Millenia® · Basofil® · Advance · Indura® Ultrasoft	· Fire, burns and excessive heat	· Municipal, corporate and volunteer fire departments · Wildland fire fighting · Hot equipment maintenance personnel and industrial fire departments · Oil well fires · Airport crash rescue
Gloves and arm guards (1)	· Kevlar® yarns · Kevlar® wrapped steel core yarns · Dyneema yarns · Spectra® yarns	· Cuts, lacerations, heat and chemical irritants	· Automotive, glass and metal fabrication industries · Chemical plants · Food Processing
Reusable woven garments	· Staticsorb carbon thread with polyester · Cotton polyester blends · Cotton · Polyester	· Protects manufactured products from human contamination or static electrical charge	· Hospital and industrial facilities · Clean room environments · Emergency medical ambulance services

	· Nomex®/FR Cottons	· Bacteria, viruses and blood borne pathogens · Protection from flash fires	· Chemical and refining

(2) Industrial grade Nitrile, Latex, Neoprene, Buytl and other combinations thereof will be added to our product line in the Summer of 2007 resulting from the acquisition of an Indian glove facility. These industrial gloves are used to protect workers from hazardous chemicals and will complement our line of cut resistant Kevlar, Dyneema and Spectra string knit gloves.

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Limited Use/Disposable Protective Clothing

We manufacture a complete line of limited use/disposable protective garments, including coveralls, laboratory coats, shirts, pants, hoods, aprons, sleeves, arm guards, caps, and smocks. Limited use garments can also be coated or laminated to increase splash protection against harmful inorganic acids, bases and other liquid chemicals. Limited use garments are made from several non-woven fabrics, including Tyvek® and TyChem® QC (both DuPont fabrics) and our own trademarked fabrics such as Pyrolon® Plus 2, XT, CRFR, Micromax®, Micromax NS, Safegard "76"®, Zonegard®, RyTex® and TomTex®, which are made of spunlaced polyester, polypropylene and polyethylene materials, laminates, films and derivatives. We incorporate many seaming and taping techniques depending on the level of protection needed in the end use application.

Typical users of these garments include chemical plants, petrochemical refineries and related installations, automotive manufacturers, pharmaceutical companies, construction companies, coal and oil power generation utilities and telephone utility companies. Numerous smaller industries use these garments for specific safety applications unique to their businesses. Additional applications include protection from viruses and bacteria, such as AIDS, streptococcus, SARS and hepatitis, at hospitals, clinics and emergency rescue sites and use in clean room environments to prevent human contamination in the manufacturing processes.

Our limited use/disposable protective clothing products range in unit price from $.04 for shoe covers to approximately $14.00 for a TyChem® QC laminated hood and booted coverall. Our largest selling item, a standard white Tyvek® coverall, sells for approximately $2.50 to $3.75 per garment. By comparison, similar reusable cloth coveralls range in price from $30.00 to $60.00, exclusive of laundering, maintenance and shrinkage expenses.

We cut, warehouse and sell our limited use/disposable garments primarily at our Decatur, Alabama and China facilities and warehouses in Las Vegas, NV and Shillington, PA. The fabric is cut into required patterns at our Decatur plant and shipped to our Mexico facility for assembly. Our assembly facilities in China or Mexico and independent contractors sew and package the finished garments and return them primarily to our Decatur, Alabama plant, normally within one to eight weeks, for immediate shipment to the customer.

We presently utilize one independent domestic sewing contractor and one international contractor under agreements that are terminable at will by either party. In fiscal 2007, no independent sewing contractor accounted for more than 5% of our production of limited use/disposable garments. We believe that we can obtain adequate alternative production capacity should any of our independent contractors become unavailable.

The capacity of our facilities, complemented by the availability of existing and other available independent sewing contractors, allow us to reduce by 5%, or alternately increase by 10%, our production capacity without incurring large on going costs typical of many manufacturing operations. This allows us to react quickly to changing unit demand for our products.

High-End Chemical Protective Suits

We manufacture heavy-duty chemical suits made from DuPont TyChem® QC, SL, TK, TyChem F and TyChem® BR fabrics. These suits are worn by individuals on hazardous material teams to provide protection from powerful, highly concentrated and hazardous or potentially lethal chemical and biological toxins, such as toxic wastes at Super Fund sites, toxic chemical spills or biological discharges, chemical or biological warfare weapons (such as anthrax, ricin, or saran and mustard gas), and chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. Our line of chemical suits range in cost from $14 per coverall to $1192. The chemical suits can be used in conjunction with a fire protective shell that we manufacture to protect the user from both chemical and flash fire hazards. We have also introduced two garments approved by the National Fire Protection Agency (NFPA) for varying levels of protection that are manufactured from DuPont materials:

- TyChem® TK – a co-polymer film laminated to a durable spun bonded substrate. This garment offers the broadest temperature range for limited use garments of -94°F to 194°F. TyChem® TK meets all OSHA Level A requirements. It is available in National Fire Protection Agency 1991-2000 certified versions when worn with an aluminized over cover.
- TyChem® BR – meets all OSHA Level B and all National Fire Protection Agency 1994 fabric requirements and offers splash protection against a wide array of chemicals.

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We manufacture chemical protective clothing at our facilities in Decatur, Alabama, Mexico and China. Using fabrics such as TyChem® SL, TyChem® TK, TyChem F, and TyChem® BR, we design, cut, glue and/or sew the materials to meet customer purchase orders.

The federal government, through the Fire Act of 2002, appropriated approximately $750 million in 2003 to fire departments in the United States and its territories to fund the purchase of, among other things, personal protective equipment, including our fire fighting and heat protective apparel and high-end chemical protective suits. An additional $750 million was appropriated for 2004, $650 million for 2005, $648 million for 2006 and $547 million for 2007. The Bio Terrorism Preparedness and Response Act of 2002 included appropriations of $3.643 billion for Bioterrorism Preparedness and $1.641 billion for Bioterrorism Hospital Preparedness between 2002 and 2006. Hospital Preparedness is where we expect to see future garment sales.

Fire Fighting and Heat Protective Apparel

We manufacture an extensive line of products to protect individuals who work in high heat environments. Our heat protective aluminized fire suit product lines include the following:

- Kiln entry suit – to protect kiln maintenance workers from extreme heat.
- Proximity suits – to give protection in high heat areas where exposure to hot liquids, steam or hot vapors is possible.
- Approach suits – to protect personnel engaged in maintenance, repair and operational tasks where temperatures do not exceed 200°F ambient, with a radiant heat exposure up to 2,000°F.

We manufacture fire fighter protective apparel for domestic and foreign fire departments. We developed the popular 32 inch coat high back bib style (Batallion) bunker gear. Crash rescue continues to be a major market for us, as we were one of the first manufacturers to supply military and civilian markets with airport fire fighting protection.

Our fire suits range in price from $750 for standard fire department turn out gear to $2,000 for a fire entry suit. Approximately 70% of our heat protective clothing is currently manufactured at our facility in St. Joseph, Missouri with the remainder being made in our China facilities. Our Fyrepel™ brand of fire fighting apparel continues to benefit from ongoing research and development investment, as we seek to address the ergonomic needs of stressful occupations. Additionally, we have introduced a new line of our OSX turnout gear manufactured in China in order to compliment our US line.

Gloves and Arm Guards

We manufacture and sell specially designed gloves and arm guards made from Kevlar®, a cut and heat resistant material produced by DuPont, Spectra®, a cut resistant fiber made by Honeywell, and Dyneema®, a fiber made by DSM Dyneema B.V. and our proprietary patented yarns. We are one of only seven companies licensed in North America to sell 100% Kevlar® gloves, which are high strength, lightweight, flexible and durable. Kevlar® gloves offer a better overall level of protection and lower worker injury rates, and are more cost effective, than traditional leather, canvas or coated work gloves. Kevlar® gloves, which can withstand temperatures of up to 400°F and are cut resistant enough to allow workers to safely handle sharp or jagged unfinished sheet metal, are used primarily in the automotive, glass and metal fabrication industries. Our higher end string knit gloves range in price from $37 to $240 for a dozen pair.

We manufacture these string knit gloves primarily at our Alabama and Mexican facilities, and we are shifting lower cost yarn production to our China facilities. We completed our shift of glove production to Mexico last year and will continue shifting more to our Chinese facilities and our Indian glove facility in this fiscal year and next fiscal year. Foreign production will allow lower fabric and labor costs.

We have received patents on manufacturing processes that provide hand protection to the areas of a glove where it wears out prematurely in various applications. For example, the areas of the thumb crotch, and index fingers are made heavier than the balance of the glove providing increased wear protection and longer glove life reducing overall glove costs. This proprietary manufacturing process allows us to produce our gloves more economically and provide a greater value to our end user.

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Reusable Woven Garments

We manufacture and market a line of reusable and washable woven garments that complement our fire fighting and heat protective apparel offerings and provide alternatives to our limited use/disposable protective clothing lines and give us access to the much larger woven industrial and health care-related markets. Cloth reusable garments are favored by customers for certain uses or applications because of familiarity with and acceptance of these fabrics and woven cloth's heavier weight, durability and longevity. These products allow us to supply and satisfy a wider range of safety and customer needs. Our product lines include the following:

- Electrostatic dissipative apparel – used primarily in the pharmaceutical and automotive industries.
- Clean room apparel – used in semiconductor manufacturing and pharmaceutical manufacturing to protect against human contamination.
- Flame resistant Nomex®/FR Cotton coveralls/pants/jackets – used in chemical and petroleum plants and for wild land firefighting.
- Cotton and Polycotton coveralls, lab coats, pants, and shirts.
- High Visibility vests, jackets, coats and pants used at highway construction sites, airports, and areas where moving vehicles are a danger to industrial workers.

Our reusable woven garments range in price from $20 to $150 per garment. We manufacture and sell woven cloth garments at our facilities in China and St. Joseph, Missouri. We are continuing to relocate highly repetitive sewing processes for our high volume, standard product lines such as woven protective coveralls and high visibility vests and shirts to our facilities in China where lower fabric and labor costs allow increased profit margins. We expect the relocation process to be substantially complete by the fourth quarter of fiscal 2008.

Quality Control

Our Alabama, Missouri, Mexico and China manufacturing facilities are ISO 9001 certified. ISO standards are internationally recognized quality manufacturing standards established by the International Organization for Standardization based in Geneva, Switzerland. To obtain our ISO registration, our factories were independently audited to test our compliance with the applicable standards. In order to maintain registration, our factories receive regular announced inspections by an independent certification organization. We believe that the ISO 9001 certification makes us more competitive in the marketplace, as customers increasingly recognize the standard as an indication of product quality.

Marketing and Sales

We employ an in-house sales force of 17 people, 3 regional sales managers and utilize 42 independent sales representatives. These employees and representatives call on over 800 safety and mill supply distributors nationwide in order to promote and provide product information for and sell our products. Distributors buy our products for resale and typically maintain inventory at the local level in order to assure quick response times and the ability to service their customers properly. Our sales employees and independent representatives have consistent communication with end users and decision makers at the distribution level, thereby allowing us valuable feedback on market perception of our products, as well as information about new developments in our industry. During fiscal 2007, one single distributor accounted for 5% of our net sales. No other single distributor accounted for more than 5% of our net sales.

We seek to maximize the efficiency of our established distribution network through direct promotion of our products at the end user level. We advertise primarily through trade publications and our promotional activities include sales catalogs, mailings to end users, a nationwide publicity program and our Internet web site. We exhibit at both regional and national trade shows such as the National Safety Congress and the American Industrial Hygienists Convention.

Research and Development

We continue to evaluate and engineer new or innovative products. In the past three years we have introduced the Micromax® line of disposable protective clothing; a newly configured line of fire retardant work coveralls and fire turn-out gear; a SARS protective medical gown for Chinese hospital personnel; the Despro®, Grapolator™ and Microgard® anti microbial cut protective glove and sleeve lines for food service; our patented Thermbar™ Mock

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Twist that provides heat protection for temperatures up to 600°F; and our new Chemax 1, 2, and 3 lines for protection against intermediate chemical threats. We own 20 patents on various fabrics, patterns and production machinery. We plan to continue investing in research and development to improve protective apparel fabrics and the manufacturing equipment used to make apparel. Specifically, we plan to continue to develop new specially knit and coated gloves, woven gowns for industrial and medical uses, fire retardant cotton fabrics and protective non-woven fabrics. During fiscal 2005, 2006 and 2007, we spent approximately $89,000, $90,000, and $100,000 respectively, on research and development.

Suppliers and Materials

Our largest supplier is DuPont, from whom we purchase Tyvek® and Tychem® under North American trademark licensing agreements and Kevlar® under international trademark licensing agreements. Commencing in 1995, anticipating the expiration of certain patents on its proprietary materials, DuPont offered certain customers of these materials the opportunity to enter into two year trademark licensing agreements. Starting in 1995, we entered into such agreements and have renewed them continually since. In fiscal 2007, we purchased approximately 62.58% of the dollar value of our materials from DuPont, and Tyvek® constituted approximately 43.46% of our cost of goods sold and 61.93% of the dollar value of our raw material purchases. We believe our relationship with DuPont to be excellent and our Tyvek/Tychem® trade mark licenses with DuPont have been extended since 1995 until January 31, 2008. Prior to 1995 we bought Tyvek® from DuPont under informal branding agreements for 13 years.

We do not have long-term, formal trademark use agreements with any other suppliers of non-woven fabric raw materials used by us in the production of our limited use/disposable protective clothing product lines. Materials such as polypropylene, polyethylene, polyvinyl chloride, spun laced polyester and their derivatives are available from thirty or more major mills. Flame retardant fabrics are also available from a number of both domestic and international mills. The accessories used in the production of our disposable garments, such as thread, boxes, snaps and elastics are obtained from unaffiliated suppliers. We have not experienced difficulty in obtaining our requirements for these commodity component items.

We have not experienced difficulty in obtaining materials, including cotton, polyester and nylon, used in the production of reusable non-wovens and commodity gloves. We obtain Spectra® yarn used in our super cut-resistant Dextra Guard gloves from Honeywell, and since we believe Honeywell will not be able to meet our supply needs for this material in the future we reacted to these shortages by developing a new relationship with DSM Dyneema B.V. for similar Dyneema yarns.. We obtain Kevlar®, used in the production of our specialty safety gloves, from independent mills that purchase the fiber from DuPont.

Materials used in our fire and heat protective suits include glass fabric, aluminized glass, Nomex®, aluminized Nomex®, Kevlar®, aluminized Kevlar®, polybenzimidazole, as well as combinations utilizing neoprene coatings. Traditional chemical protective suits are made of Viton, butyl rubber and polyvinyl chloride, all of which are available from multiple sources. Advanced chemical protective suits are made from TyChem® SL, TK and BR fabrics, which we obtain from DuPont, and our own patented fabrics. We have not experienced difficulty obtaining any of these materials.

Material such as Nitrile Butadiene Rubber, Neoprene, and Latex used at our new India facilities are available from multiple sources.

Internal Audit

We have an internal audit group consisting of a team of 2 people who have direct access to the audit committee of our board of directors. The team’s primary function is to insure our internal control system is functioning properly. Additionally, the team is used from time to time to perform operational audits to determine areas of business improvements. Working in close cooperation with the audit committee, senior management and the external auditors, the internal audit function supports management to ensure that we are in compliance with all aspects of the Sarbanes-Oxley Act.

Competition

Our business is highly competitive due to large competitors who have monopolistic positions in the fabrics that are standards in the industry in disposable and high end chemical suits. Thus, barriers to entry in disposable Tyvek® and Tychem® garments are high. We believe that the barriers to entry in the reusable garments and gloves outside of Kevlar are relatively low. We face competition in some of our other product markets from large established companies that have greater financial, research and development, sales and technical resources. Where larger competitors, such as DuPont and Kimberly Clark, offer products that are directly competitive with our products, particularly as part of an established line of products, there can be no assurance that we can successfully compete for sales and customers. Larger competitors outside of our Disposable and Chemical Suit Lines also may be able to benefit from economies of scale and technological innovation and may introduce new products that compete with our products.

Seasonality

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

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

Patents and Trademarks

We own 20 patents and have 11 patents in the application and approval process with the U.S. Patent and Trademark Office. We own 14 Trademarks and have 13 Trademarks in the application and approval process. Additionally, a Patent Corporation Treaty application was filed for our Unilayer Glove Fabrics which involves technology using a robotic knitter that allows us to knit a glove using stronger or weaker yarns in different parts of the glove, as necessary, depending on the expected wear. Intellectual property rights that apply to our various products include patents, trade secrets, trademarks and to a lesser extent copyrights. We maintain an active program to protect our technology by ensuring respect for our intellectual property rights.

Employees

As of March 31, 2007, we had approximately 1,667 full time employees, 1,412, or 84.7%, of whom were employed in our international facilities and 255, or 15.3%, of whom were employed in our domestic facilities. An aggregate of 593 of our employees, are members of unions. We are not currently a party to any collective bargaining agreements. We believe our employee relations to be excellent. We presently have no contracts with these unions.

Environmental Matters

We are subject to various foreign, federal, state and local environmental protection, chemical control, and health and safety laws and regulations, and we incur costs to comply with those laws. We own and lease real property, and certain environmental laws hold current or previous owners or operators of businesses and real property responsible for contamination on or originating from property, even if they did not know of or were not responsible for the contamination. The presence of hazardous substances on any of our properties or the failure to meet environmental regulatory requirements could affect our ability to use or to sell the property or to use the property as collateral for borrowing, and could result in substantial remediation or compliance costs. If hazardous substances are released from or located on any of our properties, we could incur substantial costs and damages.

Although we have not in the past had any material costs or damages associated with environmental claims or compliance and we do not currently anticipate any such costs or damages, we cannot assure you that we will not incur material costs or damages in the future, as a result of the discovery of new facts or conditions, acquisition of new properties, the release of hazardous substances, a change in interpretation of existing environmental laws or the adoption of new environmental laws.

Available Information

We make available free of charge through our Internet website, *www.lakeland.com*, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed in accordance with Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Our filings are also available to the public over the internet at the SEC's website at **http://www.sec.gov**. In addition, we provide paper

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copies of our SEC filings free of charge upon request. Please contact the Corporate Secretary of the company at 631-981-9700 or by mail at our corporate address Lakeland Industries, Inc. 701-7 Koehler Avenue, Ronkonkoma, NY 11779.

Item 1A. Risk Factors

RISK FACTORS

You should carefully consider the following risks before investing in our common stock. These are not the only risks that we may face. If any of the events referred to below actually occurs, our business, financial condition, liquidity and results of operations could suffer. In that case, the trading price of our common stock could decline and you may lose all or part of your investment. You should also refer to the other information in this Form 10-K and Annual Report and in the documents we incorporate by reference into this Form 10-K and Annual Report, including our consolidated financial statements and the related notes.

Risk Related to Our Business

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

Our business is dependent to a significant degree upon close relationships with vendors and our ability to purchase raw materials at competitive prices. The loss of key vendor support, particularly support by DuPont for its Tyvek® products, could have a material adverse effect on our business, financial condition, results of operations and cash flows. We do not have long-term supply contracts with DuPont or any of our other fabric suppliers. In addition, DuPont also uses Tyvek® and Tychem ® in some of its own products which compete directly with our products. As a result, there can be no assurance that we will be able to acquire Tyvek®, Tychem® and other raw materials and components at competitive prices or on competitive terms in the future. For example, certain materials that are high profile and in high demand may be allocated by vendors to their customers based upon the vendors' internal criteria, which are beyond our control.

In fiscal 2007, we purchased approximately 62.6% of the dollar value of our raw materials from DuPont, and Tyvek® constituted approximately 43.5% of our cost of goods sold. For periods in 1985 and 1987, DuPont placed all purchasers of Tyvek® on "allocation." "Allocation" is a circumstance in which demand outstrips supply and fabrics are sold based upon the amount a buyer purchased the prior year. This allocation limited our ability to meet demand for our products during those years. There can be no assurance that an adequate supply of Tyvek® or Tychem® will be available in the future. Any shortage could adversely affect our ability to manufacture our products, and thus reduce our net sales.

Other than DuPont's Tyvek® and TyChem® fabrics, we generally use standard fabrics and components in our products. We rely on non-affiliated suppliers and manufacturers for the supply of these fabrics and components that are incorporated in our products. If such suppliers or manufacturers experience financial, operational, manufacturing capacity or quality assurance difficulties, or if there is a disruption in our relationships, we will be required to locate alternative sources of supply. We cannot assure you that we will be able to locate such alternative sources. In addition, we do not have any long-term contracts with any of our suppliers for any of these components. Our inability to obtain sufficient quantities of these components, if and as required in the future, may result in:

- Interruptions and delays in manufacturing and resulting cancellations of orders for our products;
- Increases in fabrics or component prices that we may not be able to pass on to our customers; and

- Our holding more inventory that normal because we cannot finish assembling our products until we have all of the components

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

Because most of our products are manufactured at our facilities located in China and Mexico, our operations are subject to risk inherent in doing business internationally. Such risks include the adverse effects on operations from war, international terrorism, civil disturbances, political instability, governmental activities and deprivation of contract and property rights. In particular, since 1978, the Chinese government has been reforming its economic and political systems, and we expect this to continue. Although we believe that these reforms have had a positive effect on the economic development of China and have improved our ability to successfully operate our facilities in China,

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we cannot assure you that these reforms will continue or that the Chinese government will not take actions that impair our operations or assets in China. In addition, periods of international unrest may impede our ability to manufacture goods in other countries and could have a material adverse effect on our business and results of operations.

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

Most of our assembly arrangements with our foreign-based subsidiaries or third party suppliers require payment to be made in U.S. dollars. These payments aggregated $13.4 million in fiscal 2007. Any decrease in the value of the U.S. dollar in relation to foreign currencies could increase the cost of the services provided to us upon contract expirations or supply renegotiations. There can be no assurance that we will be able to increase product prices to offset any such cost increases and any failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We are also exposed to foreign currency exchange rate risks as a result of our sales in foreign countries. Our net sales to customers in Canada and EEC were $12.4 million, in fiscal 2007. Our sales in Canada are denominated in Canadian dollars. If the value of the U.S. dollar increases relative to the Canadian dollar and we are unable to raise our prices proportionally, then our profit margins could decrease because of the exchange rate change. Although our labor, some fabric and component costs in China are denominated in the Chinese Yuan, this currency has historically been largely pegged to the U.S. dollar, which has minimized our foreign currency exchange rate risk in China. Recently, however the Chinese Yuan has been allowed to float against to the U.S. dollar, and therefore, we will be exposed to additional foreign currency exchange rate risk. This risk will also increase as we continue to increase our sales in other foreign countries. See “Management’s Discussion and Analysis of Financial condition and Results of Operations – Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Risk.”

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

The rapid development of fabric technology continually affects our apparel applications and may directly impact the performance of our products. For example, microporous film-based products have eroded the market share of Tyvek® in certain low end applications. We cannot assure you that we will successfully maintain or improve the effectiveness of our existing products, nor can we assure you that we will successfully identify new opportunities or continue to have the needed financial resources to develop new fabric or apparel manufacturing techniques in a timely or cost-effective manner. In addition, products manufactured by others may render our products obsolete or non-competitive. If any of these events occur, our business, prospects, financial condition and operating results will be materially and adversely affected.

Acquisitions or future expansion could be unsuccessful.

Mifflin Valley, Inc., a Pennsylvania company, acquired on August 1, 2005, and a portion of the assets of RFB Latex, an Indian company, which we acquired in November 2006 currently market high visibility clothing and chemically resistant gloves respectively. These two new lines may accelerate our growth in the personal protective equipment market. These acquisitions involve various risks, including: difficulties in integrating these companies’ operations, technologies, and products, the risk of diverting management’s attention from normal daily operations of the business; potential difficulties in completing projects associated with in-process research and development; risks of entering markets in which we have limited experience and where competitors in such markets have stronger market positions; initial dependence on unfamiliar supply chains; and insufficient revenues to offset increased expenses associated with these acquisitions.

In the future, we may seek to acquire additional selected safety products lines or safety-related businesses which will complement our existing products. Our ability to acquire these businesses is dependent upon many factors, including our management’s relationship with the owners of these businesses, many of which are small and closely held by individual stockholders. In addition, we will be competing for acquisition and expansion opportunities with other companies, many of which have greater name recognition, marketing support and financial resources than us, which may result in fewer acquisition opportunities for us as well as higher acquisition prices. There can be no assurance that we will be able to identify, pursue or acquire any targeted business and, if acquired, there can be no assurance that we will be able to profitably manage additional businesses or successfully integrate acquired business into our company without substantial costs, delays and other operational or financial problems.

If we proceed with any significant acquisition for cash, we may use a substantial portion of our available cash in order to consummate any such acquisition. We may also seek to finance any such acquisition through debt or equity financings, and there can be no assurance that such financings will be available on acceptable terms or at all. If consideration for an acquisition consists of equity securities, our stockholders could be diluted. If we borrow funds in order to finance an acquisition, we may not be able to obtain such funds on terms that are favorable to us. In addition, such indebtedness may limit our ability to operate our business as we currently intend because of restrictions placed on us under the terms of the indebtedness and because we may be required to dedicate a substantial portion of our cash flow to payments on the debt instead of to our operations, which may place us at a competitive disadvantage.

Acquisitions involve a number of special risks in addition to those mentioned above, including the diversion of management’s attention to the assimilation of the operations and personnel of the acquired companies, the potential loss of key employees of acquired companies, potential exposure to unknown liabilities, adverse effects on our reported operating results, and the amortization or write down of acquired intangible assets. We cannot assure you that any acquisition by us will or will not occur, that if an acquisition does occur that it will not materially and adversely affect our results of operations or that any such acquisition will be successful in enhancing our business.

If we are unable to manage our growth, our business could be adversely affected.

Our operations and business have expanded substantially in recent years, with a large increase in employees and business areas in a short period of time. To manage our growth properly, we have been and will be required to expend significant management and financial resources. There can be no assurance that our systems, procedures and controls will be adequate to support our operations as they expand. There can also be no assurance that our management will be able to manage our growth and operate a larger organization efficiently or profitably. To the extent that we are unable to mange growth efficiently and effectively or are unable to attract and retain additional qualified management personnel, our business, financial condition and results of operations could be materially and adversely affected.

We must recruit and retain skilled employees, including our senior management, to succeed in our business.

Our performance is substantially dependent on the continued services and performance of our senior management and certain other key personnel, including Christopher J. Ryan, our chief executive officer, president, general counsel and secretary, and Gary Pokrassa, our chief financial officer, who has 37 years of financial and accounting experience, and James McCormick our Controller and treasurer, Greg Willis, our Executive Vice President, and Harvey Pride, Jr., our Senior vice president in charge of manufacturing, due to their long experience in our industry. Our executive officers, other than CFO, have an average tenure with us of 19 years and an average of 22 years of experience in our industry. The loss of services of any of our executive officers or other key employees could have a material adverse effect on our business, financial condition and results of operations. In addition, any future expansion of our business will depend on our ability to identify, attract, hire, train, retain and motivate other highly skilled managerial, marketing, customer service and manufacturing personnel and our inability to do so could have a material adverse effect on our business, financial condition and results of operations.

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

Our sales are generally made on the basis of individual purchase orders, which may later be modified or canceled by the customer, rather than long-term commitments. We have historically been required to place firm orders for fabrics and components with our suppliers, prior to receiving an order for our products, based on our forecasts of customer demands. Our sales process requires us to make multiple demand forecast assumptions, each of which may introduce error into our estimates, causing excess inventory to accrue or a lack of manufacturing capacity when needed. If we overestimate customer demand, we may allocate resources to manufacturing products

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that we may not be able to sell when we expect or at all. As a result, we would have excess inventory, which would negatively impact our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would lose sales opportunities, lose market share and damage our customer relationships. On occasion, we have been unable to adequately respond to delivery dates required by our customers because of the lead time needed for us to obtain required materials or to send fabrics to our assembly facilities in China and Mexico.

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

Two of our competitors, DuPont and Kimberly Clark, have substantially greater financial, marketing and sales resources than we do. In addition, we believe that the barriers to entry in the reusable garments and gloves markets are relatively low. We cannot assure you that our present competitors or competitors that choose to enter the marketplace in the future will not exert significant competitive pressures. Such competition could have a material adverse effect on our net sales and results of operations. For further discussion of the competition we face in our business, see “Business – Competition.”

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

We derived approximately 12.3% of our net sales from customers located in foreign countries in fiscal 2007. We intend to increase the amount of foreign sales we make in the future. The additional risks of foreign sales include:

- Potential adverse fluctuations in foreign currency exchange rates;
- Higher credit risks;
- Restrictive trade policies of foreign governments;
- Currency nullification and weak banking institutions;
- Changing economic conditions in local markets;
- Political and economic instability in foreign markets; and
- Changes in leadership of foreign governments.

Some or all of these risks may negatively impact our results of operations and financial condition.

Covenants in our credit facilities may restrict our financial and operating flexibility.

We currently have one credit facility;

- A five year, $25 million revolving credit facility which commenced July 2005, of which we had $3.8 million of borrowings outstanding as of January 31, 2007 and

Our current credit facility requires, and any future credit facilities may also require, that we comply with specified financial covenants relating to interest coverage, debt coverage, minimum consolidated net worth, and earnings before interest, taxes, depreciation and amortization. Our ability to satisfy these financial covenants can be affected by events beyond our control, and we cannot assure you that we will meet the requirements of these covenants. These restrictive covenants could affect our financial and operational flexibility or impede our ability to operate or expand our business. Default under our credit facilities would allow the lenders to declare all amounts outstanding to be immediately due and payable. Our lenders have a security interest in substantially all of our assets to secure the debt under our current credit facilities, and it is likely that our future lenders will have security interests in our assets. If our lenders declare amounts outstanding under any credit facility to be due, the lenders could proceed against our assets. Any event of default, therefore, could have a material adverse effect on our business.

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

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of equity or by borrowing money, to fund acquisitions, for the future growth and development of our business or to fund our operations and inventory, particularly in the event of a market downturn. Although we have the ability until July 31, 2010 to borrow additional sums under our $25 million revolving credit facility, this facility contains a borrowing base provision and financial covenants that may limit the amount we can borrow thereunder or

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from other sources. We may not be able to replace or renew this credit facility upon its expiration on terms that are as favorable to us or at all. In addition, a number of factors could affect our ability to access debt or equity financing, including;

- Our financial condition, strength and credit rating;
- The financial markets' confidence in our management team and financial reporting;
- General economic conditions and the conditions in the homeland security sector; and
- Capital markets conditions.

Even if available, additional financing could be costly or have adverse consequences. If additional funds are raised through the incurrence of debt, we will incur increased debt servicing costs and may become subject to additional restrictive financial and other covenants. We can give no assurance as to the terms or availability of additional capital. If we are not successful in obtaining sufficient capital, it could reduce our net sales and net income and adversely impact our financial position, and we may not be able to expand or operate our business as planned.

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

As a general matter, a significant portion of our sales growth to our distributors is dependent upon resale by those distributors to customers that are funded in large part by federal, state and local government funding. Specifically, approximately 60% of our high-end chemical suit sales is dependent on government funding. Congress passed the 2001 Assistance to Firefighters Grant Program and the Bioterrorism Preparedness and Response Act of 2002. Both of these Acts provide for funding to fire and police departments and medical and emergency personnel to respond to terrorist incidents. Appropriations for these Acts by the federal government could be reduced or eliminated altogether. Any such reduction or elimination of federal funding, or any reductions in state or local funding, could cause sales of our products purchased by fire and police departments and medical and emergency personnel to decline.

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

We manufacture products used for protection from hazardous or potentially lethal substances, such as chemical and biological toxins, fire, viruses and bacteria. The products that we manufacture are typically used in applications and situations that involve high levels of risk of personal injury. Failure to use our products for their intended purposes, failure to use our products properly or the malfunction of our products could result in serious bodily injury to or death of the user. In such cases, we may be subject to product liability claims arising from the design, manufacture or sale of our products. If these claims are decided against us and we are found to be liable, we may be required to pay substantial damages and our insurance costs may increase significantly as a result. We cannot assure you that our insurance coverage would be sufficient to cover the payment of any potential claim. In addition, we cannot assure you that this or any other insurance coverage will continue to be available or, if available, that we will be able to obtain it at a reasonable cost. Any material uninsured loss could have a material adverse effect on our financial condition, results of operations and cash flows.

Environmental laws and regulations may subject us to significant liabilities.

Our U.S. operations, including our manufacturing facilities, are subject to federal, state and local environmental laws and regulations relating to the discharge, storage, treatment, handling, disposal and remediation of certain materials, substances and wastes. Any violation of any of those laws and regulations could cause us to incur substantial liability to the Environmental Protection Agency, the state environmental agencies in any affected state or to any individuals affect by any such violation. Any such liability could have a material adverse effect on our financial condition and results of operations.

The market price of our common stock may fluctuate widely.

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The market price of our common stock could be subject to significant fluctuations in response to quarter-to-quarter variation in our operating results, announcements of new products or services by us or our competitors, and other events or factors. For example, a shortfall in net sales or net income, or an increase in losses, from levels expected by securities analysts, could have an immediate and significant adverse effect on the market price and volume fluctuations that have particularly affected the market prices of many micro and small capitalization companies and that have often been unrelated or disproportionate to the operating performance of these companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price for our common stock.

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

Our quarterly results of operations have varied and are expected to continue to vary in the future. These fluctuations may be caused by many factors, including:

- Our expansion of international operations;
- Competitive pricing pressures;
- Seasonal buying patterns resulting from the cyclical nature of the business of some of our customers;
- The size and timing of individual sales;
- Changes in the mix of products and services sold;
- The timing of introductions and enhancements of products by us or our competitors;
- Market acceptance of new products;
- Technological changes in fabrics or production equipment used to make our products;
- Changes in the mix of domestic and international sales;
- Personnel changes; and
- General industry and economic conditions.

These variations could negatively impact our stock price.

Compliance with the Sarbanes-Oxley Act of 2002 and rules and regulations relating to corporate governance and public disclosure may result in additional expenses and negatively impact our results of operations.

The Sarbanes-Oxley Act of 2002 and rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market have greatly increased the scope, complexity and cost of corporate governance, reporting and disclosure practices for public companies, including our company. Keeping abreast of, and in compliance with, these laws, rules and regulations have required an increased amount of resources and management attention. In the future, this may result in increased general and administrative expenses and a diversion of management time and attention from sales-generating and other operating activities to compliance activities, which would negatively impact our results of operations.

In addition, the corporate governance, reporting and disclosure laws, rules and regulations could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors. In particular, the Nasdaq Stock Market rules require a majority of our directors to be "independent" as determined by our board of directors in compliance with the Nasdaq rules. It therefore has become more difficult and significantly more expensive to attract such independent directors to our Board.

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

As of April 12, 2007, our directors and executive officers beneficially owned approximately 19.40% of the outstanding shares of our common stock. As a result of their ownership of common stock and their positions in our Company, our directors and executive officers are able to exert significant influence on our Company and on matters submitted to a vote by our stockholders. In particular, as of April 12, 2007, Raymond J. Smith, our chairman of the board, and Christopher J. Ryan, our chief executive officer, president, general counsel and secretary and a director,

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beneficially owned approximately 9.55% and 6.63% of our common stock, respectively. The ownership interests of our directors and executive officers, including Messrs. Smith and Ryan, could have the effect of delaying or preventing a change of control of our Company that may be favored by our stockholders generally.

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

Our restated certificate of incorporation contains "super majority" voting and classified board provisions, authorized preferred stock that could be utilized to implement various "poison pill" defenses and a stockholder authorized, but as yet unused, Employee Stock Ownership Plan, all of which may have the effect of discouraging a takeover of Lakeland which is not approved by our board of directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibit us from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in the prescribed manner. For a description of these provisions, see "Description of Capital Stock – Anti-Takeover Provisions."

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We believe that our owned and leased facilities are suitable for the operations we conduct in each of them. Each manufacturing facility is well maintained and capable of supporting higher levels of production. The table below sets forth certain information about our principal facilities.

Address	Estimated Square Feet	Annual Rent	Lease Expiration	Principal Activity
Weifang Lakeland Safety Products Co., Ltd. Xiao Shi Village AnQui City, Shandong Province PRC 262100	65,000	Owned(1)	N/A	Manufacturing Administration Engineering
Qing Dao Lakeland Protective Products Co., Ltd Yinghai Industrial Park Jiaozhou, Shandong Province PRC 266318	90,415	Owned(1)	N/A	Manufacturing Administration Warehousing
	9,360	$3,727	12/31/11	Manufacturing

Meiyang Protective Products Co., Ltd. Xiao Shi Village AnQui City, Shandong Province PRC 262100				
Lakeland Industries, Inc. Woven Products Division 2401 SW Parkway St. Joseph, MO 64503	44,000	$96,000	7/31/12	Manufacturing Administration Warehousing

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Address	Estimated Square Feet	Annual Rent	Lease Expiration	Principal Activity
Lakeland de Mexico S.A. de C.V. (Luis Gómez Guzmán – former employee) Poniente, Mza 8, Lote 11 Ciudad Industrial, S/No. Celaya, Guanajuato 38010 Mexico	23,885	$112,800	7/31/07	Manufacturing Administration Warehousing
Lakeland Mexico Carretera a Santa Rita Calle Tomas Urbina #1 Jerez de Garcia, Salinas, Zacatecas Mexico	40,000	$120,000	3/31/10	Manufacturing Administration Warehousing
Lakeland Protective Wear , Inc. 5109-B7 Harvestor Road Burlington, ON L7L5Y9 Canada	12,000	Approximately $86,000 (varies with exchange rates)	11/30/07	Sales Administration Warehousing
Lakeland Protective Real Estate Building under construction to replace rental facility of Lakeland Protective Wear, Inc.		Owned	N/A	
Lakeland Industries, Inc. Headquarters 701-7 Koehler Avenue Ronkonkoma, NY 11779	6,250	Owned	N/A	Administration Studio Sales
Lakeland Industries, Inc. 202 Pride Lane Decatur, AL 35603	91,788	Owned	N/A	Manufacturing Administration Engineering Warehousing
Lakeland Industries, Inc. 3428 Valley Ave. (201½ Pride Lane) Decatur, AL 35603	49,500	Owned	N/A	Warehousing Administration

Lakeland Industries, Inc. (Harvey Pride, Jr. – officer-related party) 201 Pride Lane, SW Decatur, AL 35603	2,400	$18,000	3/31/09	Sales Administration
Lakeland Industries Europe Ltd. Wallingfen Park 236 Main Road Newport, East Yorkshire HU15 2RH U United Kingdom	4,940	Approximately $48,600 (varies with exchange rates)	1/31/08	Warehouse Sales
Lakeland Industries, Inc. Route 227 & 73 Blandon, PA 19510	12,000	$36,000 (Leased from D. Gallen an employee)	Month to Month	Warehouse

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Address	Estimated Square Feet	Annual Rent	Lease Expiration	Principal Activity
Lakeland Industries, Inc. 31 South Sterley Street Shillington, PA 19607	18,520	$57,504 (Leased from M. Gallen an employee)	7/31/10	Manufacturing Warehouse, Sales Administration
Lakeland India Private Ltd Plots 81, 50 and 24 Noida Special Economic Zone New Delhi, India	58,945	Owned (2)	N/A	Manufacturing Warehouse
Lakeland Industries Inc., Agencia En Chile Los Algarrobos nº 2228 Comuna de Santiago Código Postal 8361401 Santiago, Chile	904	$12,000	03/01/2008	Warehouse Sales

(1) We own the buildings in which we conduct our manufacturing operations and lease the land underlying the buildings from the Chinese government. We have 41 years and 46 years remaining under the leases with respect to the AnQui City and Jiaozhou facilities, respectively.

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

Our facilities in Decatur, Alabama; Celaya, Mexico; AnQui, China; Jiaozhou, China; St. Joseph, Missouri, Shillington, Pennsylvania and New Delhi, India contain equipment used for the design, development and manufacture and sale of our products. Our operations in Burlington, Canada; Newport, United Kingdom; and Santiago, Chile are primarily sales and warehousing operations receiving goods for resale from our manufacturing facilities around the world. We had $3.15 million, $3.68 million and $3.85 million of gross long-lived fixed assets, located in China and $0.80 million, $0.85 million and $0.86 million of long-lived assets located in Mexico as of January 31, 2005, 2006 and 2007.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

PART II

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

Our common stock is currently traded on the NASDAQ Global Market under the symbol "LAKE". The following table sets forth for the periods indicated the high and low sales prices for our common stock as reported by the Nasdaq National Market. The stock prices in the table below have been adjusted for periods prior to July 31, 2003 to reflect our 10% stock dividends to stockholders of record on July 31, 2002, July 31, 2003, April 30, 2005 and August 1, 2006.

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	Price Range of Common Stock	
	High	**Low**
Fiscal 2008		
First Quarter (through April 09, 2007)	$ 14.99	$ 13.25
Fiscal 2007		
First Quarter	$ 18.64	$ 16.79
Second Quarter	17.22	12.54
Third Quarter	13.78	11.93
Fourth Quarter	15.25	13.11
Fiscal 2006		
First Quarter	$ 17.49	$ 11.18
Second Quarter	14.82	11.79
Third Quarter	16.99	13.96
Fourth Quarter	18.70	16.65

Holders

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

On April 10, 2007 the last reported sale price of our common stock on the Nasdaq National Market was $14.94 per share. As of April 10, 2007, there were approximately 73 record holders of shares of our common stock.

Dividend Policy

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

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

Equity Compensation Plans

The following table sets forth certain information regarding Lakeland's equity compensation plans as of January 31, 2007.

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Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price per share of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(1))
Equity Compensation plans approved by security holders	(a) $	(b)	(c) (2)
Restricted stock grants-employees	31,680	$0	100,320
Restricted stock grants-directors	12,320	$0	31,680
Matching award program	4,983	$0	28,017
Bonus in stock program-employees	0	$0	33,000
Retainer in stock program-directors	0	$0	11,000
Total Restricted Stock Plans	48,983	$0	204,017

(1) At minimum levels
(2) Includes 28,017 shares of common stock available for future issuance under our employee stock purchase plan. Also includes up to 132,000 shares available for future issuance under the 2006 Restricted Stock Plan in the form of awards of restricted stock or restricted stock units.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for our fiscal years 2003, 2004, 2005, 2006 and 2007 have been derived from our audited consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP as of and for the fiscal years ended January 31, 2003 and 2004 and by Holtz Rubenstein Reminick LLP for 2005, 2006 and 2007. You should read the information set forth below in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in this Form 10-K.

	Year Ended January 31,				
	2003	2004	2005	2006	2007
	(in thousands, except share and per share data)				
Income Statement Data:					
Net sales	$ 77,826	$ 89,717	$ 95,320	$ 98,740	$ 100,171
Costs of goods sold	62,867	71,741	74,924	74,818	75,895
Gross profit	14,959	17,976	20,396	23,922(1)	24,276
Operating expenses:					
Selling and shipping	6,338	7,342	7,871	8,301	9,473
General and administrative	4,262	4,596	4,871	6,119	8,081
Impairment of goodwill	—	249	—	---	---
Total operating expenses	10,600	12,187	12,742	14,420(2)	17,554(2)
Operating profit	4,359	5,789	7,654	9,502	6,722
Other income (expense):					
Interest expense	(643)	(535)	(207)	(167)	(356)
Interest income	20	19	18	49	20
Gain on Pension Plan Liquidation					353
Other income	40	24	98	384	191
Total other expense	(583)	(492)	(91)	266	208
Income before minority interest	3,776	5,297	7,563	9,768	6,930
Minority interest in net income of variable interest entities	—	—	494	—	---
Income before income taxes	3,776	5,297	7,069	9,768	6,930
Income tax expenses	1,172	1,659	2,053	3,439	1,826
Net Income	$ 2,604	$ 3,638	$ 5,016	$ 6,329	$ 5,104
Net income per common share (Basic)(1)	$ 0.66	$ .92	$ 1.02	$ 1.15	$. 0.92
Net income per common share (Diluted)(1)	$ 0.65	$ .92	$ 1.02	$ 1.15	$. 0.92
Weighted average common shares outstanding(1)					
Basic	3,945,951	3,954,947	4,918,856	5,518,751	5,520,881
Diluted	3,955,537	3,963,356	4,924,638	5,524,076	5,527,618

Balance Sheet Data (at period end):					
Current assets	$ 38,859	$ 43,285	$ 55,128	$ 63,719	$ 62,114
Total assets	42,823	47,304	60,313	72,464	74,198
Current liabilities	20,934	21,509	4,152	3,839	4,326
Long-term liabilities	529	768	1,695	7,829	3,813
Stockholders’ equity	21,359	25,027	54,467	60,796	66,059

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

(2) Operating expenses increased in FY07 mainly due to:

- o $0.34 million of Mifflin Valley operating expenses included for the full twelve months ended January 2007in excess of the seven months through January included in the year ended January 2006.
- o $0.36 million of labor costs resulting from personnel reassigned to SGA departments and vacation accruals which had been assigned to COGS departments in the prior fiscal year.
- o $0.83 million of SGA costs from new entities in India, Chile and Japan.
- o $0.70 million net increases in sales salaries and commissions, mainly in Disposables, Wovens and Canada and related payroll taxes. Several senior level sales personnel were added to support lagging sales in Disposables, support new woven product introductions and coordinate international sales efforts.
- o $0.26 million of net increases in insurance and employee benefits mainly resulting from a more negative experience in our self insured medical plan.
- o $0.36 million increase in administrative payroll reflecting additional staff in the UK and Canada, an international accountant in NY, a new employment contract for the CEO, and related payroll taxes.

Repurchase of Securities

We did not repurchase any of our Common Stock or other securities during our fiscal year ending January 31, 2007.

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

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

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this Form 10-K and Annual Report and in the documents that we incorporate by reference into this Form 10-K. This document may contain certain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements.

Overview

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial protective clothing market. Our products are sold by our in-house sales force and independent sales representatives to a network of over 800 safety and mill supply distributors. These distributors in turn supply end user industrial customers such as chemical/petrochemical, automobile, steel, glass, construction, smelting, janitorial, pharmaceutical and high technology electronics manufacturers, as well as hospitals and laboratories. In addition, we supply federal, state and local governmental agencies and departments such as fire and police departments, airport crash rescue units, the Department of Defense, the Department of Homeland Security and the Centers for Disease Control. Our net sales attributable to customers outside the United States were $9.0 million, $10.3 million and $12.4 million, in fiscal 2005, fiscal 2006 and fiscal 2007, respectively.

Our sales of limited use/disposable protective clothing grew approximately 2.4% in the year ended January 31, 2007 compared to the year ended January 31, 2006. Subsequent to January 31, 2007, we have seen a strong competitive push in the marketplace for disposable protective clothing, with a large competitor offering an aggressive rebate program. We are meeting competitive offers with the help of support from a large supplier. We expect to lose a modest amount of our volume in this area with only a moderate net effect on our ultimate margins. Our cost of goods sold will be further impacted by an approximately two month's supply of material purchased earlier in FY 07 with no rebates. We estimate this material will be charged to our cost of goods sold under strict FIFO accounting at the end of Q1 and the beginning of Q2, after which we expect to have a smooth flow of material costs. We expect that distributors will continue to stock inventory at historical levels as economic conditions in the United States continue to remain slightly positive. In addition, our net sales are driven in part by government funding and health-related events. Our net sales attributable to chemical suits decreased 10.9% in the year ended January 31, 2007 compared to the year ended January 31, 2006. These sales decreases were due primarily to a lull in government

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spending utilizing Fire Act monies and delays by state and local governmental purchasers in spending their Bio-Terrorism monies. These governmental sales are driven primarily by grants from the federal government under the Fire Act of 2002 and the Bio Terrorism Preparedness and Response Act of 2002 as part of the Homeland Security initiatives. During fiscal 2004, as a result of the SARS virus outbreak in various cities in 2003, we sold approximately $1.1 million of SARS-related garments in China, Toronto, Hong Kong and Taiwan. The Centers for Disease Control has recommended protective garments be used to protect healthcare workers in the fight against the spread of the SARS virus and the Avian Flu. In the event of future outbreaks of SARS or other similar contagious viruses, such as Avian Flu in 2005, we have positioned ourselves with increased production capacity.

We have operated manufacturing facilities in Mexico since 1995 and in China since 1996. Beginning in 1995, we moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. Our facilities and capabilities in China and Mexico allow access to a less expensive labor pool than is available in the United States and permit us to purchase certain raw materials at a lower cost than they are available domestically. As we have increasingly moved production of our products to our facilities in Mexico and China, we have seen improvements in the profit margins for these products. We are close to completion of moving the production of our reusable woven garments and gloves to these facilities and expect to complete this process by the fourth quarter of fiscal 2008. As a result, we expect to see profit margin improvements for these product lines as well. The Company has decided to restructure its manufacturing operations in Mexico, by closing its current facilities in Celaya and opening new facilities in Jerez. The Company estimates the costs to close, move and start up will aggregate approximately $500,000 pretax. This restructuring will allow for lower occupancy and labor costs and a more efficient production configuration. The Company anticipates this cost will be charged to its first quarter FY2008 results

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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Valuation of Goodwill and Other Intangible Assets. On February 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," which provides that goodwill and other intangible assets are no longer amortized, but are assessed for impairment annually and upon occurrence of an event that indicates impairment may have occurred. Goodwill impairment is evaluated utilizing a two-step process as required by SFAS No. 142. Factors that we consider important that could identify a potential impairment include: significant underperformance relative to expected historical or projected future operating results; significant changes in the overall business strategy; and significant negative industry or economic trends. When we determine that the carrying value of intangibles and goodwill may not be recoverable based upon one or more of these indicators of impairment, we measure any potential impairment based on a projected discounted cash flow method. Estimating future cash flows requires our management to make projections that can differ materially from actual results.

In August 2005 we purchased Mifflin Valley, a manufacturing facility in Pennsylvania. This purchase resulted in the recording of $871,297 in goodwill as of January 31, 2006.

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

Results of Operations

The following table set forth our historical results of operations for the years ended January 31, 2005, 2006 and 2007 as a percentage of our net sales.

	Year Ended January 31,		
	2005	**2006**	**2007**
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	78.6%	75.8%	75.8%
Gross profit	21.4%	24.2%	24.2%
Operating expenses	13.4%	14.6%	17.5%
Operating profit	8.0%	9.6%	6.7%
Interest expense, net	0.2%	0.2%	.4%
Minority interest in net income of variable interest entities	(0.5)%	-0-	-0-
Income tax expense	2.2%	3.5%	1.8%
Net income	5.3%	6.4%	5.1%

Significant Balance Sheet fluctuation January 31, 2007 as compared to January 31, 2006

Balance Sheet Accounts. The increase in cash and cash equivalents of $0.37 million and the decrease in borrowings of $3.49 million under the revolving credit agreement is principally due to the decrease in inventories of $4.29 million as we restructured purchasing of raw materials from our major supplier. We had built raw material reserves due to an anticipated increase in the cost of these raw materials. Accounts receivable increased $0.28 million due to increased January sales. Plant property and equipment increased as a result of purchasing $3.6 million of facilities in India in November 2006.

Year ended January 31, 2007 compared to the year ended January 31, 2006

Net Sales. Net sales increased $1.4 million, or 1.4%, to $100.2 million for the year ended January 31, 2007 compared to $98.7 million for the year ended January 31, 2006. The increase was due primarily to an increase in the sales by our new foreign subsidiaries and the acquisition of Mifflin Valley in July 2005. Increased sales were offset by a slowing U.S. economy which decreased demand for our products, particularly in the industrial non-woven disposable markets we serve, and decreased demand for our chemical protective suits and fire turnout gear for Homeland Security purposes.

Gross Profit. Gross Profit increased $.35 million, or 1.4%, to $24.3 million for the year ended January 31, 2007 from $23.9 million for the year ended January 31, 2006. Gross profit as a percent of net sales held steady at 24.2%

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for the year ended January 31, 2007 and for the year ended January 31, 2006, primarily because of cost reductions achieved by shifting production of additional Tyvek®-based products and chemical suits to China and Mexico and changes in the mix resulting from sales of the higher margin chemical suits while incurring costs related to the new facilities in India, Chile and Japan. We have increasingly shifted and will continue to shift production to these lower-cost facilities.

Operating Expenses. Operating expenses increased $3.2 million, or 21.7% to $17.6 million for the year ended January 31, 2007 from $14.4 million for the year ended January 31, 2006. As a percent of net sales, operating expenses increased to 17.5% for the year ended January, 2007 from 14.6% for the year ended January 31, 2006. The $3.2 million increase in operating expenses in the year ended January 31, 2007 compared to the year ended January 31, 2006 was principally due to increases in:

- $0.34 million of Mifflin Valley operating expenses included for the full twelve months ended January 2007 in excess of the seven months through January included in the year ended January 2006.
- $0.36 million of labor costs resulting from personnel reassigned to SGA departments and vacation accruals which had been assigned to COGS departments in the prior fiscal year.
- $0.83 million of SGA costs from new entities in India, Chile and Japan.
- $0.70 million net increases in sales salaries and commissions, mainly in disposables, wovens and Canada and related payroll taxes. Several senior level sales personnel were added to support lagging sales in disposables, support new woven product introductions and coordinate international sales efforts.
- $0.26 million of net increases in insurance and employee benefits mainly resulting from a more negative experience in our self insured medical plan.
- $0.36 million increase in administrative payroll reflecting additional staff in the UK and Canada, an international accountant in NY, a new employment contract for the CEO, and related payroll taxes.
- ($0.08) million reduction in foreign currency fluctuation, mainly resulting form our hedging program commenced in June 2006.
- $0.15 million in share-based compensation.
- $0.05 million in increased directors fees resulting from the new compensation schedule in fiscal 2007.
- $0.05 million in higher professional and consulting fees, largely resulting from audit fees.
- $0.10 million in additional depreciation mainly resulting from the purchases of facilities in fiscal 2006.
- $0.14 million in increased bad debt expense resulting from two large accounts reserved against.
- ($0.13) million miscellaneous net expense decreases.

Operating Profit. Operating profit decreased by $2.8 million, or 29.3% to $6.7 million, from $9.5 million for the prior year. Operating income as a percent of net sales decreased to 6.7% for the year ended January 31, 2007 from 9.6% for the year ending January 31, 2006 primarily due to increased operating expenses as discussed above.

Interest Expense. Interest expense increased by $.2 million for the year ended January 31, 2007 compared to the year ended January 31, 2006 because of increased borrowings and interest rate increases.

Other Income - Net. Other income net increased $.13 million principally as a result of a gain on a pension plan liquidation of $.35 million in the current year and the non-recurrence of a litigation settlement in the prior year amounting to $.26 million.

Income Tax Expense. Income tax expenses consist of federal, state and foreign income taxes. Income tax expense decreased $1.6 million, or 46.9%, to $1.8 million for the year ended January 31, 2007 from $3.4 million for the year ended January 31, 2006. Our effective tax rate was 26.3% and 35.2% for the year ended January 31, 2007 and 2006, respectively. Our effective tax rate varied from the federal statutory rate of 34% due primarily to lower foreign tax rates and that the prior year included $3.2 million repatriation in China subsidiary profits and a reserve of $65,000 covering a portion of IRS audit claims, the resolution of which cannot be determined at this time.

Net Income. Net income decreased $1.2 million or 19.4%, to $5.1 million for the year ended January 31, 2007 from $6.3 million for the year ended January 31, 2006. The decrease in net income was the result of an increase in expenses related to the new foreign facilities in India, Chile, Japan and a decrease in profit by the domestic operations.

Year ended January 31, 2006 compared to the year ended January 31, 2005

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Net Sales. Net sales increased $3.4 million, or 3.6%, to $98.7 million for the year ended January 31, 2006 compared to $95.3 million for the year ended January 31, 2005. The increase was due primarily to an increase in the sales in our core non-woven disposable products line and secondarily by our fire and glove lines respectively. Increased sales were also driven by an improving U.S. and Canadian economy which increased demand for our products, particularly in the industrial non-woven disposable markets we serve, the acquisition of Mifflin Valley, Inc. in July 2005, offset by decreased demand for our chemical protective suits for Homeland Security purposes which decreased month over month from February 2005 to October 2006 but then started increasing from November 2005 to our fiscal year ended January 31, 2006.

Gross Profit. Gross Profit increased $3.5 million, or 17.3%, to $23.9 million for the year ended January 31, 2006 from $20.4 million for the year ended January 31, 2005. Gross profit as a percent of net sales increased to 24.3% for the year ended January 31, 2006 from 21.4% for the year ended January 31, 2005, primarily because of cost reductions achieved by shifting production of additional Tyvek®-based products and chemical suits to China and Mexico and changes in product mix. We have increasingly shifted and will continue to shift production to these lower-cost facilities in order to increase our margins.

Operating Expenses. Operating expenses increased $1.7 million, or 13.2% to $14.4 million for the year ended January 31, 2006 from $12.7 million for the year ended January 31, 2005. As a percent of net sales, operating expenses increased to 14.6% for the year ended January 31, 2006 from 13.4% for the year ended January 31, 2005. The $1.7 million increase in operating expenses in the year ended January 31, 2006 compared to the year ended January 31, 2005 was principally due to increases in:

- Salaries of $0.64 million.
- Freight of $0.06 million.
- Sales Commissions of $(.42) million.
- Pension Expense $(.12) million.
- Sales related expenses of $.28 million.
- Payroll Taxes of $0.09 million.
- Currency Fluctuations of $0.12 million.
- Professional Fees of $0.20 million.
- Consulting fees of $0.12 million (pertaining to Sarbanes-Oxley compliance).
- Other $0.23 million.
- The absence in the current year of a minority interest reclassification in the prior year of $0.5 million.

Operating Profit. Operating profit increased by $1.9 million, or 24.1%, to $9.5 million for the year ended 1/31/06, from $7.7 million for the prior year. Operating income as a percent of net sales increased to 9.6% for the year ended January 31, 2006 from 8.0% for the year ending January 31, 2005 primarily due to the higher margins as discussed above.

Interest Expense. Interest expense decreased by $.04 million for the year ended January 31, 2006 compared to the year ended January 31, 2005 because of decreased borrowings and interest rates.

Other Income – Net. Other income- net increased $0.29 million principally as a result of the settlement by the Company as plaintiff for $0.26 million of an outstanding litigation involving two former employees of the company.

Minority Interest. Minority interest in net income of variable interest entities decreased by $.5 million for the year ended January 31, 2006 as a result of our adoption on Financial Interpretation No. 46R (FIN 46R), “Consolidation of Variable Interest Entities,” effective February 1, 2004 and then our purchasing such properties in fiscal year 2006. Subsequent to our adoption of FIN 46R, we determined that certain entities from which we lease real property and which are partially owned by related parties are variable interest entities governed by FIN 46R. As a result, these

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entities were consolidated in our statement of income for the year ended January 31, 2005. These facilities were purchased in April and May 2005 thereby negating the recording of variable interest entities in fiscal 2006.

Income Tax Expense. Income tax expenses consist of federal, state and foreign income taxes. Income tax expense increased $1.4 million, or 67.5%, to $3.4 million for the year ended January 31, 2006 from $2.1 million for the year ended January 31, 2005. Our effective tax rate was 35.20% and 29.0% for the years ended January 31, 2006 and 2005, respectively. Our effective tax rate increased from the federal statutory rate of 34% due primarily to the repatriation of $3.2 million in profits from our Chinese subsidiaries and a reserve of $65,000 covering the portion of the claims of the IRS which can be determined due to a recent audit. The resolution of their claims cannot be determined at this time.

Net Income. Net income increased $1.31 million or 26.2%, to $6.33 million for the year ended January 31, 2006 from $5.02 million for the year ended January 31, 2005. The increase in net income was the result of an increase in net sales and productivity as a result of shifts in production to our China facilities, partially offset by an increase in costs and expenses due to higher sales and increases in our tax rates as mentioned above.

Liquidity and Capital Resources

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

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

CashFlows

As of January 31, 2007 we had cash and cash equivalents of $1.9 million and working capital of $57.8 million, an increase and decrease of $.37 million and ($2.1) million, respectively, from January 31, 2006. Our primary sources of funds for conducting our business activities have been from cash flow provided by operations and borrowings under our credit facilities described below. We require liquidity and working capital primarily to fund increases in inventories and accounts receivable associated with our net sales and, to a lesser extent, for capital expenditures.

Net cash provided by operating activities of $8.2 million for the year ended January 31, 2007 was due primarily to net income from operations of $5.1 million, and a decrease in inventories of $4.3 million, offset by an increase in accounts receivable of $.3 million. Net cash used in operating activities of $8.4 million for the year ended January 31, 2006 was due primarily to net income from operations of $6.3 million offset in part by a decrease in accounts payable of $0.4 million, an increase in inventories of $13.7 million and an increase in accounts receivable of $0.7 million.

Net cash used in investing activities of $4.3 million and $6.5 million in the years ended January 31, 2007 and 2006, respectively, was due to purchases of real estate, property and equipment and the acquisitions of the India facility (current year) and Mifflin Valley (prior year). Net cash used in and provided by financing activities in the years ended January 31, 2007 and 2006 was primarily attributable to a decreased and increased borrowing under our credit facilities, respectively.

CreditFacilities

We currently have one credit facility:

- A five year, $25 million revolving credit facility, of which we had borrowings outstanding as of January 31, 2007 amounting to $3.8 million

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Our $25 million revolving credit facility permits us to borrow up to the lower of $25 million and a borrowing base determined by reference to a percentage of our eligible accounts receivable and inventory. Our $25 million revolving credit facility expires on July 31, 2010. Borrowings under this revolving credit facility bear interest at the London Interbank Offering Rate (LIBOR) plus 60 basis points and were 5.92% at January 31, 2007. As of January 31, 2007, we had $21.2 million of borrowing availability under this revolving credit facility.

Our credit facility requires that we comply with specified financial covenants relating to interest coverage, debt coverage, minimum consolidated net worth, and earnings before interest, taxes, depreciation and amortization. These restrictive covenants could affect our financial and operational flexibility or impede our ability to operate or expand our business. Default under our credit facilities would allow the lenders to declare all amounts outstanding to be immediately due and payable. Our lenders have a security interest in substantially all of our assets to secure the debt under our credit facilities. As of January 31, 2007, we were in compliance with all covenants contained in our credit facilities.

We believe that our current cash position of $1.9 million, our cash flow from operations along with borrowing availability under our $25 million revolving credit facility will be sufficient to meet our currently anticipated operating, capital expenditures and debt service requirements for at least the next 12 months.

CapitalExpenditures

Our capital expenditures principally relate to purchases of manufacturing equipment, computer equipment, leasehold improvement and automobiles, as well as payments related to the construction of our facilities in China. Our facilities in China are not encumbered by commercial bank mortgages and thus Chinese commercial mortgage loans may be available with respect to these real estate assets if we need additional liquidity. We expect our capital expenditures to be approximately $1.4 million to purchase our capital equipment primarily computer equipment and apparel manufacturing equipment and approximately $2.0 million for a new facility in Canada in fiscal 2008.

Contractual Obligations

We had no off-balance sheet arrangements at January 31, 2007. As shown below, at January 31, 2007, our contractual cash obligations totaled approximately $7.108 million, including lease renewals entered into subsequent to January 31, 2007.

		Payments Due by Period			
	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Canada Facility Construction	$ 1,566,000	$ 1,566,000			
Operating leases	$ 1,766,000	$ 522,000	$ 1,096,000	$ 148,000	----
Revolving credit facility	3,786,000	----	3,786,000	----	----
Total	**$ 7,108,000**	**$ 2,078,000**	**$ 4,882,000**	**$ 148,000**	**----**

Seasonality

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

In recent years, due to increased demand by first responders for our chemical suits and fire gear, our historical seasonal pattern has shifted. Governmental disbursements are dependent upon budgetary processes and grant administration processes that do not follow our traditional seasonal sales patterns. Due to the size and timing of these

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governmental orders, our net sales, results of operations, working capital requirements and cash flows can vary between different reporting periods. As a result, we expect to experience increased variability in net sales, net income, working capital requirements and cash flows on a quarterly basis.

Effects of Recent Accounting Pronouncements

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

In September 2006, the FASB issued FAS No. 157, “Fair Value Measurements” (FAS No. 157”), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively, except in the case of a limited number of financial instruments that require retrospective application. We are currently evaluating the potential impact of FAS No. 157 on our financial position and results of operations.

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

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the Company's fiscal year ending January 31, 2007. The application of SAB 108 did not have a material effect on our financial position or results of operations as of January 31, 2007 or for the year then ended.

ITEM 7A.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including changes in interest rates and currency exchange rates. To manage the volatility relating to these exposures, we seek to limit, to the extent possible, our non-U.S. dollar denominated purchases.

Foreign Currency Risk

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

In connection with our operations in China, we purchase a significant amount of products from outside of the United States. However, our purchases in China are primarily made in Chinese Yuan, the value of which has been

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largely pegged to the U.S. dollar for the last decade. However, the Chinese Yuan has recently been decoupled from the US Dollar and allowed to float by the Chinese government, and therefore, we will be exposed to additional foreign exchange rate risk on our Chinese purchases.

Our primary risk from foreign currency exchange rate changes is presently related to non-U.S. dollar denominated sales in Canada and, to a smaller extent, in Europe. Our sales to customers in Canada are denominated in Canadian dollars. If the value of the U.S. dollar increases relative to the Canadian dollar, then our net sales could decrease as our products would be more expensive to our Canadian customers because of the exchange rate change. Our sales in China are denominated in the Chinese Yuan, however, our sales there are presently not material. At this time, we do not manage the foreign currency risk through the use of derivative instruments. A 10% decrease in the value of the U.S. dollar relative to foreign currencies would increase the landed costs into the U.S. but would make our selling price for international sales more attractive with respect to foreign currencies. As non-U.S. dollar denominated international purchases and sales grow, exposure to volatility in exchange rates could have a material adverse impact on our financial results.

Interest Rate Risk

We are exposed to interest rate risk with respect to our credit facilities, which have variable interest rates based upon the London Interbank Offered Rate. At January 31, 2007, we had $3.8 million in borrowings outstanding under this credit facility. If the interest rate applicable to this variable rate debt rose 1% in the year ended January 31, 2007, our interest expense would have increased and our income before income taxes would have decreased by less than $62,000.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Consolidated Financial Statements:

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

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Lakeland Industries, Inc. and Subsidiaries ("Lakeland") as of January 31, 2007 and 2006 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended January 31, 2007. We have also audited the schedule listed in Item 15(a)(2) of this Form 10-K for the years ended January 31, 2007, 2006 and 2005. We have also audited management’s assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting", that Lakeland Industries, Inc. and Subsidiaries maintained effective internal control over financial reporting as of January 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lakeland’s management is responsible for these consolidated financial statements and schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and the schedule, an opinion on management's assessment, and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.

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

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

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provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lakeland Industries, Inc. and Subsidiaries as of January 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also in our opinion, management's assessment that Lakeland maintained effective internal control over financial reporting as of January 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Furthermore, in our opinion, Lakeland maintained, in all material respects, effective internal control over financial reporting as of January 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in Note 1 to the financial statements, effective February 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

Melville, New York
April 5, 2007

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Lakeland Industries, Inc.
and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	January 31, 2007	January 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 1,906,557	$ 1,532,453
Accounts receivable, net of allowance for doubtful accounts of $103,000 and $323,000 at January 31, 2007 and 2006, respectively	14,780,266	14,221,281
Inventories, net of reserves of $306,000 and $365,000 at January 31, 2007 and 2006, respectively	40,955,739	45,243,490
Deferred income taxes	1,355,364	917,684
Prepaid income tax	1,565,384	-----
Other current assets	1,550,338	1,804,552
Total current assets	62,113,648	63,719,460
Property and equipment, net	11,084,030	7,754,765
Other assets, net	129,385	118,330
Goodwill	871,297	871,297
Total assets	$ 74,198,360	$ 72,463,852
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 3,055,339	$ 2,536,756
Accrued compensation and benefits	766,451	866,765
Other accrued expenses	504,172	435,779
Total current liabilities	4,325,962	3,839,300
Borrowings under revolving credit facility	3,786,000	7,272,000
Pension liability	-----	469,534
Deferred income taxes	27,227	86,982
Total liabilities	8,139,189	11,667,816
Commitments and contingencies		
Stockholders’ equity		
Preferred stock, $01 par; 1,500,000 shares authorized; none issued		
Common stock, $01 par; 10,000,000 shares authorized; 5,521,824 and 5,017,046 shares issued and outstanding at January 31, 2007 and 2006, respectively	55,218	50,170
Additional paid-in capital	48,972,025	42,431,221
Retained earnings	17,031,928	18,314,645
Total stockholders' equity	66,059,171	60,796,036
Total liabilities and stockholders' equity	$ 74,198,360	$ 72,463,852

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

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Lakeland Industries, Inc.
and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal years ended January 31, 2007	2006	2005
Net sales	$ 100,170,942	$ 98,740,066	$ 95,320,163
Cost of goods sold	75,895,066	74,817,715	74,924,375
Gross profit	24,275,876	23,922,351	20,395,788
Operating expenses			
Selling and shipping	9,473,404	8,301,216	7,871,423
General and administrative	8,080,567	6,118,722	4,870,302
Total operating expenses	17,553,971	14,419,938	12,741,725
Operating profit	6,721,905	9,502,413	7,654,063
Other income (expense)			
Interest expense	(356,331)	(166,805)	(207,912)
Interest income	20,466	48,545	18,378
Gain on pension plan liquidation	352,843	---	---
Other income – net	191,163	383,909	98,370
Total other income (expense)	208,141	265,649	(91,164)
Income before minority interest	6,930,046	9,768,062	7,562,899
Minority interest in net income of variable interest entities	---	---	493,558
Income before income taxes	6,930,046	9,768,062	7,069,341
Income tax expense	1,825,847	3,438,698	2,053,095
Net income	$ 5,104,199	$ 6,329,364	$ 5,016,246
Net income per common share			
Basic	$ 0.92	$ 1.15	$ 1.02
Diluted	$ 0.92	$ 1.15	$ 1.02
Weighted average common shares outstanding			
Basic	5,520,881	5,518,751	4,918,856
Diluted	5,527,618	5,524,076	4,924,638

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

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Lakeland Industries, Inc.
and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Fiscal years ended January 31, 2007, 2006 and 2005

	Common stock		Additional		
	Shares	Amount	paid-in Capital	Retained Earnings	Total
Balance, February 1, 2004	3,273,925	$ 32,739	$ 11,862,461	$ 13,131,770	$ 25,026,970
Exercise of stock options	6,210	62	54,370	---	