

LAKELAND INDUSTRIES INC  
Form 10-Q  
December 14, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended **October 31, 2016**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 0-15535**

**LAKELAND INDUSTRIES, INC.**

(Exact name of Registrant as specified in its charter)

Delaware                      13-3115216  
(State of incorporation)   (IRS Employer Identification Number)

3555 Veterans Memorial Highway, Suite C, Ronkonkoma, New York   11779  
(Address of principal executive offices)                                              (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

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

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

Yes  No

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 December 13, 2016
Common Stock, \$0.01 par value per share	7,261,714 shares

**LAKELAND INDUSTRIES, INC.**

**AND SUBSIDIARIES**

**FORM 10-Q**

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

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**LAKELAND INDUSTRIES, INC.**

**AND SUBSIDIARIES**

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Introduction

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-Q may contain certain forward-looking statements. When used in this Form 10-Q or in any other presentation, statements which are not historical in nature, including the words “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend,” “project” and similar expressions, are intended to identify forward-looking statements. They also include statements containing a projection of sales, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this Form 10-Q are based upon our management’s beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to us. These statements are not statements of fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

- our ability to obtain additional funds, if necessary;
- we are subject to risk as a result of our international manufacturing operations;
- our results of operations could be negatively affected by potential fluctuations in foreign currency exchange rates;
- we deal in countries where corruption is an obstacle;
- we have experienced material weaknesses in internal controls in the past and although we believe such weaknesses have been remediated, there can be no assurance that such weaknesses will not occur in the future;
-

there is no assurance that our disposition of our Brazilian subsidiary will be entirely successful in that we may continue to be exposed to certain liabilities in connection with the operations of such company. In addition, while the Company's tax advisors believe that the worthless stock deduction taken by the Company in connection therewith is valid, there can be no assurance that the IRS will not challenge it and, if challenged, that the Company will prevail.

- rapid technological change could negatively affect sales of our products, inventory levels and our performance;
- we must estimate customer demand because we do not have long-term commitments from many of our customers, and errors in our estimates could negatively impact our inventory levels and net sales;

- our operations are substantially dependent upon key personnel;

- we rely on a limited number of suppliers and manufacturers for specific fabrics, 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 inability to protect our intellectual property;

- our effective tax rate could change as a result of tax reform and the result could be a significant one-time noncash charge to tax expense in order to adjust our deferred tax asset;

- we face competition from other companies, a number of which have substantially greater resources than we do;

- some of our sales are to foreign buyers, which exposes us to additional risks;

- a significant reduction in government funding for preparations for terrorist incidents could adversely affect our net sales;

- we may be subject to product liability claims, and insurance coverage could be inadequate or unavailable to cover these claims;

our directors and executive officers have the ability to exert significant influence on us and on matters subject to a vote of our stockholders;

our failure to realize anticipated benefits from acquisitions, divestitures or restructurings, or the possibility that such acquisitions, divestitures or restructurings could adversely affect us;

- our ability to make payments on our indebtedness and comply with the restrictive covenants therein;
- covenants in our credit facilities may restrict our financial and operating flexibility;

the other factors referenced in this Form 10-Q, including, without limitation, in the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the factors described under “Risk Factors” disclosed in our fiscal 2016 Form 10-K.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. Furthermore, forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Form 10-Q might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

## LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	October 31, (\$000's) except for share information		October 31, (\$000's) except for share information	
	2016	2015	2016	2015
Net sales from continuing operations	\$ 23,243	\$ 24,888	\$ 65,881	\$ 79,172
Cost of goods sold from continuing operations	14,724	15,640	41,999	48,850
Gross profit from continuing operations	8,519	9,248	23,882	30,322
Operating expenses from continuing operations	6,271	6,056	18,886	18,211
Operating profit from continuing operations	2,248	3,192	4,996	12,111
Other income (loss), net from continuing operations	(2 )	(7 )	20	9
Interest expense from continuing operations	150	183	522	576
Income before taxes from continuing operations	2,096	3,002	4,494	11,544
Income tax expense from continuing operations	583	882	1,548	3,676
Net income from continuing operations	1,513	2,120	2,946	7,868
Noncash reclassification of Other Comprehensive Income to Statement of Operations (no impact on stockholders' equity)	—	—	—	(1,286 )
Loss from operations from discontinued operations	—	—	—	(1,253 )
Loss from disposal of discontinued operations	—	—	—	(515 )
Loss before taxes for discontinued operations	—	—	—	(3,054 )
Income tax benefit from discontinued operations	—	—	—	(569 )
Net loss from discontinued operations	—	—	—	(2,485 )
Net income	\$ 1,513	\$ 2,120	\$ 2,946	\$ 5,383
Net income (loss) per common share – Basic:				
Income from continuing operations	\$ 0.21	\$ 0.29	\$ 0.41	\$ 1.10
Loss from discontinued operations	\$ —	\$ —	\$ —	\$ (0.35 )
Net income	\$ 0.21	\$ 0.29	\$ 0.41	\$ 0.75
Net income (loss) per common share – Diluted:				
Income from continuing operations	\$ 0.21	\$ 0.29	\$ 0.40	\$ 1.09
Loss from discontinued operations	\$ —	\$ —	\$ —	\$ (0.35 )
Net income	\$ 0.21	\$ 0.29	\$ 0.40	\$ 0.74
Weighted average common shares outstanding:				
Basic	7,258,697	7,234,914	7,255,966	7,148,430
Diluted	7,332,997	7,300,435	7,321,587	7,235,252

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





## LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	(\$000's)		(\$000's)	
	2016	2015	2016	2015
Net income	\$ 1,513	\$ 2,120	\$ 2,946	\$ 5,383
Other comprehensive income (loss):				
Cash flow hedge	—	(171 )	23	(156 )
Foreign currency translation adjustments	(193 )	(328 )	(102 )	(125 )
Brazil noncash reclassification of Other Comprehensive Income to Statement of Operations (transfer of shares Brazil)	—	—	—	1,286
Other comprehensive income (loss)	(193 )	(499 )	(79 )	1,005
Comprehensive income	\$ 1,320	\$ 1,621	\$ 2,867	\$ 6,388

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

## LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	October 31, 2016	January 31, 2016
	(\$000's)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$8,453	\$ 7,022
Accounts receivable, net of allowance for doubtful accounts of \$552 and \$593 at October 31, 2016 and January 31, 2016, respectively	11,322	11,476
Inventories, net of allowance of \$2,561 and \$2,566 at October 31, 2016 and January 31, 2016, respectively	36,605	40,841
Prepaid VAT tax	1,516	1,143
Other current assets	2,018	1,635
Total current assets	59,914	62,117
Property and equipment, net	8,538	9,268
Assets held for sale	976	1,101
Deferred income tax	14,098	14,338
Prepaid VAT and other taxes	558	377
Other assets	92	188
Goodwill	871	871
Total assets	\$85,047	\$ 88,260
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$4,833	\$ 4,254
Accrued compensation and benefits	1,149	1,157
Other accrued expenses	1,640	1,813
Current maturity of long-term debt	50	50
Short-term borrowings	294	3,226
Borrowings under revolving credit facility	5,771	9,458
Total current liabilities	13,737	19,958
Long-term portion of debt	704	691
VAT taxes payable	8	95
Total liabilities	14,449	20,744
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par; authorized 1,500,000 shares (none issued)	—	—
Common stock, \$0.01 par; authorized 10,000,000 shares, Issued 7,618,155 and 7,610,603; outstanding 7,261,714 and 7,254,162 at October 31, 2016 and January 31, 2016, respectively	76	76
Treasury stock, at cost; 356,441 shares at October 31, 2016 and January 31, 2016	(3,352 )	(3,352 )
Additional paid-in capital	64,683	64,468

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Retained earnings	11,454	8,508
Accumulated other comprehensive loss	(2,263 )	(2,184 )
Total stockholders' equity	70,598	67,516
Total liabilities and stockholders' equity	\$85,047	\$ 88,260

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

## LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended October 31,	
	2016	2015
	(000's)	
Cash flows from operating activities:		
Net income	\$ 2,946	\$ 5,383
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision for (recovery of) inventory obsolescence	(5 )	65
Recovery of doubtful accounts	(41 )	(15 )
Deferred income taxes	153	1,620
Depreciation and amortization	963	704
Stock-based and restricted stock compensation	177	420
Loss on disposal of property and equipment	31	49
Interest expense resulting from Arbitration Award	—	(111 )
Non-cash reclassification of other comprehensive income to statement of operations due to the disposal of Brazil	—	1,286
(Increase) decrease in operating assets:		
Accounts receivable	176	(1,543 )
Inventories	4,283	(6,637 )
Prepaid VAT and other taxes	(374 )	22
Other current assets	(510 )	(727 )
Increase (decrease) in operating liabilities:		
Accounts payable	477	(45 )
Accrued expenses and other liabilities	(145 )	554
Arbitration award in Brazil	—	(3,759 )
Net cash used by the sale of Brazil	80	(1,147 )
Net cash provided by (used in) operating activities	8,211	(3,881 )
Cash flows from investing activities:		
Proceeds from sale of property	—	451
Purchases of property and equipment	(116 )	(715 )
Net cash used in investing activities	(116 )	(264 )
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit facility	(3,687 )	2,749
Loan repayments, short-term	(4,511 )	(2,143 )
Loan borrowings, short-term	1,329	2,325
UK borrowings (repayments), net	243	(480 )
Proceeds from exercise of stock options	41	41
Shares returned to pay employee taxes under restricted stock program	(3 )	(717 )
Net cash (used in) provided by financing activities	(6,588 )	1,775

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Effect of exchange rate changes on cash and cash equivalents	(76 )	(51 )
Net increase (decrease) in cash and cash equivalents	1,431	(2,421 )
Cash and cash equivalents at beginning of period	7,022	6,709
Cash and cash equivalents at end of period	\$ 8,453	\$ 4,288
Cash paid for interest	\$ 522	\$ 578
Cash paid for taxes	\$ 1,126	\$ 1,377

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

**LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

***I.***

***Business***

Lakeland Industries, Inc. and Subsidiaries (“Lakeland,” the “Company,” “we,” “our” or “us”), a Delaware corporation organized in April 1986, manufactures and sells a comprehensive line of safety garments and accessories for the industrial protective clothing market. In April 2015, the Company decided to exit operations in Brazil. See Note 14 for further description.

***2. Basis of Presentation***

The unaudited condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting of only normal and recurring adjustments) which are, in the opinion of management, necessary to present fairly the unaudited condensed consolidated financial information required herein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended January 31, 2016.

The Company’s unaudited condensed consolidated financial statements have been prepared using the accrual method of accounting in accordance with US GAAP.

The results of operations for the three and nine month period ended October 31, 2016 are not necessarily indicative of the results to be expected for the full year.

In this Form 10-Q, (a) “FY” means fiscal year; thus, for example, FY17 refers to the fiscal year ending January 31, 2017, (b) “Q” refers to quarter; thus, for example, Q3 FY17 refers to the third quarter of the fiscal year ending January 31, 2017, (c) “Balance Sheet” refers to the unaudited condensed consolidated balance sheet and (d) “Statement of

Operations" refers to the unaudited condensed consolidated statement of operations.

3. *Summary of Significant Accounting Policies*

Principles of Consolidation

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

Use of Estimates and assumptions

The preparation of unaudited condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. It is reasonably possible that events could occur during the upcoming year that could change such estimates.

Revenue Recognition

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



### Accounts Receivable, net

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company recognizes losses when information available indicates that it is probable that a receivable has been impaired based on criteria noted above at the date of the financial statements, and the amount of the loss can be reasonably estimated. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with customers, current economic industry trends, changes in customer payment terms. Past due balances over 90 days and other less creditworthy accounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

### 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.

### Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is evaluated for impairment at least annually; however, this evaluation may be performed more frequently when events or changes in circumstances indicate the carrying amount may not be recoverable. Factors that the Company considers important that could identify a potential impairment include: significant changes in the overall business strategy and significant negative industry or economic trends. The Company measures any potential impairment on a projected discounted cash flow method. Estimating future cash flows requires the Company's management to make projections that can differ materially from actual results.

### Impairment of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances indicate the carrying value may not be recoverable. The Company measures any potential impairment on a projected undiscounted cash flow method. Estimating future cash flows requires the Company's management to make projections that can differ materially from actual results. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from the asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. As of October 31, 2016 and January 31, 2016, no impairment was recorded.

Income Taxes

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of preparing the unaudited condensed 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 carryforwards and tax credits, are recorded as deferred tax assets or liabilities on the Company's unaudited condensed consolidated balance sheet. A judgment must then be made of the likelihood that any deferred tax assets will be recovered from future taxable income. A valuation allowance may be required to reduce deferred tax assets to the amount that is more likely than not to be realized. In the event the Company determines that it may not be able to realize all or part of its deferred tax asset in the future, or that new estimates indicate that a previously recorded valuation allowance is no longer required, an adjustment to the deferred tax asset is charged or credited to income in the period of such determination.

The Company recognizes tax positions that meet a "more likely than not" minimum recognition threshold.

### Foreign Operations and Foreign Currency Translation

The Company maintains manufacturing operations in Mexico, Argentina and the People's Republic of China and can access independent contractors in Mexico, Argentina and China. It also maintains sales and distribution entities located in India, Canada, the U.K., Chile, China, Argentina, Russia, Kazakhstan and Mexico. The Company is vulnerable to currency risks in these countries. The functional currency for the United Kingdom subsidiary is the Euro; the trading company in China, the RMB; the Canadian Real Estate subsidiary, the Canadian dollar; and the Russian operation, the Russian Ruble and Kazakhstan Tenge. All other operations have the US dollar as its functional currency.

Pursuant to US GAAP, assets and liabilities of the Company's foreign operations with functional currencies, other than the US dollar, are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average rates prevailing during the periods. Translation adjustments are reported in accumulated other comprehensive loss, a separate component of stockholders' equity. Cash flows are also translated at average translation rates for the periods, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheet.

### Fair Value of Financial Instruments

US GAAP defines fair value, provides guidance for measuring fair value and requires certain disclosures utilizing a fair value hierarchy which is categorized into three levels based on the inputs to the valuation techniques used to measure fair value.

The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect management's own assumptions.

Foreign currency forward and hedge contracts are recorded in the unaudited condensed consolidated balance sheets at their fair value as of the balance sheet dates based on current market rates, as further discussed in Note 11.

The financial instruments of the Company classified as current assets or liabilities, including cash and cash equivalents, accounts receivable, short-term borrowings, borrowings under revolving credit facility, accounts payable and accrued expenses, are recorded at carrying value, which approximates fair value based on the short-term nature of these instruments.

The Company believes that the fair values of its long-term debt approximates its carrying value based on the effective interest rate compared to the current market rate available to the Company.

### Earnings Per Share

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

### Reclassifications

Certain reclassifications have been made to the prior period's unaudited condensed consolidated balance sheet to conform to the current period presentation. These reclassifications have no effect on the accompanying unaudited condensed consolidated financial statements.

### Recent Accounting Pronouncements

The Company considers the applicability and impact of all accounting standards updates ("ASUs"). Management periodically reviews new accounting standards that are issued.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606);, to clarify the principles used to recognize revenue for all entities. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual periods after December 31, 2016. This guidance permits the use of one of two retrospective transition methods. The Company has neither selected a transition method, nor determined the effects that the adoption of the pronouncement may have on its unaudited condensed consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which changes how deferred taxes are classified on organizations' balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. During the quarter ended October 31, 2016, the Company early applied this ASU and retrospectively applied it to the prior period presented. The adoption of ASU 2015-17 had no impact on the Company's results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. The Company is currently evaluating the impact of this new standard on its unaudited condensed consolidated financial statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for an entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact this guidance will have on its unaudited condensed consolidated financial statements and related disclosures.

In April 2016, FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of this new standard on its unaudited condensed consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815); Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities—Oil and Gas, effective upon adoption of Topic 606. The Company does not expect the adoption of the ASU to have any impact on its unaudited condensed consolidated financial statements.

In May 2016, FASB issued ASU No. 2016-12—Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company is assessing the impact of the adoption of the ASU on its unaudited condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230, Statement of Cash Flows. This ASU provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's unaudited condensed consolidated financial statements.

**4. *Inventories, net***

Inventories, net consist of the following (in \$000s):

	October 31, 2016	January 31, 2016
Raw materials	\$ 20,685	\$ 15,435
Work-in-process	943	784
Finished goods	14,977	24,622
	\$ 36,605	\$ 40,841

**5. *Long-Term Debt***

Revolving Credit Facility

On June 28, 2013, as amended on March 31, 2015 and June 3, 2015, Lakeland Industries, Inc. and its wholly owned Canadian subsidiary, Lakeland Protective Wear Inc. (collectively the “Borrowers”), entered into a Loan and Security Agreement (the “Senior Loan Agreement”) with AloStar Business Credit, a division of AloStar Bank of Commerce (the “Senior Lender”). The Senior Loan Agreement provides the Borrowers with a \$15 million revolving line of credit (the “Senior Credit Facility”), at a variable interest rate based on LIBOR, with a first priority lien on substantially all of the United States and Canada assets of the Company, except for its Mexican plant and the Canadian warehouse. After these amendments the maturity date of the Senior Credit Facility is now June 28, 2017 and the minimum interest rate floor is 4.25% per annum. The Senior Lender has approved required aspects of the transactions relating to the Brazil operations as such transactions are further described in Note 14 hereto.

The following is a summary of the material terms of the Senior Credit Facility:

\$15 million Senior Credit Facility

- Borrowing pursuant to a revolving credit facility subject to a borrowing base calculated as the sum of:
  - o 85% of eligible accounts receivable as defined
  - o The lesser of 60% of eligible inventory as defined or 85% of net orderly liquidation value of inventory
    - o In transit inventory in bound to the US up to a cap of \$1,000,000
  - o Receivables and inventory held by the Canadian operating subsidiary to be included, up to a cap of \$2.0 million of availability



On October 31, 2016 and January 31, 2016, there was \$5.8 million and \$9.5 million outstanding under the Senior Credit Facility.

On October 31, 2016, there was \$9.2 million available for further borrowings under the Senior Credit Facility.

#### Collateral

A perfected first security lien on all of the Borrower's United States and Canadian assets, other than its Mexican plant and the Canadian warehouse

Pledge of 65% of Lakeland Industries, Inc. stock in all foreign subsidiaries other than 100% pledge of stock of its Canadian subsidiaries

#### Collection

All customers of Borrowers must remit to a lockbox controlled by Senior Lender or into a blocked account with all collection proceeds applied against the outstanding loan balance.

Prepayment penalties of 1%.

#### Interest Rate

- o Rate equal to LIBOR rate plus 325 basis points, subject to Floor rate of 4.25%
- o Rate at October 31, 2016 of 4.25% per annum

#### Financial Covenants

Borrowers are subject to certain covenants from the Closing Date, as defined in the Senior Loan Agreement, until the commitment termination date and full payment of the obligations to Senior Lender, Lakeland Industries, Inc. (the parent company), together with its subsidiaries on a consolidated basis, excluding its Brazilian subsidiary (have since been transferred), shall comply with the following additional covenants:

Fixed Charge Coverage Ratio. At the end of each fiscal quarter of Borrowers, Borrowers shall maintain a Fixed Charge Coverage Ratio of not less than 1.1 to 1.00 for the twelve month period then ending.

Minimum Quarterly Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). Borrowers shall achieve, on a rolling four quarter basis excluding the operations of the Borrower's then Brazilian subsidiary, EBITDA of not less than \$4.1 million.

Capital Expenditures. Borrowers shall not during any fiscal year make capital expenditures in an amount exceeding \$1 million in the aggregate.

Other Covenants

- o Standard financial reporting requirements as defined
- o Limitation on total net investment in foreign subsidiaries of a maximum of \$1.0 million per annum

**Borrowings in UK**

On December 31, 2014, the Company and Lakeland Industries Europe, Ltd, (“Lakeland UK”), a wholly owned subsidiary of the Company, amended the terms of its existing line of credit facility with HSBC Bank to provide for (i) a one-year extension of the maturity date of the existing financing facility to December 19, 2016, (ii) an increase in the facility limit from £1,250,000 (approximately USD \$1.9 million, based on exchange rates at time of closing) to £1,500,000 (approximately USD \$2.3 million, based on exchange rates at time of closing), and (iii) a decrease in the annual interest rate margin from 3.46% to 3.0%. In addition, pursuant to a letter agreement dated December 5, 2014, the Company agreed that £400,000 (approximately USD \$0.6 million, based on exchange rates at time of closing) of the note payable by the UK subsidiary to the Company shall be subordinated in priority of payment to the subsidiary’s obligations to HSBC under the financing facility. The balance under this loan outstanding at October 31, 2016 and January 31, 2016 was USD \$0.2 million and USD \$0, respectively, and is included in short-term borrowings on the unaudited condensed consolidated balance sheet. On December 31, 2015, Lakeland UK entered into an extension of the maturity date of its existing financing facility with HSBC Invoice Finance (UK) Ltd. to December 19, 2016. Other than the extension of the maturity date, all other terms of the facility remain the same.

### **Canada Loans**

In September 2013, the Company refinanced its loan with the Development Bank of Canada (“BDC”) for a principal amount of approximately \$1.1 million in both Canadian and USD (based on exchange rates at time of closing). Such loan is for a term of 240 months at an interest rate of 6.45% per annum with fixed monthly payments of approximately USD \$6,048 (C\$8,169) including principal and interest. It is collateralized by a mortgage on the Company's warehouse in Brantford, Ontario. The amount outstanding at October 31, 2016 is C\$1,011,000 which is included as USD \$704,000 in long term borrowings on the accompanying unaudited condensed consolidated balance sheet, net of current maturities of USD \$50,000. The amount outstanding at January 31, 2016 was USD \$691,000 (CAD \$1.3 million) in long term borrowings, net of current maturities of USD \$50,000.

### **China Loans**

On March 28, 2016, Weifang Lakeland Safety Products Co., Ltd., (“WF”), the Company’s Chinese subsidiary and Chinese Rural Credit Cooperative Bank (“CRCCB”) completed an agreement for WF to obtain a line of credit for financing in the amount of USD \$1.3 million, with interest at 120% of the benchmark rate supplied by CRCCB (which is currently 4.6% per annum), with the line of credit having a term of one year. The effective per annum interest rate was 5.35%. The loan was collateralized by inventory owned by WF. The line of credit was paid in full prior to October 31, 2016.

On December 1, 2015, WF and CRCCB entered into an agreement for WF to obtain a line of credit for financing in the amount of RMB 6,000,000 (approximately USD \$0.9 million), with interest at 120% of the benchmark rate supplied by CRCCB (which is currently 4.6% per annum), and with the line of credit having a term of one year. The effective per annum interest rate was 5.52%. The loan was collateralized by inventory owned by WF. The line of credit was paid in full prior to October 31, 2016. At January 31, 2016, the line of credit was RMB 6.0 million (approximately USD \$0.9 million).

On October 10, 2015, WF and Bank of China Anqiu Branch entered into an agreement for WF to obtain a line of credit for financing in the amount RMB 5,000,000 (approximately USD \$0.8 million). The effective per annum interest rate was 7% , with the line of credit having a term of one year. The loan was collateralized by inventory owned by WF. The line of credit was paid in full prior to October 31, 2016. At January 31, 2016, the line of credit was RMB 5.0 (approximately USD \$0.8 million).

### **Argentina Loan**

In April 2015, Lakeland Argentina S.R.L. (“Lakeland Argentina”), the Company’s Argentina subsidiary was granted a \$300,000 line of credit denominated in Argentine pesos, pursuant to a standby letter of credit granted by the parent company.

The following three loans were made under the \$300,000 facility stated above:

On December 2, 2015, Lakeland Argentina and Banco Santander Rio S.A (“Santander”) entered into an agreement for Lakeland Argentina to obtain a loan in the amount of ARS 559,906 (approximately USD \$50,000, based on exchange rates at time of closing); such loan is for a term of 1 year at an interest rate of 42% per annum. The amount outstanding at October 31, 2016 is ARS 110,071 (approximately USD \$7,000) which is included as short-term borrowings on the unaudited condensed consolidated balance sheet. At January 31, 2016, the line of credit was ARS 522,000 (approximately USD \$38,000).

On March 30, 2016, Lakeland Argentina and Banco de la Nación Argentina (“BNA”) entered into an agreement for Lakeland Argentina to obtain a loan in the amount of ARS 830,000 (approximately USD \$56,000, based on exchange rates at time of closing); such loan is for a term of one year at an interest rate of 27% per annum. The amount outstanding at October 31, 2016 is ARS 415,000 (approximately USD \$27,400) which is included as short-term borrowings on the unaudited condensed consolidated balance sheet.

On July 1, 2016, Lakeland Argentina and BNA entered into an agreement for Lakeland Argentina to obtain a loan in the amount of ARS 569,000 (approximately USD \$38,000, based on exchange rates at time of closing); such loan is for a term of one year at an interest rate of 27.06% per annum. The amount outstanding at October 31, 2016 is ARS 426,750 (approximately USD \$28,000) which is included as short-term borrowings on the unaudited condensed consolidated balance sheet.

## ***6. Concentration***

### **Major Customer**

No customer accounted for more than 10% of net sales during the three and nine month periods ended October 31, 2016 and 2015.

### **Major Supplier**

No supplier accounted for more than 10% of net sales during the three and nine month periods ended October 31, 2016 and 2015.

## ***7. Employee Stock Compensation and Stock Repurchase Program***

### **The 2012 and 2015 Plans**

At the Annual Meeting of Stockholders held on July 8, 2015, the Company's stockholders approved the Lakeland Industries, Inc. 2015 Stock Plan (the "2015 Plan"). The executive officers and all other employees and directors of the Company and its subsidiaries are eligible to participate in the 2015 Plan. The 2015 Plan is currently administered by the compensation committee of the Company's Board of Directors ("Committee"), except that with respect to all non-employee director awards, the Committee shall be deemed to include the full Board. The 2015 Plan authorizes the issuance of awards of restricted stock, restricted stock units, performance shares, performance units and other stock-based awards. The 2015 Plan also permits the grant of awards that qualify for "performance-based compensation" within the meaning of Section 162(m) of the U.S. Internal Revenue Code. The aggregate number of shares of the Company's common stock that may be issued under the 2015 Plan may not exceed 100,000 shares. Awards covering no more than 20,000 shares of common stock may be awarded to any plan participant in any one calendar year. Under the 2015 Plan, as of October 31, 2016, the Company granted awards for up to an aggregate of 99,270 restricted shares

assuming maximum award levels are achieved.

The 2015 Plan, which terminates in July 2017, is the successor to the Company's 2012 Stock Incentive Plan (the "2012 Plan"). The Company's 2012 Plan authorized the issuance of up to a maximum of 310,000 shares of the Company's common stock to employees and directors of the Company and its subsidiaries in the form of restricted stock, restricted stock units, performance shares, performance units and other share-based awards. Under the 2012 Plan, as of October 31, 2016, the Company issued 289,462 fully vested shares of common stock and 4,425 restricted shares which will continue to vest according to the terms of the 2012 Plan.

Under the 2012 Plan and the 2015 Plan, the Company generally awards eligible employees and directors with either performance-based or time-based restricted shares. Performance-based restricted shares are awarded at either baseline (target), maximum or zero amounts. The number of restricted shares subject to any award is not tied to a formula or comparable company target ranges, but rather is determined at the discretion of the Committee at the end of the applicable performance period, which is two years under the 2015 Plan and had been three years under the 2012 Plan. The Company recognizes expense related to performance-based restricted share awards over the requisite performance period using the straight-line attribution method based on the most probable outcome (baseline, maximum or zero) at the end of the performance period and the price of the Company's common stock price at the date of grant.

In addition to the performance-based awards, the Company also grants time-based vesting awards which vest either two or three years after date of issuance, subject to continuous employment and certain other conditions.

As of October 31, 2016, unrecognized stock-based compensation expense related to share-based stock awards totaled \$598 pursuant to the 2012 Plan and \$571,554 pursuant to the 2015 Plan, before income taxes, based on the maximum performance award level. Such unrecognized stock-based compensation expense related to restricted stock awards totaled \$598 for the 2012 Plan and \$295,925 for the 2015 Plan at the baseline performance level. The cost of these non-vested awards is expected to be recognized over a weighted-average period of three years for the 2012 Plan and two years for the 2015 Plan.

The Company recognized total stock-based compensation costs of \$99,034 and \$165,356 for the three months ended October 31, 2016 and 2015, respectively, of which \$392 and \$38,708 result from the 2012 Plan, and \$98,642 and \$126,648 result from the 2015 Plan; and \$176,966 and \$420,182 for the nine months ended October 31, 2016 and 2015, respectively, of which \$(9,746) and \$293,534 result from the 2012 Plan, and \$186,712 and \$126,648 result from the 2015 Plan. These amounts are reflected in operating expenses. The total income tax benefit recognized for stock-based compensation arrangements was \$35,652 and \$59,528 for the three months ended October 31, 2016 and 2015 and \$63,708 and \$151,266 for the nine months ended October 31, 2016 and 2015, respectively.

Shares under 2015 and 2012 Stock Plan	Outstanding Unvested Grants at Maximum at Beginning of FY17	Granted during FY17 through October 31, 2016	Becoming Vested during FY17 through October 31, 2016	Forfeited during FY17 through October 31, 2016	Outstanding Unvested Grants at End of October 31, 2016
Restricted stock grants – employees	72,999	—	—	5,380	67,619
Matching award program	3,000	—	—	—	3,000
Bonus in stock - employees	2,500	—	—	2,500	—
Retainer in stock - directors	30,764	5,221	2,909	—	33,076
Total restricted stock plans	109,263	5,221	2,909	7,880	103,695
Weighted average grant date fair value	\$ 9.93	\$ 10.19	\$ 8.00	\$ 9.68	\$ 10.02

### Other Compensation Plans/Programs

The Company previously awarded stock-based options to non-employee directors under its Non-employee Directors' Option Plan (the "Directors' Plan") which expired on December 31, 2012. All stock option awards granted under the Directors' Plan were fully vested at October 31, 2016. During the nine months ended October 31, 2016 there have been no forfeitures and 5,000 shares exercised at an exercise price of \$8.28 per share, and there were no options

outstanding.

The Company utilized a matching award program pursuant to the 2012 Restricted Stock Plan to which all employees were entitled to receive one share of restricted stock for each two shares of the Company's common stock purchased on the open market. Such restricted shares were subject to a one year vesting period. The valuation was based on the stock price at the grant date and is amortized to expense over the vesting period, which approximates the performance period.

Pursuant to the Company's director restrictive stock program, all directors are eligible to elect to receive any director fees in shares of restricted stock. Such restricted shares are subject to a two year vesting period. The valuation is based on the stock price at the grant date and is amortized to expense over the two year period, which approximates the performance period. Since the director is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the grant date stock price.



### Stock Repurchase Program

On July 19, 2016, the Company's board of directors approved a stock repurchase program under which the Company may repurchase up to \$2,500,000 of its outstanding common stock. The Company has not repurchased any stock under this program as of the date of this filing.

## **8. Income Taxes**

### ***Income Tax Audits***

The Company is subject to US federal income tax, as well as income tax in multiple US state and local jurisdictions and a number of foreign jurisdictions. Returns for the year since FY2014 are still open based on statutes of limitation only.

Chinese tax authorities have performed limited reviews on all Chinese subsidiaries as of tax years 2008 through 2015 with no significant issues noted and we believe our tax positions are reasonably stated as of October 31, 2016. Weifang Meiyang Products Co., Ltd. ("Meiyang"), one of our Chinese operations, was changed to a trading company from a manufacturing company in Q1 FY16 and all direct workers and equipment were transferred from Meiyang to Weifang Lakeland Safety Products Co., Ltd., ("WF"), another of our Chinese operation thereby reducing our tax exposure.

Lakeland Protective Wear, Inc., our Canadian subsidiary, is subject to Canadian federal income tax, as well as income tax in the Province of Ontario. Income tax return for the 2013 fiscal year and subsequent years are still within the normal reassessment period and open to examination by tax authorities.

In connection with the exit from Brazil as described in Note 14, the Company claimed a worthless stock deduction which generated a tax benefit of approximately USD \$9.5 million, net of a USD \$2.2 million valuation allowance. While the Company and its tax advisors believe that this deduction is valid, there can be no assurance that the IRS will not challenge it and, if challenged, there is no assurance that the Company will prevail.

Except in Canada, and as set forth in the next paragraph, it is our practice and intention to reinvest the earnings of our non-US subsidiaries in their operations. As of October 31, 2016, the Company had not made a provision for US or additional foreign withholding taxes on approximately \$24.1 million of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration (\$22.3 million at January 31, 2016). Generally, such amounts become subject to US taxation upon remittance of dividends and under certain other circumstances. If these earnings were repatriated to the US, the deferred tax liability

associated with these temporary differences would be approximately \$3.4 million at October 31, 2016.

The Company's Board of Directors has instituted a plan to elect to pay annual dividends of \$1.0 million to the Company from Weifang's future profits, 33% of Meiyang's future profits and 50% of the UK's future profits starting in FY15 and \$1.0 million from Beijing's future profits starting in FY17. All other retained earnings are expected to be reinvested indefinitely.

***Change in Valuation Allowance***

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. The valuation allowance was \$2.0 million at October 31, 2016 and \$2.0 million at January 31, 2016.

***Income Tax Expense***

Income tax expenses consist of federal, state and foreign income taxes. The statutory rate is the US rate. Reconciling items to the effective rate are foreign dividend income, Argentina income, and other permanent tax differences.

**9. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share for “income from continuing operations” and “discontinued operations” at October 31, 2016 and 2015, as follows:

	Three Months Ended October 31, (in \$000s)		Nine Months Ended October 31, (in \$000s)	
	2016	2015	2016	2015
Numerator				
Net income from continuing operations	\$1,513	\$2,120	\$2,946	\$7,868
Net loss from discontinued operations	—	—	—	(2,485 )
Net income	\$1,513	\$2,120	\$2,946	\$5,383
Denominator				
Denominator for basic earnings per share (weighted-average shares which reflect 356,441 shares in the treasury)	7,258,697	7,234,914	7,255,966	7,148,430
Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options	74,300	65,521	65,621	86,822
Denominator for diluted earnings per share (adjusted weighted average shares)	7,332,997	7,300,435	7,321,587	7,235,252
Basic earnings per share from continuing operations	\$0.21	\$0.29	\$0.41	\$1.10
Basic loss per share from discontinued operations	\$—	\$—	\$—	\$(0.35 )
Basic earnings per share	\$0.21	\$0.29	\$0.41	\$0.75
Diluted earnings per share from continuing operations	\$0.21	\$0.29	\$0.40	\$1.09
Diluted loss per share from discontinued operations	\$—	\$—	\$—	\$(0.35 )
Diluted earnings per share	\$0.21	\$0.29	\$0.40	\$0.74

**10. Segment Data**

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Domestic	\$11.26	48.45 %	\$14.66	58.88 %
International	11.98	51.55 %	10.23	41.12 %
Total	\$23.24	100.00%	\$24.89	100.00%
			\$65.88	100.00%
			\$79.17	100.00%

We manage our operations by evaluating each of our geographic locations. Our US operations include a facility in Alabama (primarily the distribution to customers of the bulk of our products and the light manufacturing of our

chemical, wovens, reflective, and fire products). The Company also maintains one manufacturing company in China (primarily disposable and chemical suit production), a manufacturing facility in Mexico (primarily disposable, reflective, fire and chemical suit production) and a small manufacturing facility in India. Our China facilities produce the majority of the Company's products and China generates a significant portion of the Company's international revenues. We evaluate the performance of these entities based on operating profit, which is defined as income before income taxes, interest expense and other income and expenses. We have sales forces in the USA, Canada, Mexico, Europe, Latin America, India, Russia, Kazakhstan and China, which sell and distribute products shipped from the United States, Mexico, India or China. The table below represents information about reported segments for the years noted therein:

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	Three Months Ended October 31, (in millions of dollars)		Nine Months Ended October 31, (in millions of dollars)	
	2016	2015	2016	2015
Net Sales from continuing operations:				
USA	\$ 12.75	\$ 15.96	\$ 38.09	\$ 49.12
Other foreign	5.34	3.73	12.25	10.57
Europe (UK)	1.90	2.81	6.95	11.88
Mexico	0.84	1.06	2.42	2.81
China	10.41	13.00	30.37	40.18
Corporate	0.27	0.32	1.44	1.55
Less intersegment sales	(8.27 )	(11.99 )	(25.64 )	(36.94 )
Consolidated sales	\$ 23.24	\$ 24.89	\$ 65.88	\$ 79.17
External Sales from continuing operations:				
USA	\$ 11.26	\$ 14.66	\$ 35.24	\$ 45.98
Other foreign	5.09	3.61	11.49	10.23
Europe (UK)	1.90	2.81	6.95	11.87
Mexico	0.40	0.44	1.13	1.09
China	4.59	3.37	11.07	10.00
Consolidated external sales	\$ 23.24	\$ 24.89	\$ 65.88	\$ 79.17
Intersegment Sales from continuing operations:				
USA	\$ 1.49	\$ 1.30	\$ 2.85	\$ 3.14
Other foreign	0.25	0.12	0.76	0.34
Europe (UK)	—	—	—	0.01
Mexico	0.44	0.62	1.29	1.72
China	5.82	9.63	19.30	30.18
Corporate	0.27	0.32	1.44	1.55
Consolidated intersegment sales	\$ 8.27	\$ 11.99	\$ 25.64	\$ 36.94
Operating Profit (Loss) from continuing operations:				
USA	\$ 1.58	\$ 3.11	\$ 5.62	\$ 10.80
Other foreign	0.81	0.27	1.36	0.58
Europe (UK)	0.01	0.26	0.29	2.45
Mexico	0.04	0.17	0.05	0.08
China	1.37	1.16	3.15	3.35
Corporate	(1.60 )	(1.67 )	(5.56 )	(4.93 )
Less intersegment profit (loss)	0.03	(0.11 )	0.09	(0.22 )
Consolidated operating profit	\$ 2.25	\$ 3.19	\$ 5.00	\$ 12.11
Depreciation and Amortization Expense from continuing operations:				
USA	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.11
Other foreign	0.03	0.01	0.11	0.03
Europe (UK)	—	—	—	0.01
Mexico	0.03	0.04	0.09	0.11
China	0.08	0.07	0.25	0.24
Corporate	0.14	0.11	0.43	0.31
Less intersegment	0.04	(0.03 )	(0.04 )	(0.11 )
Consolidated depreciation and amortization expense	\$ 0.36	\$ 0.24	\$ 0.96	\$ 0.70



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	Three Months Ended October 31, (in millions of dollars)		Nine Months Ended October 31, (in millions of dollars)	
Interest Expense from continuing operations:				
USA (shown in Corporate)	\$ —	\$ —	\$ —	\$ —
Other foreign	0.02	0.03	0.08	0.08
Europe (UK)	—	—	—	0.01
Mexico	—	—	—	—
China	0.04	0.03	0.12	0.11
Corporate	0.09	0.12	0.32	0.38
Less intersegment	—	—	—	—
Consolidated interest expense	\$ 0.15	\$ 0.18	\$ 0.52	\$ 0.58
Income Tax Expense (Benefits) from continuing operations:				
USA (shown in Corporate)	\$ —	\$ —	\$ —	\$ —
Other foreign	0.16	0.08	0.27	0.19
Europe (UK)	0.01	0.01	0.04	0.44
Mexico	—	—	—	—
China	0.36	0.30	0.81	0.78
Corporate	0.04	0.50	0.41	2.31
Less intersegment	0.01	(0.01)	0.02	(0.04)
Consolidated income tax expense	\$ 0.58	\$ 0.88	\$ 1.55	\$ 3.68

	October 31, 2016 (in millions of dollars)	January 31, 2016 (in millions of dollars)
Total Assets:*		
USA	\$ 53.66	\$ 48.18
Other foreign	19.47	17.55
Europe (UK)	4.05	5.05
Mexico	4.01	4.25
China	28.43	29.92
India	(1.34)	(1.35)
Corporate	28.16	37.18
Less intersegment	(51.39)	(52.52)
Consolidated assets	\$ 85.05	\$ 88.26
Total Assets Less Intersegment:*		
USA	\$ 30.75	\$ 33.63
Other foreign	10.83	9.91
Europe (UK)	4.04	5.03
Mexico	3.93	4.23
China	18.01	17.63
India	0.46	0.44
Corporate	17.03	17.39
Consolidated assets	\$ 85.05	\$ 88.26
Property and Equipment:		
USA	\$ 2.10	\$ 2.20
Other foreign	1.54	1.57

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Europe (UK)	0.04		0.06	
Mexico	2.02		2.11	
China	2.14		2.37	
India	0.03		0.03	
Corporate	0.70		1.00	
Less intersegment	(0.03	)	(0.07	)
Consolidated property and equipment	\$ 8.54		\$ 9.27	
Goodwill:				
USA	\$ 0.87		\$ 0.87	
Consolidated goodwill	\$ 0.87		\$ 0.87	



\* Negative assets reflect intersegment accounts eliminated in consolidation

	Nine Months Ended October 31, 2016 (in millions of dollars)	Nine Months Ended October 31, 2015 (in millions of dollars)
Capital Expenditures:		
USA	\$ 0.02	\$ 0.06
Other foreign	—	0.06
Europe (UK)	—	—
Mexico	—	—
China	0.03	0.13
India	0.02	—
Corporate	0.05	0.47
Consolidated capital expenditures	\$ 0.12	\$ 0.72

## *11. Derivative Instruments and Foreign Currency Exposure*

The Company is exposed to foreign currency risk. Management has commenced a derivative instrument program to partially offset this risk by purchasing forward contracts to sell the Canadian Dollar and the Euro other than the cash flow hedge discussed below. Such contracts are largely timed to expire with the last day of the fiscal quarter, with a new contract purchased on the first day of the following quarter, to match the operating cycle of the Company. We designated the forward contracts as derivatives but not as hedging instruments, with loss and gain recognized in current earnings.

The Company accounts for its foreign exchange derivative instruments by recognizing all derivatives as either assets or liabilities at fair value, which may result in additional volatility in current period earnings or other comprehensive income, depending whether the instrument was designated as a cash flow hedge, as a result of recording recognized and unrecognized gains and losses from changes in the fair value of derivative instruments.

We have two types of derivatives to manage the risk of foreign currency fluctuations.

We enter into forward contracts with financial institutions to manage our currency exposure related to net assets and liabilities denominated in foreign currencies. Those forward contract derivatives, not designated as hedging instruments, are generally settled quarterly. Gain and loss on those forward contracts are included in current earnings. There were no outstanding forward contracts at October 31, 2016 or 2015 or January 31, 2016.

We also enter into cash flow hedge contracts with financial institutions to manage our currency exposure on future cash payments denominated in foreign currencies. The effective portion of gain or loss on cash flow hedge is reported as a component of accumulated other comprehensive loss. The notional amount of these contracts was \$1.1 million and \$1.0 million at October 31, 2016 and January 31, 2016, respectively. The corresponding unrealized income or loss is recorded in the unaudited condensed consolidated statements of comprehensive income (loss). The corresponding liability amounted to approximately \$(3,000), and \$(26,000) at October 31, 2016 and January 31, 2016, respectively.

## *12. VAT Tax Issue in Brazil Asserted Claims*

Value Added Tax (“VAT”) in Brazil is charged at the state level. We commenced operations in Brazil in May 2008 through an acquisition of Qualytextil, S.A., which subsequently became Lake Brasil Indústria e Comércio de Roupas e Equipamentos de Proteção Individual Ltda. (referred to in this footnote as “Qualytextil” and also referred to in this Form

10-Q as “Lakeland Brazil”).

An audit was performed on the VAT for the 2007-2009 period was completed by the State of Bahia (state of domicile for the Lakeland operations in Brazil). In October 2010, the Company received four claims for 2007-2009 from the State of Bahia, the largest of which was for taxes of R\$6.2 million (USD \$2.3 million) and interest, penalties and fees currently at R\$8.3 million (USD \$3.1 million), for a total of R\$14.6 million (USD \$5.5 million). The Company had intended to defend itself through a regulatory process and waited for the next amnesty period. Of other claims, our attorney informed us that three claims totaling R\$1.3 million (USD \$0.5 million) excluding interest, penalties and fees of R\$2.7 million (USD \$0.9 million) were likely to be successfully defended based on state auditor misunderstanding.

As more fully described in Note 14, Lakeland and Qualytextil entered into a Shares Transfer Agreement pursuant to which, effective October 31, 2015, Zap Comércio de Brindes Corporativos Ltda , a company owned by an existing Qualytextil manager, acquired all of the shares of Qualytextil and assumed liabilities of Qualytextil, including VAT tax liabilities.

### **Loan Agreement with Transferee of Brazil Operations**

The Company had entered into a loan agreement (the “Loan Agreement”) on December 11, 2015 with Qalytextil for the amount of R\$8,584,012 (approximately USD \$2.29 million) for the purpose of providing funds necessary for Qalytextil to settle its largest outstanding VAT claim with the State of Bahia.

The Company has determined that a reserve against the collection of this loan in full is prudent; which resulted in an additional charge to the loss on disposal of discontinued operations of \$2,286,022 in the fourth quarter of the fiscal year ended January 31, 2016, net of tax benefits of \$834,398. Such additional losses will be available as additional tax loss carryforwards to offset cash taxes payable against future taxable income in the USA.

### ***13. Litigation***

The Company is involved in various litigation proceedings arising during the normal course of business which, in the opinion of the management of the Company, will not have a material effect on the Company’s financial position, results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these matters. As of October 31, 2016, to the best of the Company’s knowledge, there were no outstanding claims or litigation.

### ***14. Brazil Transaction***

On March 9, 2015, Lakeland Brazil changed its legal form to a Limitada and changed its name to Lake Brasil Industria E Comercio de Roupas E Equipamentos de Protecao Individual LTDA.

### **Settlement Agreement – Arbitration Debt**

On June 18, 2015, Lakeland and its then wholly owned subsidiary Lakeland Brazil (together with Lakeland, the “Brazil Co”), entered into an Amendment (the “Amendment”) to a Settlement Agreement, dated as of September 11, 2012 (the “Settlement Agreement”), with two former officers (the “former officers”) of Lakeland Brazil. As part of the original Settlement Agreement, the parties resolved all alleged outstanding claims against Lakeland Brazil arising from an arbitration proceeding in Brazil involving Lakeland Brazil and the former officers of Lakeland Brazil for an aggregate amount of approximately USD \$8.5 million payable by Lakeland Brazil to the former officers over a period of six (6) years. As of the June 18, 2015 settlement date, there was a balance of USD \$3.75 million (the “Outstanding Amount”) owed under the Settlement Agreement, which Outstanding Amount was to be paid by the Company in quarterly installments of USD \$250,000 through December 31, 2018.

Pursuant to the Amendment, the former officers agreed to fully and finally settle the Outstanding Amount owed by the Company for an aggregate lump sum payment of USD \$3.41 million, resulting in a gain of USD \$224,000 after allowing for imputed interest on the original Settlement Agreement. Within five days of receipt of such payment, the former officers provided to Lakeland Brazil the documents needed to have their lien securing payment of the Outstanding Amount removed on certain real estate owned by Lakeland Brazil and such lien was removed. The Amendment also contains a general release of claims by the former officers in favor of the Company and its past or present officers, directors, and other affiliates. The Company's senior lender, AloStar Bank of Commerce, has consented to the transactions contemplated by the Amendment.

### **Shares Transfer Agreement**

On July 31, 2015 (the "Closing Date"), Lakeland and Lakeland Brazil, completed a conditional closing of a Shares Transfer Agreement (the "Shares Transfer Agreement") with Zap Comércio de Brindes Corporativos Ltda ("Transferee"), a company owned by an existing Lakeland Brazil manager, entered into on June 19, 2015. Pursuant to the Shares Transfer Agreement, the Transferee has acquired all of the shares of Lakeland Brazil owned by the Company. Pursuant to the Shares Transfer Agreement, Transferee paid R\$1.00 to the Company and assumed all liabilities and obligations of Lakeland Brazil, whether arising prior to, on or after the Closing Date. In order to help enable Lakeland Brazil to have sufficient funds to continue to operate for a period of at least two years following the Closing Date, the Company provided funding to Lakeland Brazil in the aggregate amount of USD \$1,130,000, in cash, in the form of a capital raise, on or prior to the Closing Date, and agreed to provide an additional R\$582,000 (approximately USD \$188,000) (the "Additional Amount"), in the form of a capital raise, to be utilized by Lakeland Brazil to pay off the Brazilian Liabilities and other potential contingent liabilities. Pursuant to the Shares Transfer Agreement, the Company paid R\$992,000 (approximately USD \$320,000) in cash, on July 1, 2015 and issued a non-interest bearing promissory note for the payment to be due for the Additional Amount (R\$582,000) (approximately USD \$188,000) on the Closing Date which was paid to Lakeland Brazil in two (2) installments of (i) R\$288,300 (approximately USD \$82,000) which was paid on August 1, 2015, and (ii) R\$294,500 (approximately USD \$84,000) on September 1, 2015.

In addition, the Company may continue to be exposed to certain liabilities arising in connection with the prior operations of Lakeland Brazil, including, without limitation, from lawsuits pending in the labor courts in Brazil in which plaintiffs were seeking, as at July 31, 2015, a total of nearly USD \$8,000,000 in damages from the Company's then Brazilian subsidiary (Lakeland Brazil). The Company believes many of these labor court claims are without merit and the amount of damages being sought is significantly higher than any damages which may have been incurred. Pursuant to the Shares Transfer Agreement, the Company is required to fully fund amounts owed by Lakeland Brazil in connection with the then existing labor claims by Lana dos Santos and to pay amounts potentially owed for future labor claims up to an aggregate amount of \$375,000 plus 60% of the excess of such amount until the earlier of (i) the date all labor claims against Lakeland Brazil deriving from events prior to the sale are settled, (ii) by our mutual agreement with Lakeland Brazil or (iii) on the two (2) year anniversary of closing of the sale. As of October 31, 2016, the Lana dos Santos claim was settled for \$272,000 and \$79,000 was paid in respect of other labor claims. With respect to continuing claims, \$278,000 is being sought, of which management estimates the aggregate liability will be less than that amount.

The closing of this agreement was subject to Brazilian government approval of the shares transfer, which was received in October 2015 (The "Final Closing Date"). Even after the Final Closing Date for transactions contemplated by the Shares Transfer Agreement, the Company may be exposed to certain liabilities arising in connection with the prior operations of Lakeland Brazil, including, without limitation, from lawsuits pending in the labor courts in Brazil and VAT taxes, as more fully described in Note 12. The Company understands that under the laws of Brazil, a concept of fraudulent bankruptcy exists, which may hold a parent company liable for the liabilities of its Brazilian subsidiary in the event some level of fraud or misconduct is shown during the period that the parent company owned the subsidiary. While the Company believes that there has been no such fraud or misconduct relating to the proposed transfer of stock of Lakeland Brazil and the transactions contemplated by the Shares Transfer Agreement, as evidenced by the Company's funding support for continuing operations of Lakeland Brazil, there can be no assurance that the courts of Brazil will not make such a finding nonetheless.

The risk of exposure to the Company continues to diminish as the Transferee continues to operate Lakeland Brazil, as the risk of a finding of fraudulent bankruptcy lessens and pre-sale liabilities are paid off. Should the Transferee operate Lakeland Brazil for a period of two years, the Company believes the risk of a finding of fraudulent bankruptcy is eliminated. The Company believes that the loan transaction with its former Brazilian subsidiary resulting in a substantial reduction of the VAT tax liability, as described in Note 12 and below, significantly reduced such potential liability. In addition, as discussed above in this Note, the potential labor claims liability has substantially diminished. The Shares Transfer Agreement, which is governed by United States law, contains customary representations, warranties and covenants of the parties for a transaction of this type. The Company and Transferee have agreed to indemnify each other from and against certain liabilities, subject to certain exceptions. Under the Shares Transfer Agreement, the Company will be subject to certain non-solicitation provisions for a period of two years following the Closing Date.

For the nine months ended October 31, 2015, the transactions involved with the completion of the Company's exit from Brazil resulted in a loss of approximately \$1.2 million (net of tax benefit of \$0.6 million) as reflected on its statements of operations and a decrease of approximately \$1.2 million to stockholders' equity as a result of recording

the exit transactions. The Company also recorded a reclassification of approximately \$1.3 million from Accumulated Other Comprehensive Loss to the Statement of Operations which did not impact net stockholders' equity. Further losses on the sale were reflected in Q4 FY16 as a result of the reserves against the loans related to the VAT taxes as described in Note 12. Since this is a resolution of contingencies that arose from and that are directly related to the operations of the Brazil component prior to its disposal, it has been accounted for as discontinued operations.

The following tables summarize the results of the Brazil business included in the statements of operations for the nine months ended October 31, 2015. The Company did not recognize any income (loss) from discontinued operations during the three and nine months ended October 31, 2016 or the three months ended October 31, 2015.

	Nine Months Ended October 31, 2015	
Net sales from discontinuing operations	\$ 869	
Gross profit from discontinuing operations	164	
Operating expenses from discontinuing operations	763	
Operating loss from discontinuing operations	(599)	)
Interest expense from discontinuing operations	256	
Other expense from discontinuing operations	398	
Loss from operations of discontinuing operations before income tax	(1,253)	)
Non-cash reclassification of Other Comprehensive Income to Statement of Operations (no impact on stockholders' equity)	(1,286)	)
Loss from disposal of discontinued operations	(515)	)
Loss before taxes for discontinued operations	(3,054)	)
Income tax benefit from discontinued operations	(569)	)
Net loss from discontinued operations	\$ (2,485)	)

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

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

### Overview

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial and public protective clothing market. Our products are sold by our in-house customer service group, our regional sales managers and independent sales representatives to a network of over 1,200 North American safety and mill supply distributors. These distributors in turn supply end user industrial customers, such as integrated oil, chemical/petrochemical, utilities, automobile, steel, glass, construction, smelting, munition plants, janitorial, pharmaceutical, mortuaries and high technology electronics manufacturers, as well as scientific and medical laboratories. In addition, we supply federal, state and local governmental agencies and departments, such as fire and law enforcement, airport crash rescue units, the Department of Defense, the Department of Homeland Security and the Centers for Disease Control. Internationally, sales are to a mixture of end users directly and to industrial distributors depending on the particular country market. Sales are made to more than 40 foreign countries but are primarily in China, European Economic Community ("EEC"), Canada, Chile, Argentina, Russia, Colombia, Mexico, Ecuador, Australia and Southeast Asia.



We have operated 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 of America 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. Our net sales from continuing operations attributable to customers outside the United States of America were \$30.6 million and \$33.2 million for the nine months ended October 31, 2016 and 2015, respectively.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our unaudited condensed consolidated 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 our estimates on the 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 unaudited condensed consolidated financial statements.

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

*Accounts Receivable, Net.* Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company recognizes losses when information available indicates that it is probable that a receivable has been impaired based on criteria noted above at the date of the financial statements, and the amount of the loss can be reasonably estimated. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with customers, current economic industry trends, changes in customer payment terms. Past due balances over 90 days and other less creditworthy accounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

*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.

*Goodwill.* Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is evaluated for impairment at least annually; however, this evaluation may be performed more frequently when events or changes in circumstances indicate the carrying amount may not be recoverable. Factors that the Company considers important that could identify a potential impairment include: significant changes in the overall business strategy and significant negative industry or economic trends. The Company measures any potential impairment on a projected discounted cash flow method. Estimating future cash flows requires the Company's management to make projections that can differ materially from actual results.

*Impairment of Long-Lived Assets.* The Company evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances indicate the carrying value may not be recoverable. The Company measures any potential impairment on a projected undiscounted cash flow method. Estimating future cash flows requires the Company's management to make projections that can differ materially from actual results. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from the asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. As of October 31, 2016 and January 31, 2016, no impairment was recorded.

*Income Taxes.* The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of preparing the unaudited condensed 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 carryforwards and tax credits, are recorded as deferred tax assets or liabilities on the Company's unaudited condensed consolidated balance sheet. A judgment must then be made of the likelihood that any deferred tax assets will be recovered from future taxable income. A valuation allowance may be required to reduce deferred tax assets to the amount that is more likely than not to be realized. In the event the Company determines that it may not be able to realize all or part of its deferred tax asset in the future, or that new estimates indicate that a previously recorded valuation allowance is no longer required, an adjustment to the deferred tax asset is charged or credited to income in the period of such determination.

The Company recognizes tax positions that meet a "more likely than not" minimum recognition threshold.

*Foreign Operations and Foreign Currency Translation.* The Company maintains manufacturing operations in Mexico, Argentina and the People's Republic of China and can access independent contractors in Mexico, Argentina and China. It also maintains sales and distribution entities located in India, Canada, the U.K., Chile, China, Argentina, Russia, Kazakhstan and Mexico. The Company is vulnerable to currency risks in these countries. The functional currency for the United Kingdom subsidiary is the Euro; the trading company in China, the RMB; the Canadian Real Estate subsidiary, the Canadian dollar; and the Russian operation, the Russian Ruble and Kazakhstan Tenge. All other operations have the US dollar as its functional currency.

Pursuant to US GAAP, assets and liabilities of the Company's foreign operations with functional currencies, other than the US dollar, are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average rates prevailing during the periods. Translation adjustments are reported in accumulated other comprehensive loss, a separate component of stockholders' equity. Cash flows are also translated at average translation rates for the periods, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheet.

*Fair Value of Financial Instruments.* US GAAP defines fair value, provides guidance for measuring fair value and requires certain disclosures utilizing a fair value hierarchy which is categorized into three levels based on the inputs to the valuation techniques used to measure fair value.

The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 2: These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect management's own assumptions.

Foreign currency forward and hedge contracts are recorded in the unaudited condensed consolidated balance sheets at their fair value as of the balance sheet dates based on current market rates.

The financial instruments of the Company classified as current assets or liabilities, including cash and cash equivalents, accounts receivable, short-term borrowings, borrowings under revolving credit facility, accounts payable and accrued expenses, are recorded at carrying value, which approximates fair value based on the short-term nature of these instruments.

The Company believes that the fair values of its long-term debt approximates its carrying value based on the effective interest rate compared to the current market rate available to the Company.

### **Significant Balance Sheet Fluctuation October 31, 2016, As Compared to January 31, 2016**

Cash increased by \$1.4 million as the Company planned for a possible dividend paid to the Company from its Weifang and Meiyang China subsidiaries later in FY17. In addition, the Company minimized capital expenditures in the current year in anticipation of a technology project in FY18 and the Company has also reduced inventory levels during the nine months ended October 31, 2016. Inventory net of reserves decreased \$4.2 million as the Company continued to focus on improvements in planning and working through existing stock of core product in response to low volume in the quarter. The Company experienced a decrease in borrowings under the revolving credit facility of \$3.7 million and repaid short term debt in China in the amount of \$2.9 million as the Company controlled costs and actively managed inventory levels.

### **Three Months ended October 31, 2016, As Compared to the Three Months Ended October 31, 2015**

**Net Sales.** Net sales from continuing operations decreased to \$23.2 million for the three months ended October 31, 2016 compared to \$24.9 million for the three months ended October 31, 2015, a decrease of 6.6%. Overall sales volume was reduced in the quarter due to global softness in the industrial sector partially resulting from a continuing downturn in the oil and gas industry as well as currency volatility in China, Canada, and the UK in which we conduct business. As a result of a stronger US dollar in relation to these other currencies, these foreign revenues are reported on a reduced basis. Sales in the USA decreased \$3.3 million or 20% due primarily to a continued soft market in the industrial sector for FY17 and as compared to the same quarter in the previous year which included sales into the bird flu pandemic. USA sales of disposables decreased by \$2.0 million, chemical sales decreased \$2.0 million, wovens and fire protection sales combined increased \$0.6 million or 28% mostly due to a large intercompany sales to Argentina while glove sales and reflective sales remained level. Sales in China and to the Asia Pacific Rim were down \$2.6 million or 20% as intercompany demand decreased and that region experienced currency headwinds. Canada sales increased by \$0.2 million or 17% as that country continued to experience an oil and gas turnaround and an asbestos remediation program – all requiring protective wear. UK sales decreased by \$0.9 million or 33% mostly due to uncertainty in the economy as a result of Brexit and continuing currency challenges. Russia and Kazakhstan sales combined remained level at \$0.3 million. Latin America sales increased \$1.4 million or 83% due to a large sale from Argentina into Ecuador, which was offset in part by a depressed commodities market which curtails agriculture and mining production.

**Gross Profit.** Gross profit from continuing operations decreased \$0.7 million, or 7.9%, to \$8.5 million for the three months ended October 31, 2016, from \$9.2 million for the three months ended October 31, 2015. Gross profit as a percentage of net sales remained level at 37% for the three months ended October 31, 2016. Major factors driving gross margins were:

Disposables gross margins increased 2.2 percentage points in spite of low volume as the Company continues to contain cost and maximize production efficiency and as compared to the previous year's sales which included sales into the bird flu pandemic.

Chemical gross margin decreased by 13.3 percentage points primarily due to low volume and as compared to the previous year's sales which included sales into the bird flu pandemic.

- Wovens gross margin decreased 4.2 percentage points as a result of product mix.
- Fire protection gross margin increased 1.4 percentage points as the Company moved production to our more cost effective facility in Mexico.
- Reflective gross margins decreased 14.7 percentage points primarily as a result of product mix.
- UK gross margins decreased 3.4 percentage points primarily as a result of currency challenges and uncertainty in the economy resulting from the Brexit.
- Chile's gross margin decreased 10.8 percentage points as a result of low volume and Argentina's gross margin increased 21.8 percentage points primarily as a result of a large sale into Ecuador.

**Operating Expense.** Operating expenses of continuing operations increased from \$6.1 million for the three months ended October 31, 2015 to \$6.3 million for the three months ended October 31, 2016. Operating expenses as a percentage of net sales was 27.0% for the three months ended October 31, 2016 up from 24.4% for the three months ended October 31, 2015. The main factors for the mild increase in operating expenses are a \$0.4 million increase in sales commissions resulting from a large order that shipped from Argentina to Ecuador and a \$0.2 million increase to depreciation in the normal course of business, offset by a \$0.3 million decrease to freight out resulting from low volume, \$0.1 million decrease to equity compensation due to the change in the performance level of the Company's 2015 stock plan from maximum to baseline as of Q2 FY17, a decrease of \$0.1 million due to a change the management estimate of the fair market of assets held for sale and a \$0.1 million decrease in bad debt expense with collection efforts.

**Operating Profit.** Operating profit from continuing operations decreased to a profit of \$2.2 million for the three months ended October 31, 2016, from \$3.2 million for the three months ended October 31, 2015, mainly as a result of weak sales. Operating margins were 10% for the three months ended October 31, 2016, compared to 12.9% for the three months ended October 31, 2015.

**Interest Expense.** Interest expenses from continuing operations decreased slightly to \$0.1 million for the three months ended October 31, 2016 from \$0.2 million for the three months ended October 31, 2015 as the Company reduced borrowings in the three months ended October 31, 2016.

**Income Tax Expense.** Income tax expense consists of federal, state and foreign income taxes. Income tax expense from continuing operations was \$0.6 million for the three months ended October 31, 2016, as compared to an income tax expense of \$0.9 million for the three months ended October 31, 2015 as a result of reduced profitability.

**Net Income.** Net income from continuing operations decreased \$0.6 million to \$1.5 million for the three months ended October 31, 2016 from \$2.1 million for the three month ended October 31, 2015. The results for the three months ended October 31, 2016 are primarily due to low sales volume and currency challenges in our foreign operations.

### **Nine Months ended October 31, 2016, As Compared to the Nine Months Ended October 31, 2015**

**Net Sales.** Net sales from continuing operations decreased to \$65.9 million for the nine months ended October 31, 2016 compared to \$79.2 million for the nine months ended October 31, 2015, a decrease of 16.8%. Overall sales volume was reduced due to global softness in the industrial sector partially resulting from a continuing downturn in the oil and gas industry as well as currency volatility in Argentina, Kazakhstan, Russia, Chile, China and the U.K in which we conduct business. As a result of a stronger US dollar in relation to these other currencies, our foreign revenues are reported on a reduced basis. Sales in the USA decreased \$11.1 million or 22% due primarily to the strong sales levels in the disposables and chemical divisions related to the Company's response to the Ebola crisis and the bird flu in FY16 and a soft market in the industrial sector in FY17. USA sales of disposables decreased by \$5.5 million, chemical sales decreased \$6.5 million, wovens and fire protection sales combined increased \$0.6 million while glove sales decreased \$0.2 million and reflective sales increased \$0.6 million. Sales in China and to the Asia Pacific Rim were down \$9.8 million or 24% as intercompany demand decreased and that region experienced moderate currency headwinds and economic sluggishness. Canada sales increased by \$1.1 million or 23% as that country saw a concerted effort begin for asbestos remediation and experienced an oil and gas turnaround – all requiring protective wear. UK sales decreased by \$4.9 million or 42% mostly due to the Company's Ebola sales in Q1 FY16, economic uncertainty as a result of the Brexit, and continuing currency challenges. Russia and Kazakhstan sales combined remained level at \$0.9 million despite an extreme currency depreciation in Kazakhstan. Latin America sales increased \$0.3 million or 9% primarily due to a large sale from Argentina into Ecuador, which was offset in part by a depressed commodities market which curtails agriculture and mining production and a poor economic environment in Brazil.



**Gross Profit.** Gross profit from continuing operations decreased \$6.4 million, or 21.3%, to \$23.9 million for the nine months ended October 31, 2016, from \$30.3 million for the nine months ended October 31, 2015. Gross profit as a percentage of net sales decreased to 36% for the nine months ended October 31, 2016, from 38% for the nine months ended October 31, 2015. Major factors driving the changes in gross margins were:

Disposables gross margins increased 2 percentage points to 35% in spite of low volume as the Company continues to contain cost and maximize production efficiency.

Chemical gross margin decreased by 21 percentage points primarily due to the very high volume and high margins associated with the Company's response to the Ebola crisis and bird flu in FY16 and severance payments of \$0.1 million associated with a reduction in force in the USA to move production to our more cost effective facilities in Mexico and China during Q1FY17.

Wovens gross margin decreased 1 percentage point due to a change in the product mix and excess supply in the marketplace.

Fire protection gross margin increased 2 percentage points due to product mix and included severance payments in excess of \$0.1 million associated with a reduction in force in the USA to move production to our more cost effective facility in Mexico.

Reflective gross margins decreased 7 percentage points as a result of product mix and severance payments of \$0.1 million associated with a reduction in force in the USA to move production to our Mexico and China facilities.

Canada's gross margins increased 5 percentage points as a result of strong sales volume and product mix and in spite of currency challenges.

UK gross margins decreased 6 percentage points as a result of weak sales volume, uncertainty in the marketplace resulting from the Brexit, and as compared to FY16 where the Company's sales related to the Ebola crisis had very high margins.

Chile's gross margin increased 8 percentage points as a result of product mix and Argentina's gross margin increased 15 percentage points primarily as a result of a large sale into Ecuador and in spite of otherwise very weak sales volume and a challenging economic environment where there is excess supply.

**Operating Expense.** Operating expenses of continuing operations increased from \$18.2 million for the nine months ended October 31, 2015 to \$18.9 million for the nine months ended October 31, 2016. Operating expenses as a percentage of net sales was 28.7 % for the nine months ended October 31, 2016 up from 23% for the nine months ended October 31, 2015. The main factors for the increase in operating expenses are a \$0.7 million decrease in freight out due to low volume, a \$0.2 million increase in travel and entertainment due to increased sales efforts, a \$0.3 million increase in sales salaries due to hires in the US, Asia and Australia, a \$0.2 million decrease in equity compensation due to the change in performance level of the Company's 2015 stock plan from maximum to baseline, an increase of \$0.2 million in professional fees, an increase of \$0.1 million in director's fees due to a change in the compensation program, an increase of \$0.1 million in employee benefits with higher 401-K participation, an increase of \$0.2 million in currency charges, a decrease of \$0.1 million due to a change the management estimate of the fair market of assets held for sale and a \$0.1 million decrease in bad debt expense with collection efforts, an \$0.1 million increase in medical insurance under the Company's self-insurance plan, and an increase of \$0.2 million to depreciation as a normal course of business and various other smaller charges.

**Operating Profit.** Operating profit from continuing operations decreased to a profit of \$5.0 million for the nine months ended October 31, 2016, from \$12.1 million for the nine months ended October 31, 2015, mainly as a result of weak sales as compared to very strong sales related to the Company's response to Ebola and to the bird flu in the nine months ended October 31, 2015. Operating margins were 7.6% for the nine months ended October 31, 2016, compared to 15.3% for the nine months ended October 31, 2015 also mainly as a result of weak sales as compared to very strong sales with higher margins related to the Company's response to Ebola and to the bird flu in the nine months ended October 31, 2015.

**Interest Expense.** Interest expenses from continuing operations had a modest decrease to \$0.5 million for the nine months ended October 31, 2016 from \$0.6 million for the nine months ended October 31, 2015.

**Income Tax Expense.** Income tax expense consists of federal, state and foreign income taxes. Income tax expense from continuing operations was \$1.5 million for the nine months ended October 31, 2016, as compared to an income tax expense of \$3.7 million for the nine months ended October 31, 2015.

**Discontinued Operations.** Loss from discontinued operations in Brazil decreased from \$2.5 million to \$0 this year.

**Net Income.** Net income from continuing operations decreased \$5.0 million to \$2.9 million for the nine months ended October 31, 2016 from \$7.9 million for the nine months ended October 31, 2015. The results for the nine months ended October 31, 2016 are primarily due to low sales volume.

### **Liquidity and Capital Resources**

As of October 31, 2016, we had cash and cash equivalents of approximately \$8.5 million and working capital of \$46.2 million. Cash and cash equivalents increased \$1.4 million and working capital increased \$4.0 million from January 31, 2016 primarily as the Company built excess cash in its Chinese subsidiaries in anticipation of a possible dividend to the Company expected to be declared and paid later in FY17, the Company minimized capital expenditures and managed inventory levels. International cash management is affected by local requirements and movements of cash across borders can be slowed down significantly.

Of the Company's total cash and cash equivalents of \$8.5 million as of October 31, 2016, cash held in the UK of \$0.1 million, cash held in India of \$0.1 million and cash held in Canada of \$0.2 million would not be subject to additional tax as foreign income has already been subject to U.S. tax. Cash in all countries, other than the U.S., of \$7.1 million would incur U.S. tax less any foreign tax credits if the cash was repatriated. In the event that the Company repatriated cash from China of the \$6.4 million balance at October 31, 2016, there would be an additional 10% withholding tax incurred in that country. The Company has strategically employed a dividend plan subject to certain approvals in which its Canadian subsidiary sends dividends to the U.S. in the amount of 100% of the previous year's earnings, the UK subsidiary sends dividends to the U.S. in the amount of 50% of the previous year's earnings and the Weifang China subsidiary sends dividends to the U.S. in the amount of \$1.0 million of the previous year's earnings.

Net cash provided by operating activities of \$8.2 million for the nine months ended October 31, 2016 was primarily due to a net income of \$2.9 million, a decrease in inventories of \$4.3 million, an increase in accounts payable of \$0.5 million, a decrease in stock-based compensation of \$0.2 million, depreciation and amortization of \$1.0 million and a decrease in accounts receivable of \$0.2 million offset by an increase in prepaid VAT taxes and other current assets of \$0.9 million primarily associated with foreign VAT taxes receivable. Net cash used in investing activities of \$0.1 million reflect minor purchases in property and equipment and net cash used in financing activities was \$6.6 million in the nine months ended October 31, 2016, due to a \$3.7 million decrease in borrowings under the Company's revolving credit facility and the \$3.0 million payment of our loans in China.

We currently have one senior credit facility: \$15 million revolving credit facility which commenced June 28, 2013, of which we had \$5.8 million of borrowings outstanding as of October 31, 2016, expiring on June 30, 2017, at a current per annum rate of 4.25%. Maximum availability in excess of amount outstanding at October 31, 2016 was \$9.2 million. Our current credit facility requires, and any future credit facilities may also require, that we comply with specified financial covenants relating to earnings before interest, taxes, depreciation and amortization and others relating to fixed charge coverage ratio and limits on capital expenditures and investments in foreign subsidiaries. Our ability to satisfy these financial covenants can be affected by events beyond our control, and we cannot guarantee 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, including AloStar Bank of Commerce and Development Bank of Canada, have a security interest in substantially all of our US and Canadian assets and pledges of 65% of the equity of the Company's foreign subsidiaries, other than Canada which is 100%. 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 believe that our current availability under our senior credit facility, coupled with our anticipated operating cash and cash management strategy, is sufficient to cover our liquidity needs for the next 12 months.

*Stock Repurchase Program.* On July 19, 2016, the Company's board of directors approved a stock repurchase program under which the Company may repurchase up to \$2,500,000 of its outstanding common stock. The Company has not repurchased any stock under this program as of the date of this filing.

*Capital Expenditures.* Our capital expenditures thru Q3 FY17 of \$0.1 million principally relate to additions to equipment in China and manufacturing equipment, computer system and leasehold improvements in the USA. We anticipate FY17 capital expenditures to be approximately \$0.5 million. There are no further specific plans for material capital expenditures in FY17, in anticipation for a technology project scheduled for FY18.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### ***Foreign Currency Risk***

While as a smaller reporting company, disclosure of market risk is not required, the Company is voluntarily including such disclosures.

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-US 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 RMB, the value of which had been largely pegged to the US dollar for the last decade. However, the Chinese RMB has been decoupled from the US Dollar and allowed to float by the Chinese government and, therefore, we have been exposed to additional foreign exchange rate risk on our Chinese raw material and component purchases.

Our primary risk from foreign currency exchange rate changes is presently related to non-US dollar denominated sales in Canada, Europe and in South American countries. Our sales to customers in Canada are denominated in Canadian dollars and in Europe in Euros and British pounds. If the value of the US dollar increases relative to the Canadian dollar, the Pound or the Euro, then our net sales could decrease as our products would be more expensive to these international customers because of changes in rate of exchange. Our sales from China are denominated in the Chinese RMB and US dollars. We manage the foreign currency risk through the use of rolling 90-day forward contracts against the Canadian dollar and the Euro and through longer term cash flow hedges in the US against the Euro. We do not hedge other currencies at this time. As non-US dollar denominated international purchases and sales grow, exposure to volatility in exchange rates could have a material adverse impact on our financial results. The only significant unhedged foreign exchange exposure we have is the Argentine peso. Other unhedged currency exposure is not significant. If the Argentina exchange rate varied either way by +/- 10%, it would not be significant so long as prices could be raised to account for more expensive garments.

***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 October 31, 2016, we had \$5.8 million in borrowings outstanding under our senior credit facility. If the interest rate applicable to this variable rate debt rose 1% in the year ended January 31, 2017, our interest expense would have increased only 0.25% due to the floor of 4.25%. If the effective interest rate rose 0.25 percentage point over 4.25%, it would increase interest expense by an insignificant amount.

***Tax Rate Risk***

We are exposed to tax rate risk with respect to our deferred tax asset. Should the effective tax rate decrease as a result of tax reform there could be a significant one-time noncash charge to earnings in order to adjust our deferred tax asset. Though this one-time adjustment might be material, the Company would be in a favorable tax position going forward.

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

We conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of October 31, 2016. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2016.

***Changes in Internal Control over Financial Reporting***

There have been no changes that occurred during Lakeland's third quarter of fiscal 2017 which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

Items 1, 1A, 2, 3, 4 and 5 are not applicable

**Item 6. Exhibits:**

Exhibits:

- 31.1\* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1\* Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2\* Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS\*\* XBRL instance Document
- 101.SCH\*\* XBRL Taxonomy Extension Schema Document
- 101.CAL\*\* XBRL Taxonomy Extension Definitions Document
- 101.DEF\*\* XBRL Taxonomy Extension Labels Document
- 101.LAB\*\* XBRL Taxonomy Extension Labels Document
- 101.PRE\*\* XBRL Taxonomy Extension Presentations Document

\*Filed herewith

\*\*To be filed by amendment



**SIGNATURES**

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

**LAKELAND INDUSTRIES, INC.**

(Registrant)

Date: December 14, 2016 /s/ *Christopher J. Ryan*  
Christopher J. Ryan,  
Chief Executive Officer, President and Secretary  
(Principal Executive Officer and Authorized Signatory)

Date: December 14, 2016 /s/ *Teri W. Hunt*  
Teri W. Hunt,  
Chief Financial Officer  
(Principal Accounting Officer and Authorized Signatory)