

LAKELAND INDUSTRIES INC
Form 10-K/A
March 10, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 2)

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **January 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 or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

3555 Veterans Memorial Highway, Suite C, Ronkonkoma, NY 11779
(Address of Principal Executive Offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock \$0.01 Par Value

(Title of Class)

Name of Exchange on which registered – NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

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

..

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 12b-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

As of July 31, 2015, the aggregate market value of the registrant's common stock held by nonaffiliates of the registrant was \$69,848,519 based on the closing price of the common stock as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

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

| Class | Outstanding at April 21, 2016 |
|--|-------------------------------|
| Common Stock, \$0.01 par value per share | 7,254,162 Shares |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A of the Security Exchange Act of 1934 are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K.

Explanatory Note

Lakeland Industries, Inc. (the “Company”) is filing this Amendment No. 2 on Form 10-K/A (this “Amendment No. 2”) to amend its Annual Report on Form 10-K for the fiscal year ended January 31, 2016, as filed with the Securities and Exchange Commission (the “SEC”) on April 21, 2016 (the “Original Form 10-K”), and as amended by Amendment No. 1 on Form 10-K/A filed with the SEC on February 17, 2017 (“Amendment No. 1”), to include the entire text of Item 8, which includes all four issued audit opinions and the Company’s financial statements as of and for the fiscal years ended January 31, 2016 and 2015. Such financial statements, including the notes related thereto, have not been modified from those in the Original Form 10-K. In accordance with the rules of the SEC, updated certifications pursuant to Section 302 of the Sarbanes-Oxley Act 2002 are being filed as Exhibits 31.1 and 31.2 and updated certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are being filed as Exhibits 32.1 and 32.2 to this Amendment No. 2.

Except as noted above, no other modifications or changes have been made to the Original Form 10-K or Amendment No. 1. This Amendment No. 2 does not reflect the effect of any events subsequent to the filing of the Original Form 10-K and does not modify or update in any way any other disclosures made in the Original Form 10-K. Accordingly, this Amendment No. 2 should be read in conjunction with the Original Form 10-K and the Company’s other filings made with the SEC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Financial Statements, restated for 2015, as applicable:

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of Lakeland Industries, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Lakeland Industries, Inc. and Subsidiaries (the "Company") as of January 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended January 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. For the year ended January 31, 2016, we did not audit the financial statements of Weifang Lakeland Safety Products Co. Ltd. and Lakeland (Beijing) Safety Products Co., Ltd., wholly owned subsidiaries, which statements reflect total assets of approximately \$15,376,000 and total revenues of approximately \$12,154,000 constituting 17% and 12%, respectively, of the related consolidated totals in 2016. For the year ended January 31, 2015, we did not audit the financial statements of Lakeland Brazil, S.A., Weifang Lakeland Safety Products Co. Ltd. and Lakeland (Beijing) Safety Products Co., Ltd., wholly owned subsidiaries, which statements reflect total assets of approximately \$21,761,000 and total revenues of approximately \$19,280,000 constituting 23% and 19%, respectively, of the related consolidated totals in 2015. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lakeland Brazil, S.A., Weifang Lakeland Safety Products Co., Ltd., and Lakeland (Beijing) Safety Products Co., Ltd. is based solely on the reports of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of January 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the two years in the period ended January 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ WeiserMazars LLP

New York, New York

April 21, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Management and Shareholders of

Lakeland Brasil S.A.

São Paulo - SP

We have audited the accompanying balance sheet of Lakeland Brasil S.A. (“The Company”) as at January 31, 2015, and the related statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our report dated May 15, 2015 on the January 31, 2015 financial statements, we expressed a qualified opinion due to a departure from accounting principles generally accepted in the United States of America. As more fully described in Note 13.1, the Company has corrected this departure from accounting principles generally accepted in the United States of America for the recognition of the interest and penalties related to the value added tax and restated the January 31, 2015 financial statements. Accordingly, our present opinion on the January 31, 2015 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited the adjustments described in Notes 6 and 13.1 that were applied to restate the 2014 financial statements to correct errors. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on

the 2014 financial statements taken as a whole.

The accompanying financial statements have been prepared assuming that Lakeland Brasil S.A. will continue as a going concern. As discussed in Note 1 to the financial statements, Lakeland Brasil S.A. has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about the entity's ability to continue as a going concern. Management's plans concerning these matters as described in Note 1 – Operating context. There is also relevant Subsequent Events information in the Note 17 that the Board of Directors approved a sale of Parent Company's wholly-owned Brazilian subsidiary Lakeland Brasil to a current officer of Lakeland Brasil. The financial statements do not include any adjustments about that.

The financial statements of the Company for the year ended January 31, 2014, were audited by another auditor who expressed an unqualified opinion on those statements on April 22, 2014.

/s/ Mazars Auditores Independentes S/S

Mazars Auditores Independentes S/S

São Paulo, Brazil

May 15, 2015, except for Note 13.1, as to which the date is February 02, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Weifang Lakeland Safety Products Co Ltd, China

We have audited the accompanying balance sheet of Weifang Lakeland Safety Products Co Ltd, China as of 31 January 2016 and 2015, and the related statement of operations, shareholder's equity and cash flows for the year then ended. Weifang Lakeland Safety Products Co., Ltd.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Weifang Lakeland Safety Products Co., Ltd. as of January 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Shanghai MAZARS Certified Public Accountants

Shanghai MAZARS Certified Public Accountants

Shanghai, China

April 18, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Lakeland (Beijing) Safety Products Co., Ltd., China,

We have audited the accompanying balance sheet of Lakeland (Beijing) Safety Products Co., Ltd., China as of 31 January 2016 and 2015, and the related statement of operations, shareholder's equity and cash flows for the year then ended. Lakeland (Beijing) Safety Products Co., Ltd.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lakeland (Beijing) Safety Products Co., Ltd. as of January 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Shanghai MAZARS Certified Public Accountants

Shanghai MAZARS Certified Public Accountants

Shanghai, China

April 18, 2016

Lakeland Industries, Inc. **and Subsidiaries**

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended January 31, 2016 and 2015

| | Years Ended | |
|--|-------------|------------|
| | January 31, | 2015* |
| | 2016 | 2015* |
| Net sales from continuing operations | \$99,646 | \$93,419 |
| Cost of goods sold from continuing operations | 63,313 | 61,721 |
| Gross profit from continuing operations | 36,333 | 31,698 |
| Operating expenses from continuing operations | 24,521 | 24,737 |
| Operating profit from continuing operations | 11,812 | 6,961 |
| Other income (loss), net from continuing operations | (120) | (2,375) |
| Interest expense from continuing operations | (785) | (1,688) |
| Income before taxes from continuing operations | 10,907 | 2,898 |
| Income tax expense (benefit) from continuing operations | 3,117 | (8,188) |
| Net income from continuing operations | \$7,790 | \$11,086 |
| Non-cash reclassification of Other Comprehensive Income to Statement of Operations (no impact on stockholder's equity) | \$(1,286) | \$— |
| Loss from operations from discontinued operations | (3,538) | (2,836) |
| Loss from disposal of discontinued operations | (515) | — |
| Loss before taxes for discontinued operations | (5,339) | (2,836) |
| Income tax benefit from discontinued operations | (1,403) | (149) |
| Net loss from discontinued operations | \$(3,936) | \$(2,687) |
| Net income | \$3,854 | \$8,399 |
| Net income per common share – Basic: | | |
| Income from continuing operations | \$1.09 | \$1.78 |
| Loss from discontinued operations | \$(0.55) | \$(0.43) |
| Net income | \$0.54 | \$1.35 |
| Net income per common share – Diluted: | | |
| Income from continuing operations | \$1.07 | \$1.75 |
| Loss from discontinued operations | \$(0.54) | \$(0.42) |
| Net income | \$0.53 | \$1.33 |
| Weighted average common shares outstanding: | | |
| Basic | 7,171,965 | 6,214,303 |
| Diluted | 7,254,340 | 6,325,525 |

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

**Restated for discontinued operations.*

Lakeland Industries, Inc. **and Subsidiaries**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended January 31, 2016 and 2015

| | Years Ended January 31 | |
|---|---------------------------|-----------|
| | 2016 | 2015 |
| | (\$000)'s | (\$000)'s |
| Net income | \$3,854 | \$8,399 |
| Other comprehensive income (loss): | | |
| Cash flow hedge in China | (226) | 208 |
| Cash flow hedge in United Kingdom | 67 | (68) |
| Foreign currency translation adjustments: | | |
| Lakeland Brazil, S.A. | 1,479 | 140 |
| Canada | (19) | (58) |
| United Kingdom | (145) | (665) |
| China | (372) | (19) |
| Russia | (46) | (299) |
| Kazakhstan | (208) | (103) |
| Other comprehensive income (loss) | 530 | (865) |
| Comprehensive income | \$4,384 | \$7,534 |

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

Lakeland Industries, Inc. and Subsidiaries**CONSOLIDATED BALANCE SHEETS****For the Years Ended January 31, 2016 and 2015**

| | January 31, 2016 (\$000's) | January 31, 2015* (\$000's) |
|---|----------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 7,022 | \$ 6,709 |
| Accounts receivable, net of allowance for doubtful accounts of \$593 and \$448 at January 31, 2016 and January 31, 2015, respectively | 11,476 | 13,277 |
| Inventories, net of reserves of \$2,566 and \$2,454 at January 31, 2016 and January 31, 2015, respectively | 40,841 | 37,092 |
| Deferred income taxes | 1,555 | 1,144 |
| Assets of discontinued operations in Brazil | — | 6,335 |
| Prepaid VAT tax | 1,143 | 1,717 |
| Other current assets | 1,635 | 2,361 |
| Total current assets | 63,672 | 68,635 |
| Property and equipment, net | 9,268 | 10,144 |
| Assets held for sale | 1,101 | — |
| Deferred income tax, noncurrent | 12,783 | 13,101 |
| Prepaid VAT and other taxes | 377 | 173 |
| Security deposits | 93 | 113 |
| Intangibles, prepaid bank fees and other assets, net | 95 | 171 |
| Goodwill | 871 | 871 |
| Total assets | \$ 88,260 | \$ 93,208 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 4,254 | \$ 7,763 |
| Accrued compensation and benefits | 1,157 | 1,120 |
| Other accrued expenses | 1,575 | 1,462 |
| Liabilities of discontinued operations in Brazil | 238 | 6,574 |
| Current maturity of long-term debt | 50 | 50 |
| Current maturity of accrued arbitration award | — | 1,000 |
| Short-term borrowing | 3,226 | 2,611 |
| Borrowings under revolving credit facility | 9,458 | 5,642 |
| Total current liabilities | 19,958 | 26,222 |
| Accrued arbitration award, less current portion | — | 2,870 |
| Long-term portion of Canada loan | 691 | 800 |
| VAT taxes payable long term | 95 | 60 |
| Total liabilities | 20,744 | 29,952 |

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| | | |
|---|-----------|-----------|
| Stockholders' equity | | |
| Preferred stock, \$0.01 par; authorized 1,500,000 shares (none issued) | — | — |
| Common stock, \$.01 par; authorized 10,000,000 shares, Issued 7,610,603 and 7,414,037; outstanding 7,254,162 and 7,057,596 at January 31, 2016 and January 31, 2015, respectively | 76 | 74 |
| Treasury stock, at cost; 356,441 shares at January 31, 2016 and January 31, 2015 | (3,352) | (3,352) |
| Additional paid-in capital | 64,468 | 64,594 |
| Retained earnings | 8,508 | 4,654 |
| Accumulated other comprehensive loss | (2,184) | (2,714) |
| Total stockholders' equity | 67,516 | 63,256 |
| Total liabilities and stockholders' equity | \$ 88,260 | \$ 93,208 |

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

**Restated for discontinued operations*

Lakeland Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended January 31, 2016 and 2015

| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive | |
|--|--------------|--------|----------------|-----------|----------------------------------|-----------------------------------|---------------------------------------|----------|
| | Shares | Amount | Shares | Amount | | | Loss | Total |
| Balance, January 31, 2014 | 5,713,180 | \$ 57 | (356,441) | \$(3,352) | \$ 53,365 | \$(3,745) | \$(1,849) | \$44,476 |
| Net income | — | — | — | — | — | 8,399 | — | 8,399 |
| Other comprehensive loss | — | — | — | — | — | — | (865) | (865) |
| Stock-based compensation: | | | | | | | | |
| Restricted stock issued | 24,842 | — | — | — | 32 | — | — | 32 |
| Restricted Stock Plan | — | — | — | — | 1,171 | — | — | 1,171 |
| Warrant shares exercised at \$0.01 per share | 566,015 | 6 | — | — | — | — | — | 6 |
| Sale of common shares in a Private Institutional Placement of Equity (PIPE), net of fees | 1,110,000 | 11 | — | — | 10,140 | — | — | 10,151 |
| Legal fees associated with Warrant | — | — | — | — | (13) | — | — | (13) |
| Return of shares in lieu of payroll tax withholding | — | — | — | — | (101) | — | — | (101) |
| Balance, January 31, 2015 | 7,414,037 | \$ 74 | (356,441) | \$(3,352) | \$ 64,594 | \$ 4,654 | \$(2,714) | \$63,256 |
| Net income | — | — | — | — | — | 3,854 | — | 3,854 |
| Other comprehensive income | — | — | — | — | — | — | 530 | 530 |
| Stock-based compensation: | | | | | | | | |
| Director Stock Options Exercised | 6,130 | — | — | — | 40 | — | — | 40 |
| Restricted stock issued | 190,436 | 2 | — | — | (2) | — | — | — |
| Restricted Stock Plan | — | — | — | — | 586 | — | — | 586 |
| Return of shares in lieu of payroll tax withholding | — | — | — | — | (750) | — | — | (750) |
| Balance, January 31, 2016 | 7,610,603 | \$ 76 | (356,441) | \$(3,352) | \$ 64,468 | \$ 8,508 | \$(2,184) | \$67,516 |

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

Lakeland Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended January 31, 2016 and 2015

| | January 31, | |
|---|-------------|----------|
| | 2016 | 2015* |
| Cash flows from operating activities: | | |
| Net income | \$3,854 | \$8,399 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities | | |
| Provision for inventory obsolescence | 113 | (678) |
| Provision for doubtful accounts | 145 | (89) |
| Reserve against note receivable from former Brazilian subsidiary for doubtful collectability | 2,286 | — |
| Deferred income taxes current | (92) | (9,531) |
| Deferred taxes long-term | 35 | (2,893) |
| Depreciation and amortization | 986 | 1,109 |
| Interest expense resulting from amortization of warrant OID and reclassification of PIK interest | — | 927 |
| Early extinguishment of subordinated debt | — | 2,295 |
| Stock based and restricted stock compensation | 586 | 1,203 |
| Interest expense resulting from Arbitration Award | (111) | 111 |
| Loss on disposal of fixed assets | 19 | 43 |
| Non-cash reclassification of other consolidated comprehensive income to statement of operations due to the disposal of Brazil | 1,286 | — |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 1,443 | (1,010) |
| Inventories | (4,239) | (859) |
| Prepaid VAT taxes and other current assets | 574 | (1,056) |
| Other assets-mainly prepaid fees from financing transaction | 321 | (560) |
| Assets of discontinued operations | — | 1,731 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | (3,306) | 179 |
| Accrued expenses and other liabilities | 250 | 562 |
| Accrued expenses for disposal of Brazil | 238 | — |
| Arbitration award in Brazil | (3,759) | (1,000) |
| Net cash used by the transfer of stock in Brazil | (1,147) | — |
| Liabilities of discontinued operations | — | 4,043 |
| Net cash (used in) provided by operating activities | (518) | 2,926 |
| Cash flows from investing activities: | | |
| Proceeds from sale of NY real estate | 451 | — |
| Note receivable from former Brazilian subsidiary related to payment of VAT liability | (2,286) | — |
| Purchases of property and equipment | (840) | (938) |
| Net cash used in investing activities | (2,675) | (938) |
| Cash flows from financing activities: | | |
| Net borrowings (repayments) under credit agreement (revolver) | 3,816 | (6,773) |

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| | | |
|--|---------|----------|
| Subordinated debt principal payments | — | (500) |
| Proceeds received through PIPE, net of fees | — | 10,140 |
| Repayment of subordinated debt, PIK interest and fees | — | (3,594) |
| Legal fees associated with the warrant OID | — | (13) |
| Canada loan repayments | (23) | (25) |
| Borrowings in Argentina | 248 | — |
| UK borrowings, net | (478) | (185) |
| China borrowings | 2,978 | 2,124 |
| China repayments | (2,125) | (812) |
| Proceeds from exercise of stock options | 40 | — |
| Shares returned to pay employee taxes under restricted stock program | (750) | (101) |
| Net cash provided by financing activities | 3,706 | 261 |
| Effect of exchange rate changes on cash | (200) | (95) |
| Net increase in cash and cash equivalents | 313 | 2,154 |
| Cash and cash equivalents at beginning of year | 6,709 | 4,555 |
| Cash and cash equivalents at end of period | \$7,022 | \$6,709 |

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

**Restated for discontinued operations*

Lakeland Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended January 31, 2016 and 2015

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Business

Lakeland Industries, Inc. and Subsidiaries (“Lakeland”, “Company”, “we” or “our”), a Delaware corporation organized in April 1986, manufactures and sells a comprehensive line of safety garments and accessories for the industrial protective clothing market. The principal market for the Company’s products is in the United States. No customer accounted for more than 10% of net sales during FY16 or FY15. In April 2015, the Company decided to exit operations in Brazil and on July 31, 2015, the Company completed a conditional closing of the transfer of stock of its wholly-owned Brazilian subsidiary, Lake Brasil Industria E Comercio de Roupas E Equipamentos de Protecao Individual Ltda (referred to herein as “Lakeland Brazil”), to Zap Comércio de Brindes Corporativos Ltda (“Transferee”), a company owned by an existing Lakeland Brazil manager. This sale is pursuant to a Shares Transfer Agreement (the “Shares Transfer Agreement”) entered into on June 19, 2015. The transactions contemplated by the Shares Transfer Agreement, which shall be deemed to have been consummated as of July 31, 2015, were subject to acceptance of the shares transfer on the Commercial Registry by the Brazilian authorities, which was received in October 2015. For purposes of these financial statements, FY refers to a fiscal year ended January 31; thus, FY16 refers to the fiscal year ended January 31, 2016.

Basis of Presentation

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The following is a description of the Company’s significant accounting policies.

Principles of Consolidation

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

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. Some sales in Brazil, through July 31, 2015, were sold on terms with F.O.B. destination, which are recognized when received by the customer. Sales are reduced for sales returns and allowances. Payment terms are generally net 30 days for United States sales and net 90 days for international sales.

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

Lakeland offers a growth rebate to certain distributors each year on a calendar-year basis. Sales are tracked on a monthly basis, and accruals are based on sales growth over the prior year. The growth rebate accrual is adjusted either up or down on a monthly basis as a reduction (increase) to revenue and an increase (reduction) to the accrual based on monthly sales trends as compared with prior year. Based on volume and products purchased, distributors can earn anywhere from 1% to 6% rebates in the form of either a quarterly or annual credit to their account, depending on the specific agreement. In estimating the accrual needed, management tracks sales growth over the prior year.

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

Lakeland Industries, Inc. and Subsidiaries

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Customer pricing is subject to change on a 30-day notice; exceptions based on meeting competitors' pricing are considered on a case-by-case basis. Revenue is recorded net of taxes collected from customers. The related taxes that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

For larger orders, except in its Lakeland Fire product line, the Company absorbs the cost of shipping and handling. For those customers who are billed the cost of shipping and handling fees, such amounts are included in net sales. Shipping and handling costs associated with outbound freight are included in selling and shipping expenses and aggregated approximately \$2.5 and \$2.4 million in FY16 and FY15, respectively.

Inventories

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

Property and Equipment

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

Goodwill and Intangible Assets

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill and indefinite lived intangible assets are 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. Management assesses whether it is more likely than not that goodwill is impaired and, if necessary, compares the current value of the entity acquired to the carrying value. Fair value is generally determined by management either based on estimating future discounted cash flows for the reporting unit or by estimating a sales price for the reporting unit based on a multiple of earnings. These estimates require 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.

Lakeland Industries, Inc. and Subsidiaries

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Self-Insured Liabilities

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

Stock-Based Compensation

The Company records the cost of stock-based compensation plans based on the fair value of the award on the grant date. For awards that contain a vesting provision, the cost is recognized over the requisite service period (generally the vesting period of the equity award) which approximates the performance period. For awards based on services already rendered, the cost is recognized immediately.

Allowance for Doubtful Accounts

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

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. Customer creditworthiness, past transaction history with the customers, current economic industry trends and changes in customer payment terms are factors used in the credit decision.

Research and Development Costs

Research and development costs are expensed as incurred and included in general and administrative expenses. Research and development expenses aggregated approximately \$165,000 and \$90,000 in the FY16 and FY15, respectively.

Income Taxes

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of preparing the consolidated financial statements. This involves estimating the actual current tax in addition to assessing temporary differences resulting from differing treatments for tax and financial accounting purposes. These differences, together with net operating loss carryforwards and tax credits, are recorded as deferred tax assets or liabilities on the Company's balance sheet. A judgment must then be made of the likelihood that any deferred tax assets will be recovered from future taxable income. A valuation allowance may be required to reduce deferred tax assets to the amount that is more likely than not to be realized. In the event the Company determines that it may not be able to realize all or part of 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.

The Company has not had any recent U.S. corporate income tax returns examined by the Internal Revenue Service. Returns for the years since 2012 are still open based on statutes of limitation only.

Lakeland Industries, Inc. and Subsidiaries

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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 average common stock equivalents for the fiscal years ended January 31, 2016 and 2015 were 0 and 371,183, respectively, representing the warrant issued with the subordinated debt financing consummated in FY14. The diluted earnings per share calculation takes into account the shares that may be issued upon exercise of stock options, reduced by shares that may be repurchased with the funds received from the exercise, based on the average price during the fiscal year.

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

| | Years Ended January 31, (in \$000's) | |
|---|---|-----------|
| | 2016 | 2015 |
| Numerator | | |
| Net income from continuing operations | \$7,790 | \$11,086 |
| Net loss from discontinued operations | (3,936) | (2,687) |
| Net income | \$3,854 | \$8,399 |
| Denominator | | |
| Denominator for basic earnings per share | 7,171,965 | 5,843,120 |
| Weighted-average shares which reflect 356,441 shares in the treasury as a result of the stock repurchase program that ended in 2011 | | |
| Weighted average common equivalent shares resulting from the warrant issued June 28, 2013 to the subordinated debt lender LKL Investments LLC | — | 371,183 |
| Total weighted average, including common equivalent shares | 7,171,965 | 6,214,303 |
| Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options | 82,375 | 111,222 |
| Denominator for diluted earnings per share (adjusted weighted average shares) | 7,254,340 | 6,325,525 |
| Basic earnings per share from continuing operations | \$1.09 | \$1.78 |
| Basic (loss) per share from discontinued operations | \$(0.55) | \$(0.43) |
| Basic earnings per share | \$0.54 | \$1.35 |
| Diluted earnings per share from continuing operations | \$1.07 | \$1.75 |
| Diluted (loss) per share from discontinued operations | \$(0.54) | \$(0.42) |

| | | |
|----------------------------|--------|--------|
| Diluted earnings per share | \$0.53 | \$1.33 |
|----------------------------|--------|--------|

Lakeland Industries, Inc. and Subsidiaries

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Advertising Costs

Advertising costs are expensed as incurred and included in selling and shipping expenses on the consolidated statement of operations. Advertising and co-op costs amounted to \$326,000 and \$455,000 in FY16 and FY15, respectively, net of a co-op advertising allowance received from a supplier.

Cash and Cash Equivalents

The Company considers highly liquid temporary cash investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of money market funds. The cost of cash equivalents approximates fair value. Cash and cash equivalents were approximately \$7.0 million and \$6.7 million at January 31, 2016 and 2015, respectively.

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

| | 2016 | 2015 |
|--|---------|---------|
| Interest paid | \$784 | \$1,395 |
| Income taxes paid | \$1,826 | \$1,763 |
| Accumulated amortization of warrant OID included in interest expense | \$0 | \$1,977 |

Concentration of Credit Risk

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

Our foreign financial depositories are Bank of America; China Construction Bank; Bank of China; China Industrial and Commercial Bank; HSBC; Rural Credit Cooperative of Shandong; Postal Savings Bank of China; Punjab National Bank; HSBC in India, Argentina and UK; Raymond James in Argentina; TD Canada Trust; Banco do Brasil, S.A.; Banco Itaú S.A., and Mercantil do Brasil, S.A. in Brazil; Banco Credito Inversione in Chile; Banco Mercantil Del Norte SA in Mexico; ZAO KB Citibank Moscow in Russia, and JSC Bank Centercredit in Kazakhstan. We monitor our financial depositories by their credit rating which varies by country.

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 of foreign subsidiaries is the US dollar, except for the UK operation (Euro), trading companies in China (RenminBi), Russia (Russian Ruble), Kazakhstan (Tenge) and the Canadian Real Estate (Canadian dollar) subsidiary.

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.

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The monetary assets and liabilities of the Company's foreign operations with the US dollar as the functional currency are translated into US dollars at current exchange rates, while nonmonetary items are translated at historical rates. Revenues and expenses are generally translated at average exchange rates for the year. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Comprehensive Income (loss)

Comprehensive income (loss) refers to revenue, expenses, gains and losses that under US GAAP are included in comprehensive income or loss but are excluded from net income or loss as these amounts are recorded directly as an adjustment to stockholders' equity. This includes translation adjustments for foreign subsidiaries where the functional currency is other than the US dollar. No tax benefit or expense has been attributed to any of these items, due to immateriality. Amounts have been reclassified into the consolidated statement of operations as appropriate based on impairment charges.

Use of Estimates

The preparation of 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 year-end 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.

Fair Value of Financial Instruments

The Company's principal financial instruments are its outstanding revolving credit facility, term loans, and its cash flow hedges in China. The Company believes that the carrying amount of such debt approximates fair value as the variable interest rates approximate the current prevailing interest rate, or the prevailing foreign exchange rates in the case of the cash flow hedges.

Reclassifications

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

2. INVENTORIES, NET

Inventories of continuing operations consist of the following (in \$000s):

| | January 31, 2016 | January 31, 2015 |
|-----------------|------------------|------------------|
| Raw materials | \$ 15,435 | \$ 14,379 |
| Work-in-process | 784 | 1,670 |
| Finished goods | 24,622 | 21,043 |
| | \$ 40,841 | \$ 37,092 |

Lakeland Industries, Inc. and Subsidiaries

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3. PROPERTY AND EQUIPMENT, NET

Property and equipment from continuing operations consists of the following:

| | Useful Life in Years | January 31, 2016 | January 31, 2015* |
|-------------------------------|----------------------|------------------|-------------------|
| Machinery and equipment | 3-10 | \$ 7,535 | \$ 7,573 |
| Furniture and fixtures | 3-10 | 522 | 437 |
| Leasehold improvements | Lease term | 1,084 | 770 |
| Land and building (China) | 20-30 | 1,764 | 1,917 |
| Land and building (Canada) | 30 | 1,745 | 1,945 |
| Land and buildings (USA) | 30 | 3,382 | 4,060 |
| Land and buildings (Mexico) | 30 | 2,070 | 2,067 |
| | | 18,102 | 18,769 |
| Less accumulated depreciation | | (8,850) | (8,657) |
| Assets held for sale | | 1,101 | — |
| Construction-in-progress | | 16 | 32 |
| | | \$ 10,369 | \$ 10,144 |

*Restated for discontinued operations

Depreciation expense from continuing operations for FY16 and FY15 amounted to \$884,863 and \$752,640, respectively.

The estimated cost to complete construction-in-progress at January 31, 2016 is \$500,000.

Lakeland Industries, Inc. and Subsidiaries

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4. INTANGIBLES, PREPAID BANK FEES AND OTHER ASSETS, NET

Intangible assets consist of the following at January 31, 2016 and January 31, 2015:

| | 2016 | 2015 |
|--|----------|-----------|
| Bank fees net of accumulated amortization of \$569,427 at 2016 and \$389,167 at 2015 | \$94,945 | \$171,237 |
| Restated for discontinued operations. | | |

Amortization expense included in general and administrative expense was \$101,291 and \$355,938 for FY16 and FY15, respectively.

Amortization expense for the next five years is as follows: Bank fees: \$94,945 for FY17.

Goodwill

On August 1, 2005, the Company purchased Mifflin Valley, Inc., a Pennsylvania manufacturer, the operations of which now comprise the Company's Reflective division. This acquisition resulted in the recording of \$0.9 million in goodwill in FY06. The Company believes that there was no impairment of goodwill as of January 31, 2016. This goodwill is included in the US segment for reporting purposes.

5. LONG-TERM DEBT AND SUBSEQUENT EVENT

Revolving Credit Facility

The maximum amounts borrowed under the existing and previous revolving credit facilities during FY16 and FY15 were \$11.4 million and \$14.6 million, respectively, and the weighted average annual interest rates for the years ended

January 31, 2016 and 2015 were 4.74% and 6.55%, respectively.

On June 28, 2013, the Company and its wholly-owned subsidiary, Lakeland Protective Wear Inc. (collectively with the Company, 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 provided the Borrowers with a three-year \$15 million revolving line of credit, 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 the Canadian warehouse.

On March 31, 2015, the Borrowers entered into a First Amendment to Loan and Security Agreement with the Senior Lender (the “Amendment”) relating to their senior revolving credit facility. Pursuant to the Amendment, the parties agreed to (i) reduce the rate of interest on the revolving loans by 200 basis points and correspondingly lower the minimum interest rate floor from 6.25% to 4.25% per annum, and (ii) extend the maturity date of the credit facility to June 28, 2017.

On June 3, 2015, the Borrowers entered into a Second Amendment to Loan and Security Agreement with the Senior Lender (the “Amendment”) relating to their senior revolving credit facility. Pursuant to the Amendment, the parties agreed to (i) modify the definition of Permitted Asset Disposition to provide the Company with the ability to sell the stock of the Company’s wholly-owned Brazilian subsidiary, Lake Brasil Indústria e Comércio de Roupas e Equipamentos de Proteção Individual Ltda. (“Lakeland Brazil”), and (ii) allow Borrowers to transfer funds to Lakeland Brazil for the specific purposes of settling arbitration claims, paying contractual expenses, and paying expenses incurred in connection with a sale of the stock of Lakeland Brazil so long as, after giving effect to any such transfer, the amount Borrowers have as excess availability under the revolver loans, excluding the \$15 million facility cap for this purpose only, calculated pursuant to and under the Loan Agreement, is at least \$3 million. Also, as part of the Amendment, Lender consented to the sale of the Company’s corporate offices in Ronkonkoma, New York on the condition that the net cash proceeds from the sale in the amount of at least \$450,000 are used by the Company to pay down Borrower’s obligations to Lender under the Loan Agreement.

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On June 28, 2013, the Borrowers also entered into a Loan and Security Agreement (the “Subordinated Loan Agreement”) with LKL Investments, LLC, an affiliate of Arenal Capital, a private equity fund (the “Junior Lender”). The Subordinated Loan Agreement provided for a \$3.5 million term loan to be made to the Borrowers with a second priority lien on substantially all of the assets of the Company in the United States and Canada, except for the Canadian warehouse and except for a first lien on the Company’s Mexican facility (the “Subordinated Debt”). Pursuant to the Subordinated Loan Agreement, among other things, Borrowers issued to the Junior Lender a five-year term loan promissory note (the “Note”). At the election of the Junior Lender, interest under the Note was payable in cash, by PIK in additional notes or payable in shares of common stock (“Common Stock”), of the Company. The Junior Lender also, in connection with this transaction, received a common stock purchase warrant (the “Warrant”) to purchase up to 566,015 shares of Common Stock (subject to adjustment), representing beneficial ownership of approximately 9.58% of the outstanding Common Stock of the Company, as of the closing of the transactions completed by the Subordinated Loan Agreement. The Warrant was fully exercised as of October 31, 2014. The Company’s receipt of gross proceeds of \$3.5 million (before original issue discount of \$2.2 million related to the associated Warrant) in subordinated debt financing was a condition precedent set by the Senior Lender, of which this transaction satisfied.

On October 29, 2014, with the proceeds from a private placement of 1,110,000 shares of its common stock, the Company repaid in full the Subordinated Debt. The early extinguishment of the Subordinated Debt has resulted in a one-time pretax non-cash charge of approximately \$1.6 million for the remaining unamortized original issue discount on the Subordinated Debt and a pretax non-cash charge of approximately \$0.6 million for the remaining unamortized fees paid at the closing of the June 2013 Subordinated Debt financing. These charges were included in the Company’s financial results for the third fiscal quarter ended October 31, 2014 and the fiscal year ended January 31, 2015. The \$0.1 million of unamortized fees attributable to the Senior Debt remain on the Company’s books and continue to be amortized over the remaining term of the Senior Debt through June 2017 as amended.

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

\$15 million Senior Credit Facility

- Borrowers are Lakeland Industries, Inc. and its Canadian operating subsidiary Lakeland Protective Wear Inc.
- 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

Receivables and inventory held by the Canadian operating subsidiary to be included, up to a cap of \$2 million of availability

On January 31, 2016, there was \$5.5 million available under the senior credit facility.

Collateral

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

Pledge of 65% of Lakeland US 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.

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- o An initial term of three years from June 28, 2013 (the "Closing Date"), which has been extended to June 28, 2017 pursuant to the Amendment
 - o Prepayment penalties of 2% if prior to the second anniversary of the Closing Date and 1% thereafter
- o Rate equal to LIBOR rate plus 525 basis points, reduced to 325 basis points on March 31, 2015 per the Amendment
 - o Initial rate 6.25% and rate at January 31, 2016 of 4.25% per annum
 - o Floor rate of 6.25%, reduced to 4.25% on March 31, 2015 per annum per the Amendment
- o Fees: Borrowers shall pay to the Lender the following fees:
 - o Origination fee of \$225,000, paid on the Closing Date and being amortized over the term of loans and is included in "intangibles, prepaid bank fees and other assets, net" in the accompanying consolidated balance sheet
 - o 0.50% per annum on unused portion of commitment
 - o A non-refundable collateral monitoring fee in the amount of \$3,000 per month
 - o All legal and other out of pocket costs

Financial Covenants
 Borrowers covenanted that, from the Closing Date 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 then Brazilian subsidiary, shall comply with the following additional covenants:

- o 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 four quarter period then ending.
- o 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 Brazilian subsidiary, EBITDA of not less than \$4.1 million.
- o Capital Expenditures. Borrowers shall not during any fiscal year make capital expenditures in an amount exceeding \$1 million in the aggregate.

The Company is in compliance with all loan covenants of the Senior Debt at January 31, 2016.

- o Other Covenants
 - o Standard financial reporting requirements as defined
 - o Limitation on amounts that can be advanced to or on behalf of Brazilian operations, limited to one aggregate total of \$200,000 for the term of the loan
 - o Limitation on total net investment in foreign subsidiaries of a maximum of \$1.0 million per annum

Borrowings in UK

On December 3, 2014, the Company and its UK subsidiary amended the terms of its existing financing facility with HSBC 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) to £1,500,000 (approximately USD \$2.3 million), 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) 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. There was nothing outstanding under this facility at January 31, 2016 and the balance outstanding at January 31, 2015 was the equivalent of USD \$486,584 million. The per annum interest rate was 3.44% and the term was for a minimum period of one year renewable on December 19, 2016.

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On December 31, 2015, Lakeland Industries Europe, Ltd., a wholly owned subsidiary of Lakeland Industries, Inc., 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 as previously reported by the Company in its Current Report on Form 8-K dated December 3, 2014 remain the same.

Canada Loan

In September 2013, the Company refinanced its loan with the Development Bank of Canada (BDC) for a principal amount of approximately Canadian and US \$1.1 million (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 US \$5,848 (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 January 31, 2016 is C\$1,034,622 which is included as US \$690,602 long term borrowings on the accompanying consolidated balance sheet, net of current maturities of US \$50,000 and the amount outstanding at January 31, 2015 is C\$1,064,849 which is included as US \$799,637.

China Loan

On October 10, 2015, Weifang Lakeland Safety Products Co., Ltd., ("WF") , the Company's Chinese subsidiary and Bank of China Anqiu Branch completed 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 is currently 7%. The loan is collateralized by inventory owned by WF. The balance under this loan outstanding at January 31, 2016 was RMB 5,000,000 (approximately USD \$0.8 million) and is included in short-term borrowings on the consolidated balance sheet. The line of credit is due within a one year period.

On September 21, 2015 WF and Chinese Rural Credit Cooperative Bank ("CRCCB") completed an agreement for WF to obtain a line of credit for financing in the amount of US \$1.3 million, with interest at 120% of the benchmark rate supplied by WRCCB (which is currently 4.6% per annum). The effective per annum interest rate is currently 5.52%. The loan is collateralized by inventory owned by WF. WRCCB had hired a professional firm to supervise WF's inventory flow. The balance under this loan outstanding at January 31, 2016 was US \$1.3 million and is included in short-term borrowings on the consolidated balance sheet. The line of credit is due within a one year period.

On December 1, 2015 WF and Chinese Rural Credit Cooperative Bank (“CRCCB”) completed 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 WRCCB (which is currently 4.6% per annum). The effective per annum interest rate is currently 5.52%. The loan is collateralized by inventory owned by WF. WRCCB had hired a professional firm to supervise WF’s inventory flow. The balance under this loan outstanding at January 31, 2016 was USD \$0.9 million and is included in short-term borrowings on the consolidated balance sheet. The line of credit is due within a one year period.

Argentina Loan

In April 2015, 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. There are several drawdowns each with six month terms at an annual rate of 34%. The balance under this loan outstanding at January 31, 2016 was US \$0.2 million and is included in short-term borrowings on the consolidated balance sheet.

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January 31, 2016 and 2015**Five-year Debt Payout Schedule**

This schedule reflects the liabilities as of January 31, 2016, and does not reflect any subsequent event:

| | Total | 1 Year or less | 2 Years | 3 Years | 4 Years | 5 Years | After 5 Years |
|------------------------------|--------------|-------------------|----------|----------|----------|----------|------------------|
| Borrowings in Weifang, China | \$2,978,390 | \$2,978,390 | \$— | \$— | \$— | \$— | \$— |
| Revolving credit facility | 9,457,921 | 9,457,921 | — | — | — | — | — |
| Borrowings in Canada | 740,602 | 50,000 | 23,075 | 24,609 | 26,244 | 27,987 | 588,687 |
| Borrowings in Argentina | 248,046 | 248,046 | — | — | — | — | — |
| Total | \$13,424,959 | \$12,734,357 | \$23,075 | \$24,609 | \$26,244 | \$27,987 | \$588,687 |

6. STOCKHOLDERS' EQUITY AND STOCK OPTIONS

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 (the "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 January 31, 2016, the Company granted awards for up to an aggregate of 99,429 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 January 31, 2016, the Company issued 286,553 fully vested shares of common stock and 9,834 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.

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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 January 31, 2016, unrecognized stock-based compensation expense related to share-based stock awards totaled \$12,302 pursuant to the 2012 Plan and \$759,889 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 \$12,302 for the 2012 Plan and \$462,330 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 one year for the 2012 Plan and two years for the 2015 Plan. The performance based awards are not considered stock equivalents for earnings per share ("EPS") calculation purposes.

The Company recognized total stock-based compensation costs of \$585,987 and \$1,202,986 for the year ended January 31, 2016 and 2015, respectively, of which \$0 and \$20,707 result from the Company's prior 2009 Equity Plan, \$332,691 and \$1,182,279 result from the 2012 Plan, and \$253,296 and \$0 result from the 2015 Plan. These amounts are reflected in operating expenses. The total income tax benefit recognized for stock-based compensation arrangements was \$210,955 and \$433,075 for the years ended January 31, 2016 and 2015, respectively. As of January 31, 2016 under the Company's 2009 Equity Plan there are no shares available for grant and all prior grants of restricted shares have vested.

| Shares under 2015 and 2012 Stock Plans: | Outstanding Unvested Grants at Maximum at Beginning of FY16 | Granted during FY16 | Becoming Vested during FY16 | Forfeited during FY16 | Outstanding Unvested Grants at Maximum at End of January 31, 2016 |
|--|---|------------------------|-----------------------------------|-----------------------------|---|
| Restricted stock grants – employees | 147,500 | 72,999 | 147,500 | — | 72,999 |
| Restricted stock grants - directors | 49,500 | — | 49,500 | — | — |
| Matching award program | 17,950 | — | 14,950 | — | 3,000 |
| Bonus in stock - employees | 36,172 | — | 33,672 | — | 2,500 |
| Retainer in stock - directors | 13,634 | 27,944 | 10,814 | — | 30,764 |
| Total restricted stock plan | 264,756 | 100,943 | 256,436 | — | 109,263 |

| | | | | | |
|--|---------|----------|---------|---|---------|
| Weighted average grant date fair value | \$ 6.27 | \$ 10.18 | \$ 6.25 | — | \$ 9.93 |
|--|---------|----------|---------|---|---------|

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 January 31, 2016. During the year ending January 31, 2016 there have been forfeitures in the amount of 5,000 shares at a weighted-average exercise price of \$6.21 per share, options exercised in the amount of 7,000 shares at a weighted-average price of \$6.92 per share, and there were options outstanding to purchase an aggregate of 5,000 shares at a weighted-average exercise price of \$8.28 per share. All outstanding stock options have a weighted average remaining contractual term of 1.07 years.

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The Company currently utilizes a matching award program pursuant to which all employees are 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 are subject to a one year vesting period. The valuation is 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 bonus-in-stock program, all employees are eligible to elect to receive any cash bonus 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 employee is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the stock price at the date of grant.

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.

Equity Financing

On October 29, 2014, the Company completed a private placement, pursuant to a Securities Purchase Agreement dated as of October 24, 2014, for the issuance and sale of 1,110,000 shares of its common stock, at a purchase price of \$10.00 per share, to a number of institutional and other accredited investors, for gross proceeds of \$11,100,000. Proceeds from the private placement, following the payment of offering-related expenses, were used by the Company to fully repay its 12% subordinated term loan with the Junior Lender in the approximate amount of \$3.6 million.

In connection with the private placement, the Company entered into a Registration Rights Agreement with the investors on October 24, 2014, pursuant to which it is required to file a registration statement with the Securities and Exchange Commission to register the resale of the shares of common stock sold to the investors within 30 calendar days of the date of such agreement. Such registration statement was filed on November 21, 2014.

At the closing of the private placement, the Company paid Craig-Hallum Capital Partners LLC, the exclusive placement agent for the private placement, a cash fee of \$777,000 (equal to 7% of the gross proceeds of the offering), and issued a five-year warrant that is immediately exercisable to purchase up to 55,500 shares of the Company's common stock at an exercise price of \$11.00 per share. At the closing there was approximately \$132,000 in professional fees incurred. Based on the October 31, 2014 market value of \$14.10, the intrinsic value was \$3.10 per share.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. INCOME TAXES

The provision for income taxes is based on the following pretax income (loss):

| | | |
|---|-------------|-------------|
| Domestic and Foreign Pretax Income (Loss) | FY16 | FY15 |
| Domestic | \$6,139,543 | \$(472,667) |
| Foreign | (572,168) | 534,011 |
| Total | \$5,567,375 | \$61,344 |

| | | |
|--|-------------|----------------|
| Income Tax Expense (Benefit) | FY16 | FY15 |
| Current: | | |
| Federal | \$225,180 | \$(222,315) |
| State and other taxes | (40,555) | 129,895 |
| Foreign | 1,553,589 | 1,246,378 |
| Deferred: | | |
| Domestic | \$156,448 | \$(11,661,427) |
| Valuation allowance-deferred tax asset | (181,338) | 2,170,109 |
| Foreign | — | — |
| Total | \$1,713,324 | \$(8,337,360) |

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

| | | | | |
|--|-----------|---------------|--|--|
| | 2016 | 2015 | | |
| Statutory rate | 34.00 % | 34.00 % | | |
| State Income Taxes, Net of Federal Tax Benefit | 1.77 % | (592.85 %) | | |
| Adjustment to Deferred | 8.86 % | 84.97 % | | |
| Foreign Dividend and Subpart F Income | 10.93 % | 758.69 % | | |
| Brazil Worthless Stock Deduction | (14.21 %) | (19,135.81 %) | | |

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| | | | |
|--|----------|------------|----|
| Original Issue Discount | — | 1,077.32 | % |
| Argentina Flow Through Loss | (1.76 %) | (170.62 | %) |
| Permanent Differences | (8.78 %) | (38.02 | %) |
| Valuation Allowance-Deferred Tax Asset | (3.26 %) | 4,802.37 | % |
| Other | 3.22 % | (411.60 | %) |
| Effective Rate | 30.77 % | (13,591.55 | %) |

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016 and 2015

The tax effects of temporary differences which give rise to deferred tax assets at January 31, 2016 and 2015 are summarized as follows:

| | 2016 | 2015 |
|---|---------------|---------------|
| Deferred tax assets: | | |
| Inventories | \$ 1,266,718 | \$ 1,153,094 |
| US tax loss carryforwards, including work opportunity credit* | 9,335,575 | 11,155,620 |
| Accounts receivable and accrued rebates | 238,261 | 80,748 |
| Accrued compensation and other | 266,272 | 137,860 |
| India reserves - US deduction | 75,053 | 164,190 |
| Equity based compensation | 201,925 | 573,966 |
| Foreign tax credit carry-forward | 3,388,051 | 2,170,109 |
| State and local carry-forwards | 899,824 | 980,872 |
| Argentina timing difference | 116,194 | — |
| Depreciation and other | 103,372 | 146,857 |
| Amortization | (217,811) | (148,516) |
| Allowance for Note Receivable - Brazil | 834,510 | — |
| Deferred tax asset | 16,507,944 | 16,410,800 |
| Less valuation allowance | 2,170,309 | 2,170,309 |
| Net deferred tax asset - USA | \$ 14,337,635 | \$ 14,244,491 |
| Shown on the accompanying balance sheet as follows: | | |
| Current | \$ 1,554,407 | \$ 1,143,893 |
| Non-current | \$ 12,783,228 | \$ 13,100,598 |

*The federal net operating loss ("NOL") that is left after FY16 will expire after 1/31/2034 (20 years from the generated date of 1/31/2014). The credits will begin to expire after 1/31/2020 (10 years from the 1st carryover year generated date of 1/31/2010) and will fully expire after 1/31/2025.

The state NOLs will begin to expire after 1/31/2025 and will continue to expire at various periods up until 1/31/2035 when they will be fully expired. The states have a larger spread because some only carryforward for 15 years and some allow 20 years.

Valuation Allowance

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we considered all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In the event we were to determine that the Company would not be able to realize deferred income tax assets in the future in excess of net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. The valuation allowance was \$2.2 million at January 31, 2015 (\$0 at January 31, 2014 and corrected as below). As discussed below, the Company has taken a worthless stock deduction related to its Brazilian operations in 2015. Since the future use of the foreign tax credits both current and carryovers from prior years are dependent on generating sufficient future foreign source income, the future use of foreign tax credits is uncertain. As such, the Company has established a valuation allowance of \$2.2 million to reflect this uncertainty.

Offsetting corrections to the FY 15 Deferred Tax Account

Prior year balances in the Deferred Tax Asset account reflect offsetting corrections to the US tax loss carryforwards and the Valuation Allowance.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016 and 2015

Worthless stock deduction in USA for Brazil operations

For US tax purposes, the Company claimed a worthless stock deduction in FY15 for its Brazilian operations which yielded a tax benefit of \$9.5 million. This will generate an operating loss carryforward available to offset future USA taxable income.

Tax Audit

Income Tax Audit/Change in Accounting Estimate

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. The Company has received a final “No Change Letter” from the IRS for FY07 dated August 20, 2009. The Company has not had any recent US corporate income tax returns examined by the Internal Revenue Service. Returns for the year since 2011 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, 2009, 2010, 2011, 2012, 2013, 2014, and 2015 with no significant issues noted. We believe our tax positions are reasonably stated as of January 31, 2016. In October 2015, Weifang Meiyang Protective Products Co., Ltd., one of our Chinese operations (Meiyang), was reviewed by the tax authority concerning all accounting documents from 2012 to 2014. For the convenience of supervision, the tax authority asked Meiyang to transfer to a pure trade company from a manufacturing company. As a result, in October 2015, Meiyang became a trade company. The audit of Meiyang is now complete.

Our operations in the UK are profitable and continue to be subject to UK taxation. Management is not aware of any exposure in the UK.

Lakeland Protective Wear, Inc., our Canadian subsidiary, follows Canada tax regulatory framework recording its tax expense and tax deferred assets or liabilities. As of this statement filing date, we believe the Lakeland Protective Wear, Inc.’s tax situation is reasonably stated in accordance with accounting principles generally accepted in the

United States of America, and we do not anticipate future tax audit liability.

In connection with the exit from Brazil as described in Note 15, we have claimed a worthless stock deduction in the FY 15 tax return which the Company estimates has generated a tax benefit of approximately US \$9.5 million. 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, it is our practice and intention to reinvest the earnings of our non-US subsidiaries in their operations and therefore FIN 48 reserve has not been recorded. As of January 31, 2016, the Company had not made a provision for US or additional foreign withholding taxes on approximately \$22.3 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 (\$21.6 million at January 31, 2015). 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 \$3.1 million and \$3.2 million at January 31, 2016 and 2015, respectively.

In China, a dividend of \$3.2 million was declared and paid to the Company in May 2015 from the Company's China subsidiary, Weifang Lakeland Safety Products Co., Ltd. ("Weifang"). The Company's Board of Directors has instituted a tentative plan to pay annual dividends of \$1.0 million to the Company from Weifang's future profits and 33% of Meiyang's future profits beginning in FY16. All other retained earnings are expected to be reinvested indefinitely.

Lakeland Industries, Inc. and Subsidiaries

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8. BENEFIT PLANS

Defined Contribution Plan

Pursuant to the terms of the Company's 401(k) plan, substantially all US employees over 21 years of age with a minimum period of service are eligible to participate. The 401(k) plan is administered by the Company and provides for voluntary employee contributions ranging from 1% to 15% of the employee's compensation. Beginning in January 2016 the Company changed to a Safe Harbor tiered matching plan equal to 100% of the first 1% of eligible participant's compensation contributed to the Plan and 50% of the next 5% of eligible participant's compensation contributed to the Plan (maximum Company match 3.5% of salary) and totaled approximately \$120,000. There was no Company match in FY15.

9. VAT TAX ISSUE IN BRAZIL

Asserted Claims

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

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

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

An audit for the 2007-2009 period has been completed by the State of Bahia. In October 2010, the Company received five claims for 2007-2009 from the State of Bahia, the largest of which was for taxes of R\$6.2 (US\$2.3) million and fines and interest currently at R\$8.3 million (US\$3.1 million), for a total of R\$14.6 (US\$5.5) million. The Company had intended to defend itself through a regulatory process and wait for the next amnesty period. Of other claims, our attorney informed us that three claims totaling R\$1.3 (US\$0.5) million in respect of fines and penalties were likely be successfully defended based on state auditor misunderstanding.

As more fully described in Note 15, Lakeland and Lakeland Brazil entered into a Shares Transfer Agreement pursuant to which, effective July 31, 2015, Zap Comércio de Brindes Corporativos Ltda (“Transferee”), a company owned by an existing Lakeland Brazil manager, acquired all of the shares of Lakeland Brazil and assumed liabilities of Lakeland Brazil, including VAT tax liabilities.

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VAT Tax Amnesty and Loan Agreement with Transferee of Brazil Operations

The Bahia State Tax Department has commenced an audit of VAT taxes for the period from 2011-2014 in October 2015. The State of Bahia declared an amnesty beginning November 1, 2015 and expiring December 18, 2015. 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 the two largest outstanding VAT claims with the State of Bahia. As described under "Shares Transfer Agreement" in Note 15, the Company may be exposed to certain liabilities arising in connection with the prior operations of Qalytextil, including, without limitation, from lawsuits pending in the labor courts in Brazil and VAT taxes. Settlement of the VAT claims under amnesty would benefit the Company in that it eliminates these large VAT claims, which the Company believes will render the continued viability of Qalytextil immaterial to the Company. It should also eliminate the possibility of the sale of Qalytextil being found fraudulent on the basis of evading VAT claims and would subsequently eliminate the possibility of future encumbrance of the real estate by the state of Bahia subsequent to VAT claims. Qalytextil completed the amnesty agreement with the State of Bahia on December 18, 2015. USD \$250,000 in continuing business incentives provided by Lakeland to Qalytextil in the Shares Transfer Agreement will be waived by Qalytextil as partial payment of the debt.

Repayment of the loan by Qalytextil to the Company will include the following elements

R\$ 3,395,947 (approximately USD \$900,000) in VAT credits will become available to Qalytextil from the State of Bahia to be used against future VAT payments. Qalytextil has agreed to pay amounts equal to this credit to the Company in accordance with monthly sales volume. Qalytextil will transfer the rights to a judicial deposit on a tax claim to the Company. There is a judicial deposit of R\$ 3,012,326 (approximately USD \$800,000), however, Qalytextil will continue to make monthly deposits to the judicial account until the case is ruled upon by the Supreme Court of Brazil or the deposit is fully funded. Attorney's success fee will be deducted before any disbursements to the Company or Qalytextil. However, while the lawyer handling this case tells us it is probable Qalytextil will win this case, it may take years to resolve. Credits of R\$ 1,025,739 (Approximately USD \$275,000) relating to the above case may be generated if and when the case is resolved. Qalytextil has agreed to pay amounts equal to this credit to the Company in accordance with monthly sales volume. A minimum quarterly payment of R\$ 300,000 (approximately USD \$80,000) will be required commencing October 2016. 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.

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A table summarizing all four different VAT claims remaining open and their status is listed below:

| | Principal (tax only) | Total fines and fees | Total of the Debt | Negotiated fines and fees | Not included in amnesty settlement | Amnesty settlement | Status of unsettled items |
|------------------|-------------------------|-------------------------|----------------------|---------------------------------|---|-----------------------|--|
| R\$ | 305,897 | 572,264 | 878,161 | 92,853 | | 398,750 | |
| USD ₁ | \$80,499 | \$150,596 | \$231,095 | \$24,435 | | \$104,934 | |
| R\$ | 573,457 | 1,416,106 | 1,989,563 | 236,290 | 809,747 | | The new owner will continue litigation as it is expected to be decided in management favor |
| USD ₁ | \$150,910 | \$372,660 | \$523,569 | \$62,182 | \$213,091 | | |
| R\$ | 6,081,597 | 10,638,172 | 16,719,769 | 1,903,665 | | 7,985,262 | |
| USD ₁ | \$1,600,420 | \$2,799,519 | \$4,399,939 | \$500,964 | | \$2,101,385 | |
| R\$ | 402,071 | 876,589 | 1,278,660 | 139,858 | 541,929 | | The new owner will continue litigation as it is expected to be decided in management favor |
| USD ₁ | \$105,808 | \$230,681 | \$336,489 | \$36,805 | \$142,613 | | |
| Total R\$ | 7,363,022 | 13,503,131 | 20,866,154 | 2,372,666 | 1,351,676 | 8,384,012 | |
| Total USD | \$1,937,637 | \$3,553,456 | \$5,491,093 | \$624,386 | \$355,704 | \$2,206,319 | |
| Legal Fees | | | | | | \$50,000 | |
| Total Loan | | | | | | \$2,256,319 | |

¹ USD amounts based on exchange rate of as of settlement on December 18, 2015 at 3.80. Values updated as of December 1, 2015, according to the Brazil internal finance department. Numbers may not add due to rounding.

Balance Sheet Treatment

The Company has reflected the above items on its January 31, 2015, balance sheet as follows:

| | R\$ millions | US\$ millions |
|--|--------------|---------------|
| Liabilities of discontinued operations | 6.2 | 2.3 |
| Taxes payable | | |

10. MAJOR SUPPLIER

Our largest supplier was Precision Fabrics Group from whom we purchased 9.5% and 7.8% of total purchases in FY16 and FY15. There were no vendors over 10% for either FY16 or FY15.

11. RELATED PARTIES AND TRANSACTIONS

The Company paid approximately \$236,000 and \$520,000 in FY16 and FY15, respectively, to a printing company owned in part by managers of the Company, which management believes these purchases were at fair value. On October 28, 2015 the relative managers of the Company resigned from the board of directors of the printing company, so that those are now independent.

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January 31, 2016 and 2015

12. COMMITMENTS AND CONTINGENCIES

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

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

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

We comply with American laws such as the Foreign Corrupt Practices Act (FCPA) and Sarbanes-Oxley, and also with anti-corruption legislation in the UK.

Employment Contracts

The Company has employment contracts expiring through fiscal year ending January 31, 2019, with four principal officers. Pursuant to such contracts, the Company is committed to aggregate annual base remuneration of \$1,077,500, \$878,333, \$513,333 and \$268,750 for FY16, FY17, FY18 and FY19, respectively.

Leases

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

| | Gross rental | Rentals paid to related parties |
|------------------------|--------------|---------------------------------|
| Year ended January 31, | | |
| 2016 | \$ 470,189 | \$ 0 |
| 2015 | \$ 420,000 | \$ 0 |

Minimum annual rental commitments for the remaining term of the Company's noncancelable operating leases relating to manufacturing facilities, office space and equipment rentals at January 31, 2016, including lease renewals subsequent to year end, are summarized as follows:

| Year ending January 31, | |
|-------------------------|-----------|
| 2017 | \$417,449 |
| 2018 | 231,848 |
| 2019 | 163,876 |
| 2020 | 71,686 |
| 2021 | 71,686 |
| and thereafter | 165,178 |

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Litigation

The Company is involved in various litigation proceedings arising during the normal course of business which, though in the opinion of the management of the Company, will not have a material effect on the Company's financial position and results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these matters.

Labor contingencies in Brazil

Lakeland Brazil, the Company's former subsidiary, is currently named in numerous labor proceedings in Brazilian courts in which plaintiffs were seeking a total of nearly US \$8,000,000 in damages from Lakeland Brazil. The Company believed many of these claims are without merit and the amount of damages being sought is significantly higher than any damages which may have been incurred. We estimate these claims can ultimately be resolved for less than US \$278,000, but it is reasonably possible that the amount may be as high as US \$500,000. Subsequent to year end cases claiming nearly US \$3,000,000 have been resolved with little or no payments required. Management believes the risk has been substantially reduced, but not yet eliminated.

The Company has accordingly recorded a liability of US \$238,000 at January 31, 2016 as described in Note 15, the Transferee assumed these liabilities, as well as Lakeland Brazil's VAT tax liabilities. See Note 15 for further description of this transaction.

13. 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 both current period earnings and other comprehensive income as a result of recording recognized and unrecognized gains and losses from changes in the fair value of derivative instruments.

We 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 January 31, 2016 or 2015.

We enter cash flow hedge contracts with financial institutions to manage our currency exposure on future cash payments denominated in foreign currencies. The effective portion of gain or loss on cash flow hedge is reported as a component of accumulated other comprehensive income. The notional amount of these contracts was and \$949,770 and \$3,975,000 at January 31, 2016 and 2015, respectively. The corresponding income or loss is recorded in the consolidated statements of other comprehensive income (loss). The corresponding (liability) asset amounted to \$(26,252) and \$131,483 at January 31, 2016 and 2015, respectively.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016 and 2015

14. MANUFACTURING SEGMENT DATA

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

| | Fiscal Years Ended January 31, (\$ millions) | | | | | |
|---------------|--|--------|---|----------|--------|---|
| | 2016 | | | 2015 | | |
| Domestic | \$ 56.54 | 56.74 | % | \$ 50.08 | 53.60 | % |
| International | \$ 43.11 | 43.26 | % | 43.34 | 46.40 | % |
| Total | \$ 99.65 | 100.00 | % | \$ 93.42 | 100.00 | % |

We manage our operations by evaluating each of our geographic locations. Our US operations include our facilities in Alabama (primarily the distribution to customers of the bulk of our products and the light manufacturing of our chemical, reflective, and fire products). We also maintain three manufacturing companies in China (primarily disposable and chemical suit production) and a manufacturing facility in Mexico (primarily disposable, glove, woven and chemical suit production). Our China facilities produce the majority of the Company's products and China generates a significant portion of the Company's revenues. The Company owned a wovens manufacturing facility in Brazil which was discontinued in Q1FY16 and on July 31, 2015, the Company completed a closing of the transfer of stock of its wholly-owned subsidiary Lakeland Brazil, to the Transferee, a company owned by an existing Lakeland Brazil manager. The closing of this agreement was subject to Brazilian government approval of the share transfer, which was received in October 2015. The accounting policies of these operating entities are the same as those described in Note 1. We evaluate the performance of these entities based on operating profit, which is defined as income before income taxes, interest expense and other income and expenses. We have sales forces in Canada, Europe, 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 manufacturing segments for the years noted therein:

| | Year Ended January 31 | |
|---------------------------------------|-----------------------|----------------------|
| | 2016 | 2015 |
| | <u>(in</u> | <u>(in millions)</u> |
| | <u>millions)</u> | |
| Net Sales from continuing operations: | | |
| USA | \$ 60.33 | \$ 54.54 |

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| | | |
|--|----------|----------|
| Other foreign | 13.32 | 14.59 |
| Europe (UK) | 14.53 | 14.41 |
| Mexico | 3.65 | 3.66 |
| China | 50.32 | 46.76 |
| Corporate | 1.71 | 2.34 |
| Less intersegment sales | (44.21) | (42.88) |
| Consolidated sales | \$ 99.65 | \$ 93.42 |
| External Sales from continuing operations: | | |
| USA | \$ 56.54 | \$ 50.08 |
| Other foreign | 12.85 | 13.12 |
| Europe (UK) | 14.52 | 14.40 |
| Mexico | 1.61 | 1.61 |
| China | 14.13 | 14.21 |
| Consolidated external sales | \$ 99.65 | \$ 93.42 |
| Intersegment Sales from continuing operations: | | |
| USA | \$ 3.79 | \$ 4.46 |
| Other foreign | 0.47 | 1.47 |
| Europe (UK) | 0.01 | 0.01 |
| Mexico | 2.04 | 2.05 |
| China | 36.19 | 32.55 |
| Corporate | 1.71 | 2.34 |
| Consolidated intersegment sales | \$ 44.21 | \$ 42.88 |

**Negative assets reflect intersegment accounts eliminated in consolidation*

Lakeland Industries, Inc. and Subsidiaries

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January 31, 2016 and 2015

| | Year Ended January 31 | |
|--|-----------------------|---------------|
| | 2016 | 2015 |
| | (in | (in millions) |
| | millions) | |
| Operating Profit (Loss) from continuing operations: | | |
| USA | \$ 11.38 | \$ 7.27 |
| Other foreign | (0.12) | 0.33 |
| Europe (UK) | 2.65 | 2.17 |
| Mexico | 0.04 | (0.28) |
| China | 4.69 | 4.12 |
| Corporate | (6.65) | (6.71) |
| Less intersegment profit | (0.18) | 0.06 |
| Consolidated operating profit (loss) | \$ 11.81 | \$ 6.96 |
| Interest Expense from continuing operations: | | |
| Other foreign | \$ 0.13 | \$ 0.07 |
| Europe (UK) | 0.02 | 0.04 |
| China | 0.14 | 0.06 |
| Corporate | 0.50 | 1.52 |
| Consolidated interest expense | \$ 0.79 | \$ 1.69 |
| Income Tax Expense (Benefit) from continuing operations: | | |
| Other foreign | \$ 0.21 | \$ 0.09 |
| Europe (UK) | 0.49 | 0.46 |
| Mexico | (0.21) | (0.08) |
| China | 1.11 | 0.97 |
| Corporate | 1.56 | (9.58) |
| Less intersegment | (0.04) | (0.05) |
| Consolidated income tax expense (benefit) from continuing operations | \$ 3.12 | \$ (8.19) |
| Depreciation and Amortization Expense from continuing operations: | | |
| USA | \$ 0.15 | \$ 0.19 |
| Other foreign | 0.06 | 0.10 |
| Europe (UK) | 0.02 | 0.02 |
| Mexico | 0.12 | 0.06 |
| China | 0.38 | 0.23 |
| Corporate | 0.43 | 0.54 |
| Less intersegment | (0.17) | (0.03) |
| Consolidated depreciation and amortization expense | \$ 0.99 | \$ 1.11 |
| Total Assets: * | | |
| USA | \$ 48.18 | \$ 36.35 |
| Other foreign | 17.55 | 18.00 |

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| | | |
|----------------------------------|----------|----------|
| Europe (UK) | 5.05 | 6.75 |
| Mexico | 4.25 | 4.20 |
| China | 29.92 | 33.04 |
| India | (1.35) | (1.31) |
| Brazil (discontinued operations) | — | 6.34 |
| Corporate | 37.18 | 70.33 |
| Less intersegment | (52.52) | (80.49) |
| Consolidated assets | \$ 88.26 | \$ 93.21 |

* Negative assets reflect intersegment accounts eliminated in consolidation

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016 and 2015

| | Year Ended January 31 | |
|---|-----------------------|---------------|
| | 2016 | 2015 |
| | (in millions) | (in millions) |
| USA | \$ 33.63 | \$ 30.14 |
| Other foreign | 9.91 | 10.32 |
| Europe (UK) | 5.03 | 6.75 |
| Mexico | 4.23 | 4.13 |
| China | 17.63 | 17.03 |
| India | 0.44 | 0.44 |
| Brazil (discontinued operations) | — | 6.33 |
| Corporate | 17.39 | 18.07 |
| Consolidated assets | \$ 88.26 | \$ 93.21 |
| Property and Equipment (excluding assets held for sale at \$1.1 million): | | |
| USA | \$ 2.20 | \$ 2.30 |
| Other foreign | 1.57 | 1.77 |
| Europe (UK) | 0.06 | 0.07 |
| Mexico | 2.11 | 2.17 |
| China | 2.37 | 2.70 |
| India | 0.03 | 0.05 |
| Corporate | 1.00 | 1.20 |
| Less intersegment | (0.07) | (0.12) |
| Consolidated long-lived assets | \$ 9.27 | \$ 10.14 |
| Capital Expenditures: | | |
| USA | \$ 0.06 | \$ 0.05 |
| Other foreign | 0.08 | 0.05 |
| Europe (UK) | — | 0.03 |
| Mexico | 0.04 | 0.03 |
| China | 0.16 | 0.31 |
| India | — | 0.02 |
| Corporate | 0.50 | 0.44 |
| Consolidated capital expenditure | \$ 0.84 | \$ 0.93 |
| Goodwill: | | |
| USA | \$ 0.87 | \$ 0.87 |
| Consolidated goodwill | \$ 0.87 | \$ 0.87 |

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2016 and 2015

15. Brazil Transactions

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 the Brazil Co arising from an arbitration proceeding in Brazil involving Brazil Co and the former officers of Brazil Co for an aggregate amount of approximately US \$8.5 million payable by Brazil Co to the former officers over a period of six (6) years. As of the June 18, 2015 settlement date, there was a balance of US \$3.750 million (the “Outstanding Amount”) owed under the Settlement Agreement, which Outstanding Amount was to be paid by the Company in quarterly installments of US \$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 US \$3.413 million, resulting in a gain of US \$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, Alostara 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, including, without limitation (i) liabilities, such as severance obligations, in respect of the current and former employees of Lakeland Brazil, (ii) liabilities arising from any labor claims already existing or which may thereafter be filed against Lakeland Brazil and its current or former affiliates, officers and shareholders, (iii) liabilities with respect to taxes imposed on the Brazilian business, including Value Added Tax (“VAT”) tax liabilities, (iv) liabilities arising under leases, contracts, licenses or governmental permits pursuant to which Lakeland Brazil is a party or otherwise bound, (v) product warranty liabilities, product return obligations pursuant to any stock balancing program and rebates pursuant to any marketing program, to the extent such liabilities arose from sales of products made in the course of the Brazilian business, (vi) accounts payable of Lakeland Brazil, whether or not invoiced, and (vii) all other obligations and liabilities with respect to the Brazilian business of Lakeland Brazil (collectively, the “Brazilian Liabilities”). 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 US \$1,130,000, in cash, in the form of a capital raise, and has agreed to provide an additional R\$320,000 (approximately US \$95,000) (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 US \$320,000) of the Additional Amount, in cash, on July 1, 2015 and issued a non-interest bearing promissory note for the balance (R\$582,000) (approximately US \$188,000) on the Closing Date which was paid to Lakeland Brazil in two (2) installments of (i) R\$288,300 (approximately US \$82,000) which was paid on August 1, 2015, and (ii) R\$294,500 (approximately US \$84,000) on September 1, 2015.

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 US \$717,000, in cash, in the form of a capital raise, and agreed to provide an additional R\$1,574,000 (approximately US \$508,000) (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 US \$320,000) of the Additional Amount, in cash, on July 1, 2015 and issued a non-interest bearing promissory note for the balance (R\$582,000) (approximately US \$188,000) on the Closing Date which was paid to Lakeland Brazil in two (2) installments of (i) R\$288,300 (approximately US \$93,000) which was paid on August 1, 2015, and (ii) R\$294,500 (approximately US \$95,000) on September 1, 2015. Such amounts were based on the currency rates on the date the Shares Transfer Agreement was signed, June 25, 2015; any differences to the actual amounts are insignificant. The Shares Transfer Agreement also provides that the Company shall fully fund any amounts owed by Lakeland Brazil in connection with certain existing labor claims by Lana dos Santos, as previously disclosed, and, in addition, all amounts potentially owed for future labor claims up to an aggregate amount of \$375,000 (the “Cap”) and 60% of such amounts in excess of the Cap until the earlier of (i) the date all labor claims against Lakeland Brazil deriving from events which occurred prior to the Closing Date are settled, (ii) by mutual agreement of the Company and Lakeland Brazil or (iii) on the two (2) year anniversary of the Closing Date. As of January 31, 2016, \$351,000 of this has been paid including the Lana Dos Santos case, all approximating the reserves set aside by the Company. With respect to continuing claims, \$278,000 is being sought, of which management estimates the aggregate liability will be less than that amount.

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The Company believes that these amounts contributed to its now former subsidiary Lakeland Brazil will be more than offset by a benefit for USA taxes of approximately US \$9.5 million generated by a worthless stock deduction for Brazil that the Company claimed on its corporate tax returns. Although the Company's tax advisors believe that the worthless stock deduction is valid, there can be no assurance that the IRS will not challenge it and, if challenged, that the Company will prevail.

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, Parent 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 9. 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 9, significantly reduced such potential liability. 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.

The Company estimated that the transactions involved with the completion of its exit from Brazil result in a loss of approximately \$1.2 million (net of tax benefit of \$0.7) reflected on its statement of operations and a decrease of approximately \$0.5 million to stockholders equity as a result of recording the exit transactions. This included a reclassification of approximately \$1.3 million from Accumulated Other Comprehensive Loss to the Statement of Operations and Retained Earnings 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 elsewhere in Note 9. Since this is a resolution of contingencies that arise 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.

Lakeland Industries, Inc. and Subsidiaries

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The following tables summarize the results of the Brazil business included in the statements of operations for the years ended January 31, 2016 and 2015, and balance sheets as of January 31, 2016 and January 31, 2015 as discontinued operations.

| | Balance Sheet (000's)(000's) January 31, 2016 January 31, 2015 | |
|--|--|------------------------------------|
| Assets of discontinued operations: | | |
| Cash | \$ — | \$ 53 |
| Accounts receivable | — | 888 |
| Inventory | — | 3,216 |
| Other assets | — | 634 |
| Property/Equipment held for sale | — | 1,544 |
| Total assets of discontinued operations | \$ — | \$ 6,335 |
| Liabilities of discontinued operations: | | |
| Accounts payable | \$ — | \$ 651 |
| Accrued compensation and benefits | — | 1,739 |
| Other accrued expenses | — | 1,163 |
| Short term borrowings | — | 688 |
| Other liabilities | — | 2,333 |
| Total liabilities of discontinued operations | \$ — | \$ 6,574 |
| | | Statement of Operations (000's) |
| | | Years Ended January 31, |
| | | 2016 2015* |
| Net sales from discontinuing operations | \$ 869 | \$ 6,315 |
| Gross profit from discontinuing operations | 164 | 2,014 |
| Operating expenses from discontinuing operations | 763 | 4,016 |
| Operating loss from discontinuing operations | (599) | (2,002) |
| Interest expense from discontinuing operations | 256 | 665 |
| Other (income) expense from discontinuing operations | 2,683 | 169 |
| Loss from operation of discontinuing operations (includes a \$0.1 million tax benefit from Q1) | (3,538) | (2,836) |

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| | | |
|--|-------------|-------------|
| 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 | (5,339) | (2,836) |
| Income tax benefit from discontinued operations | (1,403) | (149) |
| Net loss from discontinued operations | \$ (3,936) | \$ (2,687) |

*Restated for discontinued operations

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January 31, 2016 and 2015

16. UNAUDITED QUARTERLY RESULTS OF OPERATIONS (In thousands, except for per share amounts):

| | 1/31/2016 | 10/31/2015 | 7/31/2015 | 4/30/2015 |
|---|-----------|------------|-----------|-----------|
| Net sales from continuing operations | \$ 20,473 | \$ 24,888 | \$ 29,465 | \$ 24,819 |
| Gross profit from continuing operations | 6,010 | 9,248 | 11,795 | 9,279 |
| Earnings (loss) from continuing operations | (300) | 3,192 | 5,700 | 3,220 |
| Net income (loss) from continuing operations | (78) | 2,120 | 3,588 | 2,160 |
| Basic net earnings (loss) per share – continuing operations | (0.01) | 0.29 | 0.50 | 0.31 |
| Diluted net earnings (loss) per share – continuing operations | (0.01) | 0.29 | 0.50 | 0.30 |

| | 1/31/2015 | 10/31/2014 | 7/31/2014 | 4/30/2014 |
|---|-----------|------------|-----------|-----------|
| Net sales from continuing operations | \$ 25,306 | \$ 23,543 | \$ 22,812 | \$ 21,758 |
| Gross profit from continuing operations | 9,533 | 8,223 | 7,437 | 6,505 |
| Earnings from continuing operations | 3,022 | 1,283 | 1,798 | 858 |
| Net income (loss) from continuing operations | 11,925 | (1,755) | 562 | 354 |
| Basic net earnings (loss) per share – continuing operations | 1.69 | (0.29) | 0.09 | 0.06 |
| Diluted net earnings (loss) per share – continuing operations | 1.65 | (0.29) | 0.09 | 0.06 |

PART IV

ITEM 15. EXHIBITS

b. Exhibits

| <u>Exhibit No.</u> | <u>Description</u> |
|---------------------------|--|
| 23.1* | Consent of Mazars USA LLP (formerly WeiserMazars LLP), Independent Registered Public Accounting Firm |
| 23.2* | Consent of Mazars Auditores Independentes, Independent Registered Public Accounting Firm |
| 23.3* | Consent of Shanghai Mazars Certified Public Accountants, Independent Registered Public Accounting Firm |
| 23.4* | Consent of Shanghai Mazars Certified Public Accountants, Independent Registered Public Accounting Firm |
| 31.1* | Certification of Christopher J. Ryan, Chief Executive Officer, President and Secretary, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Teri W. Hunt, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1* | Certification of Christopher J. Ryan, Chief Executive Officer, President and Secretary, pursuant to Section 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of Teri W. Hunt, Chief Financial Officer, pursuant to Section 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Filed herewith.

SIGNATURES

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

Dated: March 10, 2017

LAKELAND INDUSTRIES, INC.

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