LAKELAND INDUSTRIES INC
Form 10-K/A
August 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 2)

(Mark one)

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **January 31, 2014**

OR

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

Commission File Number: 0-15535

LAKELAND INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

Common Stock $0.01 Par Value

(Title of Class)

Name of Exchange on which 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.

Yeso No x

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

Yes o No x

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

Indicate by check mark 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 x No o

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

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

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

Yeso No x

As of July 31, 2013, the aggregate market value of the registrant's common stock held by nonaffiliates of the registrant was $21,189,363 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 25, 2014
Common Stock, $0.01 par value per share	5,357,390 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

We are filing this Amendment No. 2 (this "Amendment No. 2") to our Annual Report on Form 10-K for the year ended January 31, 2014 filed with the Securities and Exchange Commission on April 28, 2014 (the "Original Form 10-K") and amended by Amendment No. 1 on April 29, 2014, to refile "Item 8. Financial Statements and Supplementary Data" in its entirety for the purpose of furnishing the separate reports of the other independent registered public accounting firms relied upon by our principal independent registered public accounting firm for the audit of our consolidated financial statements for the years ended January 31, 2014 and 2013. We are also filing this Amendment No. 2 to amend Part IV, Item 15b to include the related consents of each such other independent registered public accounting firm as exhibits to the Original Form 10-K and correctly disclose the restatement and the restatement date of our Bylaws and correct the date of the filing of our Restated Certificate of Incorporation. The dates of these two exhibits were inadvertently crossed from the electronic version on the Original Form 10-K. The report of ACAL CONSULTORIA E AUDITORIA S/S on the 2014 and 2013 financial statements of Lakeland Brazil, S.A. contained a departure from accounting principles generally accepted in the United States of America as Lakeland Brazil, S.A. had not recorded a liability pertaining to the VAT Tax Issue in Brazil discussed in Note 10 to Lakeland Industries, Inc. and Subsidiaries (the "Company") consolidated financial statements. The related liability was, however, recorded as a corporate entry and thus included in the liabilities of the Company in the consolidated financial statements. Warren Averett LLC's opinion is not modified with respect to that matter.

No other modifications or changes have been made to the Original Form 10-K or the Company's financial statements included therein. This Amendment No. 2 does not reflect the effect of any events subsequent to the filing of the Original Form 10-K for the year ended January 31, 2014 and does not modify or update in any way any other disclosures made in the Original Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Consolidated Financial Statements:

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 WARREN AVERETT, LLC, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Lakeland Industries, Inc. and Subsidiaries

Ronkonkoma, New York

We have audited the accompanying consolidated balance sheets of Lakeland Industries, Inc. and Subsidiaries (the Company) as of January 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the two-year period ended January 31, 2014. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits. For the year ended January 31, 2014, we did not audit the financial statements of Lakeland Brazil, S.A. and Weifang Lakeland Safety Products Co., Ltd., wholly-owned subsidiaries, which statements reflect total assets and revenues constituting 22% and 14%, respectively, of the related consolidated totals in 2014. 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., and Weifang Lakeland Safety Products Co., Ltd., China, is based solely on the report of other auditors. For the year ended January 31, 2013, we did not audit the financial statements of Lakeland Brazil, S.A., a wholly-owned subsidiary, which statements reflect total assets and revenues constituting 19% and 18%, respectively, of the related consolidated totals in 2013. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in Lakeland Brazil, S.A., is based solely on the report of other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 31, 2014 and 2013, and the consolidated results of their operations and their cash flow for each of the years in the two-year period ended January 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

The other auditor's report on the 2014 and 2013 financial statements of Lakeland Brazil, S.A. referred to the VAT Tax Issue in Brazil as discussed in Note 10 to the consolidated financial statements. Our opinion is not modified with respect to that matter.

/s/ Warren Averett, LLC
Birmingham, Alabama
April 28, 2014

4

REPORT OF ACAL CONSULTORIA E AUDITORIA S/S, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Lakeland Brasil S.A.

We have audited the accompanying balance sheets of Lakeland Brasil S.A. as of January 31, 2014 and 2013, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended 2014 and 2013. Lakeland Brasil S.A.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audits 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 Brasil S.A as of 2014 and 2013, and the results of its operations and its cash flows for each of the years in the two-year period ended 2014 and 2013 in conformity with accounting principles generally accepted in the United States of America.

As described on note No. 12, the State Tax Authority of Bahia State issued several claims against the Company regarding tax payment insufficiency from 2004 to 2013 totaling approximately USD 7,745,000. Considering that the above amounts are under discussions on an administrative phase, remaining other administrative and even judicial instances, the Company decided not to account for a provision for contingencies.

/s/ ACAL CONSULTORIA E AUDITORIA S/S
Rio de Janeiro, RJ

April 22, 2014

5

REPORT OF RSM CHINA (Shanghai), INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

RSM China SH 2014 – U001

To the Board of Directors and Stockholders of

Weifang Lakeland Safety Products Co., Ltd., China,

We have audited the accompanying balance sheet of Weifang Lakeland Safety Products Co., Ltd. as of January 31, 2014, and the related statement of operations, stockholder'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. The financial statements of Weifang Lakeland Safety Products Co., Ltd. as of January 31, 2013 and for the year then ended were audited by other auditors whose report dated March 8th, 2013.

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, 2014, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ RSM CHINA
(Shanghai)

March 31, 2014

6

Lakeland Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended January 31, 2014 and 2013

	Years Ended January 31, 2014	2013
Net sales from continuing operations	$91,384,695	$95,117,539
Cost of goods sold from continuing operations	66,551,354	67,790,106
Gross profit from continuing operations	24,833,341	27,327,433
Operating expenses from continuing operations		
Selling and shipping	11,797,803	13,148,365
General and administrative	13,394,547	15,209,236
Total operating expense from continuing operations	25,192,350	28,357,601
Operating loss from continuing operations	(359,009)	(1,030,168)
Foreign exchange loss in Brazil	(475,865)	(741,052)
Arbitration judgment in Brazil	—	(7,873,847)
Goodwill and other intangibles impairment in Brazil	—	(9,953,725)
Other income (loss)	50,432	(81,791)
Additional VAT tax charge in Brazil	—	(137,169)
Interest expense	(2,186,450)	(913,446)
Loss from continuing operations before income taxes	(2,970,892)	(20,731,198)
Provision (benefit) for income taxes on continuing operations	(2,851,391)	5,035,764
Loss from continuing operations	(119,501)	(25,766,962)
Discontinued operations:		
Loss from operations of discontinued India glove manufacturing facility (including loss on disposal of $800,000 in assets in 2013)	—	(800,000)
Benefit from income taxes	—	(278,293)
Loss on discontinued operations	—	(521,707)
Net loss	$(119,501)	$(26,288,669)
Basic loss per share:		
Loss from continuing operations	$(0.02)	$(4.87)
Discontinued operations	—	(0.10)
Basic loss per share	$(0.02)	$(4.97)
Diluted loss per share:		
Loss from continuing operations	$(0.02)	$(4.87)
Discontinued operations	—	(0.10)
Diluted loss per share	$(0.02)	$(4.97)
Weighted average common shares outstanding:		
Basic	5,689,230	5,290,332
Diluted	5,689,230	5,290,332

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

Lakeland Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the Years Ended January 31, 2014 and 2013

	Years Ended January 31 2014	2013
Net loss	$(119,501)	$(26,288,669)
Other comprehensive loss:		
Cash flow hedge in China	(19,664)	(84,800)
Foreign currency translation adjustments:		
Lakeland Brazil, S.A.	(1,094,776)	(2,921,629)
Canada	(91,461)	224
United Kingdom	21,732	(7,726)
China	25,958	33,445
Russia/Kazakhstan	(100,096)	(20,561)
Brazil goodwill and other intangibles write-off reclassification	—	1,812,421
Other comprehensive loss	(1,258,307)	(1,188,626)
Comprehensive loss	$(1,377,808)	$(27,477,295)

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, 2014 and 2013

	January 31, 2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$4,555,097	$6,736,962
Accounts receivable, net of allowance for doubtful accounts of $588,800 and $342,000 at January 31, 2014 and 2013, respectively	13,795,301	13,782,908
Inventories	39,844,309	39,270,675
Deferred income taxes	4,707,278	—
Assets of discontinued operations in India	—	813,182
Prepaid income tax	470,843	1,564,834
Other current assets	2,108,177	1,703,322
Total current assets	65,481,005	63,871,883
Property and equipment, net	12,069,107	14,089,987
Prepaid VAT and other taxes, noncurrent	2,379,395	2,461,386
Security deposits	1,415,372	1,546,250
Intangibles, prepaid bank fees and other assets, net	1,533,349	477,200
Goodwill	871,297	871,297
Total assets	$83,749,525	$83,318,003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$8,181,026	$6,704,001
Accrued compensation and benefits	1,189,324	975,758
Other accrued expenses	1,554,231	2,409,454
Liabilities of discontinued operations in India	—	25,041
Current maturity of long-term debt	50,000	100,481
Current maturity of arbitration settlement	1,000,000	1,000,000
Short-term borrowing	2,558,545	7,128,779
Borrowings under revolving credit facility	12,415,424	9,558,882
Total current liabilities	26,948,550	27,902,396
Accrued arbitration award in Brazil (net of current maturities)	3,758,691	4,710,691
Long-term portion of Canada and Brazil loans	1,110,634	1,298,085
Subordinated debt, net of OID	1,525,392	—
Other liabilities - accrued legal fees in Brazil	71,223	86,911
VAT taxes payable long term	3,329,275	3,328,820
Total liabilities	36,743,765	37,326,903
Stockholders' equity		
Preferred stock, $.01 par; authorized 1,500,000 shares (none issued)	—	—
Common stock, $.01 par; authorized 10,000,000 shares, issued 5,713,180 and 5,688,600; outstanding 5,356,739 and 5,332,159 at January 31, 2014 and 2013, respectively	57,132	56,886

Treasury stock, at cost; 356,441 shares at January 31, 2014 and January 31, 2013	(3,352,291)	(3,352,291)
Additional paid-in capital	53,365,286	50,973,065
Accumulated deficit	(591,945)	(472,445)
Accumulated other comprehensive loss	(2,472,422)	(1,214,115)
Total stockholders' equity	47,005,760	45,991,100
Total liabilities and stockholders' equity	$83,749,525	$83,318,003

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

9

Lakeland Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended January 31, 2014 and 2013

	Common Stock		Treasury Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	(Deficit)	(Loss)	Total
Balance, January 31, 2012	5,581,919	$55,819	(356,441)	$(3,352,291)	$50,772,594	$25,816,224	$(25,489)	$73,266,857
Net loss	—	—	—	—	—	(26,288,669)	—	(26,288,669)
Other comprehensive loss	—	—	—	—	—	—	(1,188,626)	(1,188,626)
Stock-based compensation:								
Grant of director stock options	—	—	—	—	24,630	—	—	24,630
Restricted stock issued at par	106,681	1,067	—	—	(1,067)	—	—	—
Restricted Stock Plan:								
2009 Plan	—	—	—	—	144,617	—	—	144,617
2012 Plan	—	—	—	—	163,514	—	—	163,514
Return of shares in lieu of payroll tax withholding	—	—	—	—	(131,223)	—	—	(131,223)
Balance, January 31, 2013	5,688,600	$56,886	(356,441)	$(3,352,291)	$50,973,065	$(472,445)	$(1,214,115)	$45,991,100
Net loss	—	—	—	—	—	(119,501)	—	(119,501)
Other comprehensive loss	—	—	—	—	—	—	(1,258,307)	(1,258,307)
Stock-based compensation:								
Restricted stock issued at par	24,580	246	—	—	(246)	—	—	—

Restricted Stock Plan:								
2009 Plan	—	—	—	—	17,192	—	—	17,192
2012 Plan	—	—	—	—	180,552	—	—	180,552
Warrant issued to subordinated debt lender–valuation treated as Original Issue Discount (“OID”) (566,015 shares)	—	—	—	—	2,235,406	—	—	2,235,406
Legal fees associated with Warrant	—	—	—	—	(9,000)	—	—	(9,000)
Return of shares in lieu of payroll tax withholding	—	—	—	—	(31,683)	—	—	(31,683)
Balance, January 31, 2014	5,713,180	$57,132	(356,441)	$(3,352,291)	$53,365,286	$(591,945)	$(2,472,422)	$47,005,760

Numbers may not add due to rounding.

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

10

Lakeland Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended January 31, 2014 and 2013

	Years Ended January 31,	
	2014	2013
Cash flows from operating activities		
Net loss	$(119,501)	$(26,288,669)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Arbitration award in Brazil	—	7,873,847
Payment of settlement agreement for arbitration award in Brazil, net of imputed interest	(952,000)	(1,898,403)
Provision for inventory obsolescence	2,632,000	551,498
Goodwill and other intangibles impairment charge	—	9,953,725
Provision for doubtful accounts	246,813	72,000
Deferred income taxes	(4,707,278)	3,805,844
Deferred taxes long term	455	—
Depreciation and amortization	1,606,993	1,550,865
Interest expense resulting from amortization of warrant OID	260,792	—
Stock-based and restricted stock compensation	197,744	332,761
(Increase) decrease in operating assets:		
Accounts receivable	(528,873)	(1,536,668)
Inventories	(4,595,924)	4,598,594
Prepaid income taxes and other current assets	1,093,993	226,689
Other assets - mainly prepaid fees from financing transaction	(2,034,350)	(231,356)
Cash received from sale of discontinued operations	428,827	—
Assets of discontinued operations	364,434	—
Increase (decrease) in operating liabilities:		
Accounts payable	2,601,139	1,826,916
Accrued compensation and benefits	—	(329,060)
Accrued expenses and other liabilities	(351,597)	918,529
Liabilities of discontinued operations	(25,041)	(39,739)
Net cash provided by (used in) operating activities	(3,881,374)	1,387,373
Cash flows from investing activities:		
Proceeds from sales of Qingdao, net of cost of shutdown	724,402	—
Additional write-off/India assets held for sale	—	800,000
Purchases of property and equipment	(828,894)	(1,384,539)
Net cash used in investing activities	(104,492)	(584,539)
Cash flows from financing activities		
Net borrowings under credit agreement (revolver)	12,415,424	(1,898,925)
Proceeds from term loans, net of repayments	—	3,000,000
Repayments of term loans	—	(985,000)
TD Bank and BDC repayments at closing of new financing	(15,108,882)	—
Borrowings in Canada	1,061,776	—

Canada loan repayments	(1,398,566)	(200,200)
Subordinated debt financing	3,500,000	—
Borrowings in Brazil	1,698,653	3,862,710
Repayments in Brazil	(1,840,091)	(3,680,906)
UK borrowings, net	776,961	—
China borrowings, net	811,669	—
Shares returned in lieu of taxes under restricted stock program	(31,683)	(131,223)
Other liabilities	(24,688)	3,410
Net cash provided by (used in) financing activities	1,860,573	(30,134)
Effect of exchange rate changes on cash	(56,572)	22,723
Cash reclassified from assets held-for-sale	—	230,501
Net increase (decrease) in cash and cash equivalents	(2,181,865)	1,025,924
Cash and cash equivalents at beginning of year	6,736,962	5,711,038
Cash and cash equivalents at end of year	$4,555,097	$6,736,962

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

11

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Business

Lakeland Industries, Inc. and Subsidiaries ("Lakeland" or the "Company"), 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 FY14 or FY13. For purposes of these financial statements, FY refers to a fiscal year ended January 31; thus, FY14 refers to the fiscal year ended January 31, 2014.

Basis of Presentation

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. 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 may be 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 outside Brazil are made through distributors. There are no significant differences across product lines or customers in different geographical areas in the manner in which the Company's sales are made.

Lakeland offers a growth rebate to certain distributors each year on a calendar-year basis. Sales are tracked on a monthly basis, and accruals are based on sales growth over the prior year. The growth rebate accrual is 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.

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 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 $2.4 and $2.5 million in FY14 and FY13, respectively.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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.

USA and China-Lower of Cost or Market and Obsolete

There is one discontinued product line in the US that management had been converting to a different style for one customer and reserving the cost of conversion. While this customer continues to purchase these converted styles during FY14, management determined that this one customer would not purchase these converted items in sufficient quantity and management will have to sell the remaining stock at a deep discount. It was further determined an additional write-down was needed for remaining Tyvek inventory and obsolete raw materials used from other discontinued product lines. Such write-downs totaled approximately $1.3 million.

Brazil-Lower of Cost or Market and Obsolete

It was determined that due to the introduction of a new fabric domestically sourced in Brazil which drove down market pricing, along with significant improvements and elimination of inefficiencies in the production process, adjustments were made to inventory in FY14. In addition, the Company identified certain inventory in Brazil as obsolete. The inventory became obsolete as a result of the introduction of competing new products into the Brazilian marketplace which rendered the inventory items obsolete. As a result, the inventory was written down to scrap value. Further, as a result of new Brazilian management completing its review of inventory to reflect new strategy and current market conditions, we took a further write-down to reflect slow moving and obsolete inventory. Such write-downs in Brazil totaled $1,463,000 in FY14.

While management does not expect any further significant write-downs of current inventory, specifically in either Brazil or the US or anywhere else we operate, no assurance can be given.

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.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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.

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). 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:

Customer creditworthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Past due balances over 90 days and other 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.

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 $123,000 and $242,000 in the FY14 and FY13, respectively.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Income Taxes

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

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

Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of common stock equivalents. Diluted earnings per share are based on the weighted average number of common and common stock equivalents. The average common stock equivalents for the years ended January 31, 2014 and 2013 were 341,181 and 0, respectively, representing the warrant issued with the subordinated debt financing. 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 for continuing operations" at January 31, 2014 and 2013, as follows:

	Years Ended January 31,	
	2014	2013
Numerator		

Loss from continuing operations	$(119,501)	$(25,766,962)
Denominator		
Denominator for basic earnings per share (weighted-average shares which reflect 356,441 shares in the treasury as a result of the stock repurchase program for the years ended January 31, 2014 and 2013, respectively) and 341,181 and 0 weighted average common equivalents relating to the warrant issued with the subordinated debt financing	5,689,230	5,290,332
Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options	—	—
Denominator for diluted earnings (loss) per share (adjusted weighted average shares)	5,689,230	5,290,332
Basic loss per share from continuing operations	$(0.02)	$(4.87)
Diluted loss per share from continuing operations	$(0.02)	$(4.87)

15

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Advertising Costs

Advertising costs are expensed as incurred, including selling and shipping expenses on the income statement. Advertising and co-op costs amounted to $322,000 and $263,000 in FY14 and FY13, respectively, net of co-op advertising allowance received from a supplier. These reimbursements include some costs which are classified in categories other than advertising, such as payroll.

Statement of Cash Flows

The Company considers highly liquid temporary cash investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market funds. The market value of the cash equivalents approximates cost. Foreign denominated cash and cash equivalents were approximately $4.6 million and $4.5 million at January 31, 2014 and 2013, respectively.

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

	2014	2013
Interest paid	$1,581,366	$906,307
Income taxes paid	$1,331,279	$469,209
Accumulated amortization of warrant OID included in interest expense	$260,792	$—

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; 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.

Foreign Operations and Foreign Currency Translation

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

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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 and aggregated losses or (gains) of approximately $124,000 and $390,000 for FY14 and FY13, respectively, outside Brazil.

Comprehensive Loss

Comprehensive loss refers to revenue, expenses, gains and losses that under generally accepted accounting principles 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. Amounts have been reclassified into the statement of operations as appropriate based on impairment charges.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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 and term loans and its cash flow hedges in China. The Company believes that the carrying amount of such debt approximates the fair value as the variable interest rates approximate the current prevailing interest rate, or the prevailing foreign exchange rates in the case of the cash flow hedges.

2. INVENTORIES, NET

Inventories consist of the following at January 31:

	2014	2013
Raw materials	$16,348,861	$21,096,015
Work-in-process	1,292,741	1,812,788
Finished goods	22,202,707	16,361,872
	$39,844,309	$39,270,675

17

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

3. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at January 31:

	Useful Life in Years	2014	2013
Machinery and equipment	3-10	$10,260,162	$10,993,470
Furniture and fixtures	3-10	636,759	669,511
Leasehold improvements	Lease term	1,294,928	1,896,338
Land and building (China)	20-30	1,917,154	2,412,115
Land and building (Canada)	30	2,201,934	2,444,798
Land and buildings (USA)	30	6,018,838	6,017,082
Land and building (Brazil)	5	1,362,696	1,638,236
		23,692,471	26,071,550
Less accumulated depreciation		(11,735,960)	(12,971,202)
Construction-in-progress		112,596	989,639
		$12,069,107	$14,089,987

Depreciation expense for FY14 and FY13 amounted to $1,197,696 and $1,315,037, respectively.

The estimated cost to complete construction-in-progress at January 31, 2014, is $415,000.

4. BRAZIL MANAGEMENT AND SHARE PURCHASE AGREEMENT-ARBITRATION

Lakeland Industries, Inc. and its wholly-owned subsidiary, Lakeland Brasil S.A. (“Lakeland Brasil” and together with Lakeland Industries, Inc., the “Company”) were parties to an arbitration proceeding in Brazil involving the Company and two former officers (the “former officers”) of Lakeland Brasil. On May 8, 2012, the Company received notice of an arbitral award in favor of the former officers.

On September 11, 2012, the Company and the former officers entered into a settlement agreement (the "Settlement Agreement") which fully and finally resolved all alleged outstanding claims against the Company arising from the arbitration proceeding. Pursuant to the Settlement Agreement, the Company agreed to a payment schedule to the former officers with a balance remaining as of January 31, 2014, of $5.0 million in US dollars consisting of 20 consecutive quarterly installments of US $250,000 ending on December 31, 2018, net of imputed interest of $241,309 as shown on the balance sheet at $3,758,691, net of current maturity of $1,000,000. The Company is current with all obligations pursuant to this Settlement Agreement.

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

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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

Intangible assets consist of the following at January 31, 2014:

	2014	2013
Trademarks and tradenames in Brazil and prepaid costs for Certificate of Approval (“CA”) by the ministry of Labor in Brazil, net of accumulated amortization of $98,000 at January 31, 2014, and $0 at January 31, 2013	$335,635	$312,238
Appraised value of customer contracts acquired in Qualytextil acquisition, amortized over estimated remaining life ending April 2013, net of accumulated amortization of $349,095 at January 31, 2013	—	31,779
Bank fees net of accumulated amortization of $267,718 at 2014 and $96,228 at 2013	1,197,714	133,183
	$1,533,349	$477,200

Amortization expense included in general and administrative expense was $409,297 and $235,828 for FY14 and FY13, respectively.

Amortization expense for the next five years is as follows: Bank fees: $451,374 for 2015, $451,374 for 2016, $243,051 for 2017, $33,661 for 2018 and $18,254 for 2019. CA certification in Brazil: $130,840 for 2015, $130,840 for 2016 and $31,378 for 2017.

The changes in the carrying amount of trademarks and trade names during the fiscal years 2014 and 2013 are summarized in the following table:

	Balance Beginning of Year	Changes Resulting from Foreign Exchange Differences	Additions During Year	Changes from Impairment Charges	Balance End of Year

Year ended January 31, 2014	$ 312,238	$ (66,817)	$ 90,214	$ —	$ 335,635
Year ended January 31, 2013	$ 4,282,100	$ (615,614)	$ —	$ (3,354,248)	$ 312,238

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. Management has determined this did not meet "more likely than not" threshold for impairment at January 31, 2014. This goodwill is included in the US segment for reporting purposes.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

The changes in the carrying value of goodwill during the fiscal years 2014 and 2013 are summarized in the following table:

	USA	Brazil	Total
Balance as of January 31, 2012	$871,296	$5,261,658	$6,132,954
During fiscal year 2013:			
Effect of foreign currency translation	—	(526,073)	(526,073)
Rounding	1	—	1
Goodwill and other intangibles impairment charge	—	(4,735,585)	(4,735,585)
Balance as of January 31, 2013	$871,297	$—	$871,297
During fiscal year 2014:			
Effect of foreign currency translation	—	—	—
Goodwill and other intangibles impairment charge	—	—	—
Balance as of January 31, 2014	$871,297	$—	$871,297

For Brazilian tax purposes, the Company is deducting goodwill over a five-year period which commenced with the merger of its holding company into the operating company in Brazil, which took place in November 2008.

6. LONG-TERM DEBT AND SUBSEQUENT EVENT

Revolving Credit Facility

The maximum amounts borrowed under the existing and previous revolving credit facilities during FY14 and FY13 were $13.7 million and $12.9 million, respectively, and the weighted average interest rates during the periods were 5.53% and 2.87%, 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 provides 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 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 provides for a $3.5 million term loan to be made to the Borrowers and 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. 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 may be paid in cash, by payment in kind (“PIK”) in additional notes or payable in shares of common stock (“Common Stock”), of the Company (the “Interest Shares”). If shares of Common Stock are used to make interest payments on the Note, the number of Interest Shares will be based upon 100% of an average of the then current market value of the Common Stock, subject to the limitations set forth in the Subordinated Loan Agreement. 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 contemplated by the Subordinated Loan Agreement. 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 Senior Lender, of which this transaction satisfied.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

The proceeds from such financings have been used to fully repay the Company's former financing facility with TD Bank, N.A. in the amount of approximately US $13.7 million. Also repaid upon closing of the financings was the warehouse loan in Canada with a balance of CDN $1,362,000 Canadian dollars (approximately US $1,320,000), payable to Business Development Bank of Canada ("BDC").

The following is a summary of the material terms of the financings:

<u>$15 million Senior Credit Facility</u>

- Borrowers are both 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:
  - 85% of eligible accounts receivable as defined
  - The lesser of 60% of eligible inventory as defined or 85% of net orderly liquidation value of inventory
  - 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, 2014, there was $2.6 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
- Maturity
  - An initial term of three years from June 28, 2013 (the "Closing Date")
  - Prepayment penalties of 3%, if prepaid prior to the first anniversary of Closing Date; 2% if prior to the second anniversary and 1% if prior to the third anniversary of the Closing Date
- Interest Rate
  - Rate equal to LIBOR rate plus 525 basis points
  - Initial rate and rate at January 31, 2014 of 6.25%
  - Floor rate of 6.25%
- Fees: Borrowers shall pay to the Lender the following fees:
  - Origination fee of $225,000, paid on the Closing Date and being amortized over the term of loan and is included in "intangibles, prepaid bank fees and other assets, net" in the accompanying 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

o 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 Brazilian subsidiary, shall comply with the following additional covenants:

21

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

- Fixed Charge Coverage Ratio. At the end of each fiscal quarter of Borrowers, commencing with the fiscal quarter ending July 31, 2013, Borrowers shall maintain a Fixed Charge Coverage Ratio of not less than 1.1 to 1.00 for the four quarter period then ending.
- Minimum Quarterly Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). Borrowers shall achieve, on a rolling basis excluding the operations of the Borrower's Brazilian subsidiary, EBITDA of not less than the following as of the end of each quarter as follows:
  - July 31, 2013 for the two quarters then ended, $2.1 million;
  - October 31, 2013 for the three quarters then ended, $3.15 million,
  - January 31, 2014 for the four quarters then ended, and thereafter, $4.1 million
- 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, 2014.
- Other Covenants
  - Standard financial reporting requirements as defined
  - 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
  - Limitation on total net investment in foreign subsidiaries of a maximum of $1.0 million per annum

<u>$3.5 million Subordinated Debt Financing</u>

- Subordinated Loan Agreement
  - Maturity date: June 28, 2018
  - Interest at 12.0% per annum through and including December 27, 2016, increased to 16% per annum on December 28, 2016 and 20% per annum on December 28, 2017. Until the first anniversary of the Closing Date, all interest shall either be paid in kind (PIK) or paid in shares of common stock of Lakeland, valued at 100% of the then market value, at the election of the Junior Lender. Such accrued PIK interest is included in "other accrued expenses" in the accompanying balance sheet.
  - All loan costs associated with the Subordinated Debt are included with the deferred debt costs from the Senior Loan and are being amortized over the life of the Senior Loan and are included with "intangibles, bank fees and other assets, net" on the balance sheet
  - Warrant to purchase 566,015 shares of Common Stock (subject to adjustment), exercisable at $0.01 per share
  - Warrant is subject to customary anti-dilution adjustment provisions, including for issuances of Common Stock or Common Stock equivalents at a price less than $5.00 per share, computed on a weighted average basis, subject to a hard cap limitation of 1,068,506 shares on total number of shares to be issued from a combination of warrants, interest shares and price-protection anti-dilution adjustments. The Company is allowed to issue up to 500,000 shares without triggering this provision, to allow for restricted shares and other new compensatory issuances.
  - Warrant exercise period is five years from the Closing Date
  - Registration Rights: the Company commits to filing with the Securities and Exchange Commission a registration statement covering the shares issuable in connection with the subordinated loan transaction within 90 days of the

Closing Date and to have it effective no later than 180 days from the Closing Date, which requirement has been complied with.

- Investor Rights: Junior Lender will have the right to designate one board member or a board observer, subject to certain conditions. As of April 28, 2014, the Junior Lender has not exercised this right
- Subject to Senior Lender Subordination Agreement, the subordinated loan may be repaid in increments of $500,000 with Senior Lender approval on or after June 28, 2014

22

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

- o Early Termination Fees; Applicable Termination Percentage:
- (a) Upon early repayment of the Term Loan, Borrowers shall be obligated to pay, in addition to all of the other Obligations then outstanding, an amount equal to the product obtained by multiplying $3,500,000 or the amount of principal repaid by the applicable percentage set forth below:
  - 5.00% if the effective date of termination occurs on or before June 28, 2014;
  - 3.00% if the effective date of termination occurs after June 28, 2014, but on or before June 28, 2015; or
  - 1.00% if the effective date of termination occurs after June 28, 2015, but on or before June 28, 2016
- Upon acceleration of the loan following a Change of Control, Borrowers shall be obligated to pay an additional fee equal to $35,000
- o Financial covenant amounts are 10% less restrictive than those in the Senior Loan Agreement
- o Second priority lien on substantially all of the assets of the Company in the United States and Canada, except a first lien on Mexican facility
- o The Company is in compliance with all covenants of the Subordinated Debt at January 31, 2014.

Management has valued the Warrant at $2.2 million. This has been treated as Original Issue Discount (OID) and is being amortized as additional interest over the five-year term of the related subordinated debt. The effective rate of return to the Junior Lender is computed by deducting the warrant valuation OID from the $3.5 million principal leaving a valuation for the debt at closing of $1.3 million. Including the 12% coupon and the amortization of the OID gives an effective per annum rate on just the debt of approximately 47%, assuming the warrant is broken out separately. However, management views this to be one blended loan or transaction along with the Senior Debt of up to $15 million at 6.25%, since the subordinated debt was an absolutely required condition of closing made by the Senior Lender.

Amounts outstanding as of January 31, 2014, under the Senior Lender Facility were $12.4 million and under the Junior Lender Facility, $3.5 million net of un-amortized original issue discount of $2.0 million for a net value of $1.5 million included in the subordinated debt on the balance sheet.

Borrowings in Brazil

Brazil Loan Schedule Year Ended January 31, 2014 in USD

Lender	Maturity Date	Balance Beginning	New Loan	Begin Date	Principal Payment	Interest Payment	Balance Ending	Collateral	Foreign Exchang Differen
		US $	US $		US $	US $	US $		US $
Bank Itau	1/6/2014	557,054	-	7/6/2012	(491,209)	38,935	-	Receivables	65,845
Bank Itau	2/12/2014	1,004,571	-	1/11/2013	(820,066)	71,995	75,633	Receivables	108,87
Bank Itau	6/18/2014	-	258,665	4/19/2013	(136,617)	27,781	106,970	Guarantee Officer	15,078
Bank Itau	6/12/2014	-	162,484	6/12/2013	(88,410)	18,348	67,109	Receivables	6,965
Bank Itau	9/18/2015	-	165,437	9/5/2013	(21,405)	12,866	131,403	Receivables	12,629
Bank Itau	9/30/2015	-	109,061	9/19/2013	(13,896)	10,346	87,753	Receivables	7,412
Bank Itau	7/31/2014	-	226,183	12/19/2013	-	8,086	213,442	Customer Contract	12,741
Citibank	8/5/2014	-	161,095	8/6/2013	(61,127)	13,631	90,483	Guarantee Officer	9,485
Mercantil Bank	1/11/2016	-	229,924	12/30/2013	-	3,565	212,731	Guarantee Officer	17,193
Athena Factoring	N/A	-	126,872	12/23/2013	(70,771)	3,957	51,113	Guarantee Officer	4,987
Athena Factoring	N/A	-	122,341	1/17/2014	-	3,659	111,467	Guarantee Officer	10,876
Valecred Factoring	N/A	-	136,591	12/13/2013	(136,590)	3,298	-	Guarantee Officer	-
TOTAL		1,561,625	1,698,653		(1,840,091)	216,467	1,148,104		272,08

Certain numbers may not add due to rounding

Brazil Loan Schedule Year Ended January 31, 2014 in BRL

Lender	Maturity Date	Balance Beginning	New Loan	Begin Date	Principal Payment	Interest	Balance Ending	Collateral	Monthl Interes Rate
		BRL	BRL		BRL	BRL	BRL		

Bank Itau	1/6/2014	1,124,515	-	7/6/2012	(1,109,250)	(101,333)	-	Receivables	1.35%
Bank Itau	2/12/2014	2,042,225	-	1/11/2013	(1,845,996)	(171,872)	183,509	Receivables	1.09%
Bank Itau	6/18/2014	-	571,805	4/19/2013	(313,058)	(60,618)	259,541	Guarantee Officer	1.40%
Bank Itau	6/12/2014	-	359,188	6/12/2013	(195,440)	(41,480)	162,827	Receivables	1.95%
Bank Itau	9/18/2015	-	365,716	9/5/2013	(47,319)	(28,014)	318,824	Receivables	1.80%
Bank Itau	9/30/2015	-	241,090	9/19/2013	(30,718)	(20,328)	212,915	Receivables	1.98%
Bank Itau	7/31/2014	-	500,000	12/19/2013	-	-	517,875	Customer Contract	1.53%
Citibank	8/5/2014	-	356,118	8/6/2013	(135,127)	(31,584)	219,540	Guarantee Officer	2.11%
Mercantil Bank	1/11/2016	-	508,270	12/30/2013	-	-	516,150	Guarantee Officer	1.50%
Athena Factoring	N/A	-	280,463	12/23/2013	(156,446)	(8,748)	124,017	Guarantee Officer	N/A
Athena Factoring	N/A		270,447	1/17/2014	-	(8,090)	270,447	Guarantee Officer	N/A
Valecred Factoring	N/A	-	301,946	12/13/2013	(301,948)	(7,292)	-	Guarantee Officer	N/A
TOTAL		3,166,740	3,755,043		(4,135,302)	(479,359)	2,785,644		

Certain numbers may not add due to rounding

24

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Borrowings in UK

On February 20, 2013, the Company and its UK subsidiary completed an agreement to obtain accounts receivable financing with HSBC Bank in the UK in the amount £1,000,000 (approximately US $1.3 million at current exchange rates), more fully described in the Company's Form 8-K, which was filed on February 20, 2013. On December 19, 2013, the Company's UK subsidiary entered into a one-year extension pursuant to the same terms except that the facility limit was raised from £1.0 million (approximately US $1.6 million) to £1,250,000 (approximately US $2.0 million) and the advance rate was raised from 80% to 85%. The balance outstanding under this facility at January 31, 2014, was the equivalent of US $0.8 million and is included in short-term borrowings on the balance sheet. The interest rate repayment rate is 3.46% per annum and the term is for a minimum period of one-year renewable on December 19, 2014.

China Loan

On August 12, 2013, the Company's China subsidiary borrowed approximately US $0.8 million at an interest rate of 5.395% per annum for a term of one year as more fully described in the Company's Form 8-K which was filed on August 16, 2013. The balance under this loan outstanding at January 31, 2014, was $0.8 million. Such amounts mature August 2014 and are included in short-term borrowings on the balance sheet.

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 $7,386 (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, 2014, is C$1,093,194 which is included as US $932,235 loan on the accompanying balance sheet, net of current maturities of US $50,000.

Subsequent Event – New Loan Facility in China

On March 27, 2014, Lakeland Industries, Inc.'s (the "Company") China subsidiary, Weifang Lakeland Safety Products Co., Ltd ("WF"), and Weifang Rural Credit Cooperative Bank ("WRCCB") completed an agreement to obtain a line of credit for financing in the amount RMB 8,000,000 (approximately USD $1,287,000). The term is due September 27, 2014, with interest at 120% of the benchmark rate supplied by WRCCB (which is currently 5.6%). The effective per annum interest rate is currently 6.72%. The loan will be collateralized by inventory owned by WF. WRCCB has hired a professional firm to supervise WF's inventory flow, which WF will pay yearly at a rate of RMB 40,000 (approximately US $6,450). As of April 28, 2014 the Company has not yet drawn down on this line of credit, but intends to do so shortly. There are no covenant requirements in this loan.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Five-year Debt Payout Schedule

This schedule reflects the liabilities as of January 31, 2014, 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	$811,669	$811,669	$—	$—	$—	$—	$—
Borrowings in UK	777,171	777,171	—	—	—	—	—
Revolving credit facility	12,415,424	12,415,424	—	—	—	—	—
Subordinated debt financing*	3,500,000	—	—	—	—	3,500,000	—
Borrowings in Canada	982,235	50,000	26,833	28,616	30,517	32,545	813,724
Borrowings in Brazil	1,148,104	969,705	178,399	—	—	—	—
Total	$19,634,603	$15,024,969	$205,232	$28,616	$30,517	$3,532,545	$813,724

**Before original issue discount (OID) at inception of $2.2 million*

Sale of Real Estate in China

In April 2013, the Company executed a contract for the sale of real estate located in Qingdao, China, which was completed on June 30, 2013. The sale was structured as a sale of a subsidiary’s stock after transferring out substantially all non-real estate assets to other Lakeland entities. The net proceeds of the sale to the Company were approximately $0.7 million, received in June 2013. All production from this facility has been transferred to other Lakeland manufacturing facilities. There are no product lines which will be dropped as a result of this plant relocation. Accordingly, the operations of this plant are not being treated as a discontinued operation. This sale resulted in a loss of approximately $0.5 million for financial statement purposes. However, as a result of this sale there were dividends paid to the US parent company of approximately US $1.7 million, which results in taxable income in the US, generating a tax charge of $422,321 in Q2 2014 financial statements. However, as a result of its loss carry forwards for US tax purposes, no cash tax liability has been incurred.

Sale of India Property

The Company sold Plot 24, the largest of three plots held for sale by the Company, which closed on July 29, 2013. The sale price was $428,827 (INR 25,000,000), which is less than previously anticipated due to foreign exchange deterioration in the Indian Rupee.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

	Remaining Assets Held for Sale as of January 31, 2014	January 31, 2013
Inventory	$ —	$ 85,170
Other current asset	—	10,024
Property and equipment	—	717,988
Total assets of discontinued operations	—	813,182
Liabilities of discontinued operations:		
Accounts payable	—	2,759
Other liabilities	—	22,282
Total liabilities of discontinued operations	—	25,041
Net assets of discontinued operations	$ —	$ 788,141

7. STOCKHOLDERS' EQUITY AND STOCK OPTIONS

The Company has three main share-based payment plans: The Nonemployee Directors' Option Plan (the "Directors' Plan") and two Restricted Stock Plans (the "2009 Equity Plan" and the "2012 Equity Plan"). Both the 2009 and 2012 Equity Plans have an identical structure. The below table summarizes the main provisions of each of these plans:

	Nature and terms
Nonemployee Director Stock Option Plan	The plan provides for an automatic one-time grant of options to purchase 5,000 shares of common stock to each nonemployee director newly elected or appointed. Options are granted at not less than fair market value, become exercisable commencing six months from the date of grant and expire six years from the date of grant. In addition, all nonemployee directors re-elected to the Company's Board of Directors at any annual meeting of the stockholders will automatically be granted additional options to purchase 1,000 shares of common stock on that date. Such plan expired at December 31, 2012, as to any new awards. Existing options will expire based on individual award dates.
Restricted Stock Plan - employees	Long-term incentive compensation three-year plan. Employees are granted potential share awards at the beginning of the three-year cycle at baseline and maximum amounts. The level of award and final vesting is based on the Board of Director's opinion as to the performance of the Company and management in the entire three-year cycle. All vesting is three-year "cliff" vesting - there is no partial vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.

Restricted Stock Plan - directors	Long-term incentive compensation-three-year plan. Directors are granted potential share awards at the beginning of the three-year cycle at baseline and maximum amounts. The level of award and final vesting is based on the Board of Director's opinion as to the performance of the Company and management in the entire three-year cycle. All vesting is three-year "cliff" vesting - there is no partial vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.
Matching award program	All participating employees are eligible to receive one share of restricted stock awarded for each two shares of Lakeland stock purchased on the open market. Such restricted shares are subject to three-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the three-year period.

27

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Bonus in stock program - employees	All participating employees are eligible to elect to receive any cash bonus in shares of restricted stock. Such restricted shares are subject to two-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the two-year period. Since the employee is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the grant date stock price. The Chief Executive Officer, Chief Financial Officer and Chief Operating Officer of the Company all elected to take 30% of their cash compensation in restricted stock pursuant to this program, commencing in October 2012 and ended in June 2013.
Director fee in stock program	All directors are eligible to elect to receive any director fees in shares of restricted stock. Such restricted shares are subject to two-year time vesting. The valuation is based on the stock price at the grant date and amortized to expense over the two-year period. Since the director is giving up cash for unvested shares, the amount of shares awarded is 133% of the cash amount based on the grant date stock price.

The Directors' Plan provides for an automatic one-time grant of options to purchase 5,000 shares of common stock to each nonemployee director elected or appointed to the Board of Directors. Under the Directors' Plan, 60,000 shares of common stock have been authorized for issuance. Options are granted at not less than fair market value, become exercisable commencing six months from the date of grant and expire six years from the date of grant. In addition, all nonemployee directors re-elected to the Company's Board of Directors at any annual meeting of the stockholders will automatically be granted additional options to purchase 1,000 shares of common stock on each of such dates.

The following table represents our stock options granted, exercised and forfeited during the fiscal year ended January 31, 2014.

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 31, 2013	24,000	$ 7.47	3.95 years	$ 1,300
Granted during the year ended January 31, 2014	—	—	—	—
Forfeited during the year ended January 31, 2014	—	—	—	—
Outstanding at January 31, 2014	24,000	$ 7.47	2.95 years	—
Exercisable at January 31, 2014	24,000	$ 7.47	2.95 years	—
Reserved for future issuance Directors' Plan (expired on December 31, 2012)	0			

There were no exercises during the year ended January 31, 2014.

All stock-based option awards were fully vested at January 31, 2014 and 2013. There were no new grants during the year ended January 31, 2014, and this plan expired by its terms on December 31, 2012.

28

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

The 2009 Equity Plan and the 2012 Equity Plan

On June 17, 2009, the stockholders of the Company approved a restricted stock plan (the “2009 Equity Plan”). A total of 253,000 shares of restricted stock were authorized under this plan. On June 20, 2012, the stockholders of the Company authorized 310,000 shares under a new restricted stock plan (the “2012 Equity Plan”). Under these restricted stock plans, eligible employees and directors are awarded performance-based restricted shares of the Company common stock. The amount recorded as expense for the performance-based grants of restricted stock are based upon an estimate made at the end of each reporting period as to the most probable outcome of this plan at the end of the three-year performance period (e.g., baseline, maximum or zero). In addition to the grants with vesting based solely on performance, certain awards pursuant to the plan have a time-based vesting requirement, under which awards vest from two to three years after grant issuance, subject to continuous employment and certain other conditions. Restricted stock has voting rights, and the underlying shares are not considered to be issued and outstanding until vested.

Under the 2009 Equity Incentive Plan, the Company has issued 178,743 fully vested shares as of January 31, 2014. The Company has granted up to a maximum of 4,116 restricted stock awards remaining unvested as of January 31, 2014. All of these restricted stock awards are nonvested at January 31, 2014, and have a weighted average grant date fair value of $8.66 per share. The Company recognizes expense related to performance-based awards over the requisite service period using the straight-line attribution method based on the outcome that is probable.

Under the 2012 Equity Incentive Plan, the Company has granted 272,290 restricted stock awards as of January 31, 2014, assuming all maximum awards are achieved. All of these restricted stock awards are nonvested at January 31, 2014 (214,790 shares at “baseline”), and have a weighted average grant date fair value of $6.00 per share. The Company recognizes expense related to performance-based awards over the requisite service period using the straight-line attribution method based on the outcome that is probable.

As of January 31, 2014, unrecognized stock-based compensation expense related to restricted stock awards totaled $20,707 pursuant to the 2009 Equity Incentive Plan and $1,328,912 pursuant to the 2012 Equity Incentive Plan, before income taxes, based on the maximum performance award level, less what has been charged to expense on a cumulative basis through October 31, 2012, which was set to zero. Such unrecognized stock-based compensation expense related to restricted stock awards totaled $20,707 for the 2009 Equity Incentive Plan and $958,612 for the 2012 Equity Incentive Plan at the baseline performance level. The cost of these nonvested awards is expected to be recognized over a weighted-average period of three years. The Board has estimated its current performance level to be at zero, and expenses have been recorded accordingly. The performance based awards are not considered stock equivalents for earnings per share ("EPS") calculation purposes.

Stock-Based Compensation

The Company recognized total stock-based compensation costs of $197,744 and $332,761 for the years ended January 31, 2014 and 2013, respectively, of which $17,192 and $144,617 result from the 2009 Equity Plan and $180,552 and $163,514 result from the 2012 Equity Plan for the years ended January 31, 2014 and 2013, respectively, and $0 and $24,630, respectively, from the Directors' Plan. These amounts are reflected in selling, general and administrative expenses. The total income tax benefit recognized for stock-based compensation arrangements was $71,188 and $119,795 for the years ended January 31, 2014 and 2013, respectively.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Restricted Stock Plan 2012 Equity Plan	Shares Authorized Under 2012 Plan as Revised	Outstanding Unvested Grants at Maximum at End of FY14	Shares Remaining Available for Future Issuance	Reallocation by Board of Directors	Shares Remaining Available for Future Issuance
Restricted stock grants - employees	173,000	150,500	22,500	(20,000)	2,500
Restricted stock grants - directors	50,000	49,500	500	—	500
Matching award program	9,000	3,000	6,000	—	6,000
Bonus in stock - employees	40,000	55,189	(15,189)	20,000	4,811
Retainer in stock - directors	38,000	14,101	23,899	—	23,899
Total restricted stock plan	310,000	272,290	37,710	—	37,710

Total Restricted Shares	Outstanding Unvested Grants at Maximum at Beginning of FY14	Granted during FY14	Becoming Vested during FY14	Forfeited during FY14	Outstanding Unvested Grants at Maximum at End of FY14
Restricted stock grants - employees	164,500	—	—	14,000	150,500
Restricted stock grants - directors	49,500	—	—	—	49,500
Matching award program	3,500	3,000	500	—	6,000
Bonus in stock - employees	47,607	33,672	26,090	—	55,189
Retainer in stock - directors	13,289	7,500	5,572	—	15,217
Total restricted stock plan	278,396	44,172	32,162	14,000	276,406

Shares under 2012 Equity Plan	Outstanding Unvested Grants at Maximum at Beginning of FY14	Granted during FY14	Becoming Vested during FY14	Forfeited during FY14	Outstanding Unvested Grants at Maximum at End of FY14
Restricted stock grants – employees	164,500	—	—	14,000	150,500
Restricted stock grants - directors	49,500	—	—	—	49,500
Matching award program	—	3,000	—	—	3,000
Bonus in stock - employees	21,517	33,672	—	—	55,189
Retainer in stock - directors	6,601	7,500	—	—	14,101
Total restricted stock plan	242,118	44,172	—	14,000	272,290

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Shares under 2009 Equity Plan	Outstanding Unvested Grants at Maximum at Beginning of FY14	Granted during FY14	Becoming Vested during FY14	Forfeited during FY14	Outstanding Unvested Grants at Maximum at End of FY14
Restricted stock grants - employees	—	—	—	—	—
Restricted stock grants - directors	—	—	—	—	—
Matching award program	3,500	—	500	—	3,000
Bonus in stock - employees	26,090	—	26,090	—	—
Retainer in stock - directors	6,688	—	5,572	—	1,116
Total restricted stock plan	36,278	—	32,162	—	4,116

Overall weighted average per share - all plans	Outstanding Unvested Grants at Maximum at Beginning of FY14	Granted during FY14	Becoming Vested during FY14	Forfeited during FY14	Outstanding Unvested Grants at Maximum at End of FY14
Restricted stock grants – employees	$ 6.44	$ —	$ —	$ 6.44	$ 6.44
Restricted stock grants - directors	6.44	—	—	—	6.44
Matching award program	8.14	4.97	9.03	—	6.48
Bonus in stock - employees	6.91	4.14	8.15	—	4.63
Retainer in stock - directors	7.42	4.67	8.49	—	5.67
Total restricted stock plan	$ 6.59	$ 4.28	$ 8.22	$ 6.44	$ 6.04

Shares under 2012 Equity Plan	Outstanding Unvested Grants at Maximum at Beginning of FY14	Granted during FY14	Becoming Vested during FY14	Forfeited during FY14	Outstanding Unvested Grants at Maximum at End of FY14
Restricted stock grants – employees	$ 6.44	$ —	$ —	$ 6.44	$ 6.44
Restricted stock grants - directors	6.44	—	—	—	6.44
Matching award program	—	4.97	—	—	4.97
Bonus in stock - employees	5.41	4.14	—	—	4.63
Retainer in stock - directors	6.01	4.67	—	—	5.30
Total restricted stock plan	$ 6.34	$ 4.28	$ —	$ 6.44	$ 6.00

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Shares under 2009 Equity Plan	Outstanding Unvested Grants at Maximum at Beginning of FY14	Granted during FY14	Becoming Vested during FY14	Forfeited during FY14	Outstanding Unvested Grants at Maximum at End of FY14
Restricted stock grants - employees	$ —	$ —	$ —	$ —	$ —
Restricted stock grants - directors	—	—	—	—	—
Matching award program	8.14	—	9.03	—	7.99
Bonus in stock - employees	8.15	—	8.15	—	—
Retainer in stock - directors	8.82	—	8.49	—	10.45
Total restricted stock plan	$ 8.27	$ —	$ 8.22	$ —	$ 8.66

8. INCOME TAXES

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

	<FY 14		><	>FY 13		>
Domestic and Foreign Pretax Income (Loss)	Total	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations
Domestic	$1,962,763	$1,962,763	$—	$(11,394,955)	$(11,394,955)	$ —
Foreign	(4,933,655)	(4,933,655)	—	(10,136,243)	(9,336,243)	(800,000)
Total	$(2,970,892)	$(2,970,892)	$—	$(21,531,198)	$(20,731,198)	$ (800,000)
Income Tax Expense (Benefit)	**Total**	Continuing Operations	Discontinued Operations	**Total**	Continuing Operations	Discontinued Operations
Current:						
Federal	$575,202	$575,202	$—	$—	$—	$—
State and other taxes	39,810	39,810	—	(130,213)	$(130,213)	—
Foreign	1,303,875	1,303,875	—	688,835	$688,835	—
Deferred:						
Domestic	$(162,847)	$(162,847)	$—	$(1,269,245)	$(990,952)	$ (278,293)

Valuation allowance-deferred tax asset	(4,544,431)	(4,544,431)	—	4,544,431	4,544,431	—
Foreign	—	—	—	923,663	923,663	—
Total	$(2,851,391)	$(2,851,391)	$—	$4,757,451	$5,035,764	$ (278,293)

32

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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

	2014	2013
Statutory rate	34.0 %	34.0 %
State income taxes, net of Federal tax benefit	(0.88)%	2.5 %
Goodwill and other intangibles impairment charge	—	(46.23)%
Arbitration settlement charge	—	(12.43)%
Dividend from sale of Qingdao and from Canada relating to financing	(17.33)%	—
Brazil losses with no tax benefit	(69.42)%	—
Permanent differences	(12.44)%	(12.90)%
Foreign tax rate differential*	2.67 %	32.38 %
Various tax credits	—	—
Valuation allowance-deferred tax asset	159.38%	(21.11)%
Other	—	1.66 %
Effective rate	95.98 %	(22.13)%

* The foreign rate differential is due to losses in India, Chile and Argentina treated as pass through entities for US tax purposes, the VAT tax charge in Brazil and the elimination of intercompany profit in inventory, all of which serve to reduce the consolidated pretax income.

The tax effects of temporary differences which give rise to deferred tax assets at January 31, 2014 and 2013 are summarized as follows:

	2014	2013
Deferred tax assets:		
Inventories	$1,545,663	$812,054
US tax loss carry-forwards, including work opportunity credit*	233,798	1,520,142
Accounts receivable and accrued rebates	125,159	94,877
Accrued compensation and other	183,434	184,214
India reserves - US deduction	613,200	963,524
Equity based compensation	215,872	218,942
Foreign tax credit carry-forward	1,243,519	407,092

State and local carry-forwards	145,528	96,810
Depreciation and other	299,756	246,776
Accrued interest on subordinated debt	101,349	—
Deferred tax asset	4,707,278	4,544,431
Less valuation allowance	—	(4,544,431)
Net deferred tax asset	$4,707,278	$0

*The federal net operating loss ("NOL") that is left after FY14 will expire after 1/31/2033 (20 years from the generated date of 1/31/2013). The credits will begin to expire after 1/31/2030 (20 years from the 1st carryover year generated date of 1/31/2010) and will fully expire after 1/31/2033.

The state NOLs will begin to expire after 1/31/2025 and will continue to expire at various periods up until 1/31/2033 when they will be fully expired. The states have a larger spread because some only carryforward for 15 years and some allow 20 years.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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 it 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 $0 at January 31, 2014 ($4,544,431 in 2013). As a result of the going concern uncertainty in FY13, the Company recorded a valuation allowance for the full amount of the deferred tax assets. During FY14, the Company successfully refinanced its long term debt and alleviated substantial doubt of a going concern. As such, the Company believes no allowance is necessary in FY14.

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's federal income tax returns for the fiscal years ended January 31, 2003, 2004, 2005 and 2007, have been audited by the Internal Revenue Service ("IRS"). The Company has received a final "No Change Letter" from the IRS for FY07 dated August 20, 2009. The Company has received notice from the IRS on March 21, 2011, that it will shortly commence an audit for the FY09 tax return. There have been no further communications from the IRS since.

Our three major foreign tax jurisdictions are China, Canada and Brazil. China tax authorities have performed limited reviews on all China subsidiaries as of tax years 2008, 2009, 2010, 2011 and 2012 with no significant issues noted. We believe our tax positions are reasonably stated as of January 31, 2014. On May 9, 2013, one of our China operations was notified by local tax authority that they could conduct an audit on transfer pricing. After preliminary communication with the tax authority, we believe the additional tax liability will be no more than RMB100,000 or US $16,000. At the same time, China tax authority also questioned the retained earnings balance for not being repatriated to corporate which would result in a 10% withholding tax paid to China, and the delayed payment in trade payable from corporate affiliated companies, especially from US parent to China. Additionally, China tax authority also questioned if there is any tax avoidance motive in the investment of US $500,000 to our Argentina subsidiary. We do not believe there will be any material tax consequences from the latter two inquiries.

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 Company’s tax situation is reasonably stated, and we do not anticipate future tax liability for fiscal year ended January 31, 2014, or prior years.

The Company’s Brazilian subsidiary is currently under a tax audit, which raised some issues regarding the tax impact related to the merger held in 2008 and the resulting goodwill resulting from the structure which was set up by the Company's Brazilian counsel's suggestion. The structure used is relatively common in acquisitions of Brazilian operations made by non-Brazilian companies. In general, acquisitions with this structure have survived challenge by the taxing authorities in Brazil. The cumulative amount of tax benefits recognized on the Company’s books through January 31, 2014, resulting from the tax deduction of the goodwill amortization is approximately US $0, net of the deferred tax valuation reserve. This results from the goodwill on the Brazilian books which, for Brazilian tax purposes, is eligible for tax write-off over a five-year period dating from November 2008.

34

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Except in Canada, it is our practice and intention to reinvest the earnings of our non-US subsidiaries in their operations. As of January 31, 2014, the Company had not made a provision for US or additional foreign withholding taxes on approximately $18.0 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 ($16.6 million at January 31, 2013). Generally, such amounts become subject to US taxation upon remittance of dividends and under certain other circumstances. If theses earnings were repatriated to the US, the deferred tax liability associated with these temporary differences would be approximately $3.2 million and $2.9 million at January 31, 2014 and 2013, respectively.

9. 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. There was no Company match in FY13 or FY14.

10. VAT TAX ISSUE IN BRAZIL

Asserted Claims

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

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

Bahia had announced an amnesty for this tax whereby R$3.5 million (US$1.9 million) of the taxes claimed were paid by QT by the end of the month of May 2010, and the interest and penalties related thereto were forgiven. According to fiscal regulation of Brazil, 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$2.6) million and fines and interest currently at R$6.7 million (US$2.9 million), for a total of R$12.9 (US$5.5) million. The Company intends to defend and wait for the next amnesty period. Of other claims, our attorney informs us that three claims totaling R$1.3 (US$0.6) million in respect of fines and penalties will likely be successfully defended based on state auditor misunderstanding.

Lakeland intends to apply for amnesty and make any necessary payments upon the forthcoming, anticipated amnesty periods imposed by the local Brazilian authorities. Of this R$6.2 (US$2.6) million claim, R$3.4 (US$1.4) million is eligible for future credit. The future credit amount was recorded at the USD value at the exchange rate prevailing in 2010 when recorded.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

The Company has changed its strategy regarding the large VAT tax claim as a result of the current cash flow needs in Brazil. In February 2014, as had been anticipated, the administrative proceedings have ended and a switch to a formal judicial proceeding became required. The Company is presently attempting to negotiate a guarantee with the administrative level in the Tax department whereby the Company would either pledge its inventory as collateral for the judicial deposit or alternately would agree to deposit into an escrow account with the court system a monthly judicial deposit of a negotiated percentage of its future sales in Brazil. The Company would then be able to avail itself of a later amnesty. Any amounts paid into the escrow would be available at such time to be applied to the amnesty payment. The Company believes it is more likely than not that it will have the cash from operations or the borrowing capacity at such time to fund such amnesty payment but no assurances can be given.

Such arrangement would result in a judicial tax claim filed against the Company for 20% greater than the total claim, or approximately US$6.6 million (R15.4 million). Of this amount, only a portion of any amount paid into future amnesty would be eligible for future credit as discussed elsewhere in this note.

Once this arrangement is completed, the formal judicial process could take from 5 to 10 years. The Company believes there is a strong likelihood that another amnesty would be offered by the state prior to such completion.

The Company has accepted amnesty for a smaller claim (the fifth referenced above) which will result in eight monthly payments of about US $18,000 (R$42,000) which reflects abatement of 80% of penalty and interest. An accrual of US $153,000 has been charged to expense and included in other accrued expenses on the Balance Sheet as of January 31, 2014.

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

In December 2013, the company has just learned of a different VAT tax claimed by the State of Sao Paulo for a tax in the amount of approximately US $45,000 and total claim including interest and penalty totaling approximately US $200,000.

Management will continue to monitor the situation and revise its estimates as more information becomes available.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

A table summarizing all five different VAT claims and their status is listed below:

	Principle R$	Interest & Penalty R$	Total R$	Approximate for Totals US $	Loss Possibility	Strategy	Collateral
	305,897	491,272	797,168	362,000	Remote	To wait Judicial Process	New Land
	573,457	1,098,475	1,671,932	760,000	Remote	To wait Judicial Process	Plant
	6,209,836	6,653,586	12,863,422	5,847,000	Probable	To wait Judicial Process and offer Judicial Deposit (approx. 3% net sales)	-
	402,071	770,133	1,172,204	533,000	Remote	To wait Judicial Process	New Land
	285,009	249,140	534,149	243,000	Loss Agreed	*Accept State Amnesty (8 installments, approx. BRL 42K)	-
	7,776,270	9,262,605	17,038,875	7,745,000		***After State Amnesty Accepted**	
	PRINCIPAL	INTEREST	TOTAL		State Requirements 8 Installments representing accepted amnesty per above		
	285,009	15,626	334,835				
Total	285,009	15,626	334,835	152,000			

Numbers may not add due to rounding

Set forth below are the total amounts of potential tax liability from both the original and larger of the five secondary claims, the amount of payments already made into amnesty or scheduled for future payment, which are not eligible for future credit (essentially the discount allowed as an incentive by the neighboring state), less the amount of VAT taxes actually paid which are available as a credit and the amounts of the escrow released by one of the three sellers of the

Brazilian company acquired by the Company. The foregoing forms the basis for the US$1.6 million charge to expense recorded by Lakeland in the first quarter of fiscal 2011.

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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

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

Future Accounting for Funds

Following earlier payment into the amnesty program in 2010 and December 2013, a portion of the taxes were since recouped via credits against future taxes due. The Company does not expect any further charges to expense. Any future payment into amnesty has already been reflected on our books as a liability at January 31, 2014, along with potential future credits.

Balance Sheet Treatment

The Company has reflected the above items on its January 31, 2014, balance sheet as follows:

		R$ millions	**US$ millions**[1]
Noncurrent assets	VAT taxes eligible for future credit	3.4	1.9
Long-term liabilities	Taxes payable	6.2	3.3

[1] At exchange rate prevailing in 2010 when recorded.

38

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

11. DISCONTINUED OPERATIONS IN INDIA

The Company decided to discontinue operations in its India glove manufacturing facility and put the assets and business up for sale in FY12. The Company decided to sell this division primarily because it has incurred significant operating losses since inception, and the Company has been unsuccessful in developing sufficient sales to reach at least break even. The Company was attempting to sell the operations as an ongoing operation but shut down its operations in December 2011.

The assets and liabilities of the discontinued operations are presented separately under the captions “Assets of discontinued operations in India” and “Liabilities of discontinued operations in India,” respectively, in the accompanying Balance Sheets at January 31, 2014 and 2013, and consist of the following:

	January 31,	
	2014	2013
	(In thousands)	
Cash	$ —	$ —
Accounts receivable	—	—
Inventory	—	85
Other current asset	—	10
Property/equipment	—	718
Total assets of discontinued operations	—	813
Liabilities of discontinued operations:		
Accounts payable	—	3
Other liabilities	—	22
Total liabilities of discontinued operations	—	25
Net assets of discontinued operations	$ —	788

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

The following table illustrates the reporting of the discontinued operations included in the Statements of Operations for the years ended January 31, 2014 and 2013:

	Years Ended January 31,	
	2014	2013
	(in 000's)	
Net sales	$ —	$ —
Cost of goods sold	—	—
Gross loss	—	—
Operating expense	—	—
Operating loss	—	—
Loss on shutdown and sale assets	—	(800)
Loss from discontinued operations before income taxes	—	(800)
Benefit from income taxes from discontinued operations	—	(278)
Net loss from discontinued operations	$ —	$ (522)

12. MAJOR SUPPLIER

Our largest supplier in FY14 was Southern Mills from whom we purchased 12.7% of our total purchases. In FY13, our largest supplier was Southern Mills, from whom we purchased 11.7% of our total purchases. There were no other vendors over 10% for either FY14 or FY13.

12. RELATED PARTIES AND TRANSACTIONS

During the year, the Company paid approximately $587,000 and $435,000 in FY14 and FY13, respectively, to a company owned in part by managers of the Company for certain printing services, which management believes were at fair market value

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

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

Employment Contracts

The Company has employment contracts with four principal officers expiring through January 31, 2017. Pursuant to such contracts, the Company is committed to aggregate annual base remuneration of $1,032,000, $915,000, $370,000 and $290,000 for FY14, FY15, FY16 and FY17, respectively. Three of such employees voluntarily took an 8% reduction in pay along with a 30% reduction to be paid in restricted shares rather than cash, which was terminated in January 2014 and August 2013, respectively. Three of such contracts provide for bonuses based on reported earnings per share for FY15 compared with targets set by the Board. Such bonuses were not earned in FY14.

In March 2013, the Company reached a termination agreement with Mr. Miguel Bastos, President of Lakeland's Brazilian subsidiary. Such Agreement became effective on August 30, 2013. This is a part of the Company's efforts to reduce costs. The termination agreement calls for an aggregate maximum payout of R$1.1 million (approximately US$470,000), to be paid out over a period of approximately two years. Mr. Bastos will continue to receive his normal salary for six months and then will receive 3% of Lakeland Brazil's sales, until he reaches a total payout equal to the aggregate R$1.1 million. This termination agreement pays Mr. Bastos approximately half of the amount which would have been paid out for the remaining years of Mr. Bastos's employment contract, which had run through December 31, 2015. Such termination amount has been accrued as of January 31, 2014. The balance included in other accrued expenses on the Balance Sheet at January 31, 2014, was $361,367.

Leases

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

	Gross rental	Rentals paid to related parties
Year ended January 31,		
2014	$ 651,918	$ 0
2013	$ 559,485	$ 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, 2014, including lease renewals subsequent to year end, are summarized as follows:

Year ending January 31,	
2015	516,310
2016	222,311
2017	81,608
2018	66,250
2019	66,250
and thereafter	269,750

Litigation

The Company is involved in various litigation proceedings, in addition to those described in Notes 4 and 10 of the financial statements, 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.

41

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

15. 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. In the year ended January 31, 2014, the Company recorded a loss on foreign exchange in Brazil of $475,865 or $0.08 per share included in income from continuing operations. In the year ended January 31, 2013, the Company recorded a loss on foreign exchange in Brazil of $741,052 or $0.14 per share included in income from continuing operations.

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, 2014 or 2013.

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 $1,633,542 and $3,634,077 at January 31, 2014 and 2013, respectively. The corresponding asset and income recorded in other comprehensive income is immaterial to the consolidated financial statements at January 31, 2014 and 2013.

16. MANUFACTURING SEGMENT DATA

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

	Fiscal Years Ended January 31, ($ millions)					
	2014			2013		
Domestic	$ 46.73	51.14	%	$ 40.76	42.85	%
International	44.65	48.86	%	54.36	57.15	%
Total	$ 91.38	100.00	%	$ 95.12	100.00	%

42

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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 manufacture of our chemical, glove and disposable products) and Pennsylvania (primarily woven products production). We also maintain three manufacturing companies China (primarily disposable and chemical suit production), a wovens manufacturing facility in Brazil and a manufacturing facility in Mexico (primarily disposable, glove and chemical suit production). Our China and Brazil facilities produce the majority of the Company's revenues. 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, Brazil or China. The table below represents information about reported manufacturing segments for the years noted therein:

	Year Ended January 31	
	2014	2013
	(in millions)	(in millions)
Net Sales from Continuing Operations:		
USA	$50.53	$ 43.13
Other foreign	23.44	21.13
Mexico	3.17	2.38
China	44.3	37.81
Brazil	7.21	16.86
Corporate	2.02	0.75
Less intersegment sales	(39.29)	(26.94)
Consolidated sales	$91.38	$ 95.12
External Sales from Continuing Operations:		
USA	$46.73	$ 40.76
Other foreign	21.59	20.58
Mexico	1.26	0.73
China	14.76	16.19
Brazil	7.04	16.86
Corporate	—	—
Consolidated external sales	$91.38	$ 95.12
Intersegment Sales from Continuing Operations:		
USA	$3.80	$ 2.36
Other foreign	1.85	0.56

Mexico	1.91	1.65
China	29.54	21.62
Brazil	0.17	—
Corporate	2.02	0.75
Consolidated intersegment sales	$39.29	$ 26.94

43

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

	Year Ended January 31	
	2014 (in millions)	2013 (in millions)
Operating Loss from Continuing Operations:		
USA	$5.22	$ 1.11
Other foreign	0.08	0.71
Mexico	(0.01)	(0.04)
China	3.54	2.88
Brazil	(4.41)	(1.61)
Corporate	(4.80)	(4.66)
Less intersegment profit	0.03	0.58
Consolidated operating loss	$(0.36)	$ (1.03)
Interest Expense from Continuing Operations:		
USA	$—	$ —
Other foreign	0.18	0.14
Mexico	0.09	0.05
China	0.03	—
Brazil	1.08	0.97
Corporate	1.27	0.49
Less intersegment	(0.46)	(0.74)
Consolidated interest expense	$2.19	$ 0.91
Income Tax Expense (Benefit) from Continuing Operations:		
USA	$—	$ —
Other foreign	0.37	0.12
Mexico	0.02	0.01
China	0.92	0.56
Brazil	—	0.91
Corporate	(3.87)	3.26
Less intersegment	(0.29)	0.18
Consolidated income tax expense (benefit) from continuing operations	$(2.85)	$ 5.04
Depreciation and Amortization Expense:		
USA	$0.21	$ 0.27
Other foreign	0.17	0.19
Mexico	0.05	0.04
China	0.25	0.33
India - D&A of discontinued operations	—	—
Brazil	0.35	0.36
Corporate	0.60	0.36

Less intersegment	(0.02)	—
Consolidated depreciation and amortization expense	$1.61	$ 1.55
Total Assets (at Balance Sheet Date): *		
USA	$28.88	$ 23.66
Other foreign	19.93	13.19
Mexico	3.73	3.59
China	30.11	26.66
India	(1.19)	1.61
Brazil	6.92	14.14
Corporate	(4.63)	0.47
Consolidated assets	$83.75	$ 83.32

* Negative assets reflect intersegment accounts eliminated in consolidation

44

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

	Year Ended January 31	
	2014 (in millions)	2013 (in millions)
Property and Equipment (at Balance Sheet Date):		
USA	$2.42	$ 2.55
Other foreign	2.14	2.38
Mexico	2.09	2.21
China	2.64	3.28
India	0.01	—
Brazil	1.86	2.75
Corporate	0.91	0.92
Consolidated long-lived assets	$12.07	$ 14.09
Capital Expenditures:		
USA	$0.08	$ 0.19
Other foreign	0.08	0.07
Mexico	0.01	0.33
China	0.44	0.63
India	—	—
Brazil	0.09	0.08
Corporate	0.13	0.08
Consolidated capital expenditure	$0.83	$ 1.38
Goodwill:		
USA	$0.87	$ 0.87
Other foreign	—	—
Mexico	—	—
China	—	—
India	—	—
Brazil	—	—
Corporate	—	—
Consolidated goodwill	$0.87	$ 0.87

Lakeland Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2014 and 2013

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

	1/31/2014	10/31/2013	7/31/2013	4/30/2013
Net sales from continuing operations	$ 22,222	$ 22,787	$ 24,639	$ 21,737
Gross profit from continuing operations	6,249	5,042	7,462	6,080
(Loss) earnings from continuing operations	(1,611)	(1,835)	4,171	(844)
(Loss) earnings from discontinued operations	—	—	—	—
Net income (loss)	(1,611)	(1,835)	4,171	(844)
Basic net earnings (loss) per share:				
Continuing operations	(0.27)	(0.31)	0.75	(0.16)
Discontinued operations	—	—	—	—
Total	(0.27)	(0.31)	0.75	$ (0.16)
Diluted net earnings (loss) per share:				
Continuing operations	(0.27)	(0.31)	0.74	(0.16)

	1/31/2013	10/31/2012	7/31/2012	4/30/2012
Net sales from continuing operations	$ 23,399	$ 24,239	$ 23,499	$ 23,981
Gross profit from continuing operations	5,598	7,287	7,131	7,311
(Loss) earnings from continuing operations	(17,572)	283	1,644	(10,121)
(Loss) earnings from discontinued operations	(522)	—	—	—
Net income (loss)	(18,094)	283	1,644	(10,121)
Basic net earnings (loss) per share:				
Continuing operations	(3.30)	0.05	0.31	(1.94)
Discontinued operations	(0.10)	—	—	—
Total	(3.40)	0.05	0.31	(1.94)
Diluted net earnings (loss) per share:				
Continuing operations	(3.30)	0.05	0.30	(1.94)
Discontinued operations	(0.10)	—	—	—
Total	(3.40)	0.05	0.30	(1.94)

Numbers may not add due to rounding

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. (1) Financial Statements - Covered by Reports of Independent Registered Public Accounting Firms

(A) Consolidated Statements of Operations for the years ended January 31, 2014 and 2013

(B) Consolidated Statements of Comprehensive Income for the years ended January 31, 2014 and 2013

(C) Consolidated Balance Sheets at January 31, 2014 and 2013

(D) Consolidated Statements of Stockholder's Equity for the years ended January 31, 2014 and 2013

(E) Consolidated Statements of Cash Flows for the years ended January 31, 2014 and 2013

(F) Notes to Consolidated Financial Statements

(2) Financial Statement Schedule – Covered by Report of Independent Registered Public Accounting Firm. All schedules are omitted because they are not applicable, not required or the required information is included in a consolidated financial statement or notes hereto.

(3) Exhibits – See (b) below

b. Exhibits

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Lakeland Industries, Inc. (incorporated by reference to Exhibit 3.2 of Lakeland Industries, Inc.'s Form 10-Q filed December 7, 2011).
3.2	Amended and Restated Bylaws of Lakeland Industries Inc. (incorporated by reference to Exhibit 3.1 of Lakeland Industries, Inc.'s Form 8-K filed April 14, 2014).

4.1	2006 Incentive Plan (incorporated by reference to Exhibit 4.1 of Lakeland Industries, Inc. Registration Statement on Form S-8 filed July 26, 2007).
4.2	2009 Stock Plan (incorporated by reference to Exhibit 4.1 of Lakeland Industries, Inc. Registration Statement on Form S-8 filed September 8, 2011).
4.3	2012 Stock Incentive Plan (incorporated by reference to Exhibit 4.1 of Lakeland Industries, Inc. Registration Statement on Form S-8 filed September 13, 2012).
4.4	Investor Rights Agreement, dated June 28, 2013, by and between Lakeland Industries, Inc. and LKL Investments, LLC (incorporated by reference to Exhibit 4.1 of Lakeland Industries, Inc.'s Form 8-K filed July 1, 2013).
4.5	Registration Rights Agreement, dated June 28, 2013, by and between Lakeland Industries, Inc. and LKL Investments, LLC (incorporated by reference to Exhibit 4.2 of Lakeland Industries, Inc.'s Form 8-K filed July 1, 2013).
10.1	Employment Agreement, dated April 16, 2010, between Lakeland Industries, Inc. and Christopher J. Ryan (incorporated by reference to Exhibit 10.5 of Lakeland Industries, Inc. Form 10-K for the fiscal year ended January 31, 2010, filed April 16, 2010).
10.2	Employment Agreement, dated January 24, 2012, between Lakeland Industries, Inc. and Gary Pokrassa (incorporated by reference to Exhibit 10.1 of Lakeland Industries, Inc. Form 8-K filed January 24, 2012).
10.3	Lease Agreement, dated 2006, between Michael Robert Kendall, June Jarvis and Barnett Waddingham Trustees Limited, as lessor, and Lakeland Industries, Inc., as lessee (incorporated by reference to Exhibit 10.22 of Lakeland Industries, Inc.'s Form 10-K for the fiscal year ended January 31, 2007).

Exhibit No.	Description
10.4	Lease Agreement, dated October 14, 2010, between South Heidelberg Partners, LP, as lessor, and Lakeland Industries, Inc., as lessee for Lakeland High Visibility Clothing in Pennsylvania (incorporated by reference to Exhibit 10.14 of Lakeland Industries, Inc. Form 10-K for the fiscal year ended January 31, 2011).
10.5	Lease Agreement, dated December 28, 2010, between Land Services, LLC, as lessor, and Lakeland Industries, Inc., as lessee (incorporated by reference to Exhibit 10.15 of Lakeland Industries, Inc. Form 10-K for the fiscal year ended January 31, 2011).
10.6	Lakeland Industries, Inc. Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Lakeland Industries, Inc. Form 8-K filed June 29, 2012).
10.7	Settlement Agreement between Lakeland and Elder Marcos Vieira da Conceição and Márcia Cristina Vieira daConceição Antunes (incorporated by reference to Exhibit 10.1 to Lakeland Industries, Inc. Form 10-Q filed July 31, 2012).
10.8	Agreement, dated January 11, 2013, between Lakeland Industries, Inc. and Bank Itau (incorporated by reference to Exhibit 10.1 to Lakeland Industries, Inc. Form 8-K filed January 15, 2013).
10.9	Summary of Exhibit 10.8 in English (incorporated by reference to Exhibit 10.2 to Lakeland Industries, Inc. Form 8-K filed January 15, 2013).
10.10	Amendment for the Purchase of Debts, dated January 29, 2013 (incorporated by reference to Exhibit 10.1 to Lakeland Industries, Inc. Form 8-K filed February 20, 2013).
10.11	Fixed Charge on Non-vesting Debts and Floating Charge, dated January 29, 2013 (incorporated by reference to Exhibit 10.2 to Lakeland Industries, Inc. Form 8-K filed February 20, 2013).
10.12	Standard Terms & Conditions (incorporated by reference to Exhibit 10.3 to Lakeland Industries, Inc. Form 8-K filed February 20, 2013).
10.13	Termination Agreement, dated March 14, 2013, among Lakeland Brasil S.A., Lakeland Industries, Inc. and Miguel Bastos (incorporated by reference to Exhibit 10.1 to Lakeland Industries, Inc. Form 8-K filed March 15, 2013).
10.14	Loan and Security Agreement, dated June 28, 2013, by and among Lakeland Industries, Inc. and Lakeland Protective Wear Inc., as borrowers, and Alostar Bank of Commerce (incorporated by reference to Exhibit 10.1 of Lakeland Industries, Inc.'s Form 8-K filed July 1, 2013).
10.15	Amended and Restated Revolver Note, dated June 28, 2013, issued by Lakeland Industries, Inc. and Lakeland Protective Wear Inc., as borrowers, to Alostar Bank of Commerce (incorporated by reference to Exhibit 10.2 of Lakeland Industries, Inc.'s Form 8-K filed July 1, 2013).
10.16	Loan and Security Agreement, dated June 28, 2013, by and among Lakeland Industries, Inc. and Lakeland Protective Wear Inc., as borrowers, and LKL Investments, LLC (incorporated by reference to Exhibit 10.3 of Lakeland Industries, Inc.'s Form 8-K filed July 1, 2013).

10.17	Term Note, dated June 28, 2013, issued by Lakeland Industries, Inc. and Lakeland Protective Wear Inc., as borrowers, to LKL Investments, LLC (incorporated by reference to Exhibit 10.4 of Lakeland Industries, Inc.'s Form 8-K filed July 1, 2013).
10.18	Warrant to Purchase Common Stock, dated as of June 28, 2013, issued by Lakeland Industries, Inc. to LKL Investments, LLC (incorporated by reference to Exhibit 10.5 of Lakeland Industries, Inc.'s Form 8-K filed July 1, 2013).

48

Exhibit No.	Description
10.19	Letter of Offer, effective as of September 27, 2013, between Lakeland Protective Real Estate Inc. and Business Development Bank of Canada (incorporated by reference to Exhibit 10.1 of Lakeland Industries, Inc.'s Form 8-K filed October 1, 2013).
10.20	General Security Agreement, effective as of September 27, 2013, between Lakeland Protective Real Estate Inc. and Business Development Bank of Canada (incorporated by reference to Exhibit 10.2 of Lakeland Industries, Inc.'s Form 8-K filed October 1, 2013).
10.21	Agreement for Purchase of Debts, dated December 19, 2013 (incorporated by reference to Exhibit 10.1 of Lakeland Industries, Inc.'s Form 8-K filed December 23, 2013).
10.22	Replacement Schedule, dated December 19, 2013 (incorporated by reference to Exhibit 10.2 of Lakeland Industries, Inc.'s Form 8-K filed December 23, 2013).
10.23	Loan Agreement dated on December 13, 2013 between Lakeland Industries, Inc. and Bank Itau in Brazil to borrow R$ 500.000 (approximately USD $211,000) for working capital (incorporated by reference to Exhibit 10.3 of Lakeland Industries, Inc.'s Form 8-K filed December 23, 2013).
10.24	Summary of Exhibit 10.23 in English (incorporated by reference to Exhibit 10.4 of Lakeland Industries, Inc.'s Form 8-K filed December 23, 2013).
10.25	Loan Agreement, dated March 27, 2014, between the China subsidiary of Lakeland Industries, Weifang Lakeland Safety Products Inc., Ltd and Weifang Rural Credit Cooperative Bank (incorporated by reference to Exhibit 10.1 of Lakeland Industries, Inc. Form 8-K filed April 2, 2014).
10.26	Summary of Exhibit 10.25 in English (incorporated by reference to Exhibit 10.2 of Lakeland Industries, Inc. Form 8-K filed April 2, 2014).
10.27	Employment Agreement, dated March 1, 2014, between Lakeland Industries, Inc. and Stephen M. Bachelder.
14.1	Amendment to the Lakeland Industries, Inc. Code of Ethics, dated February 6, 2012 (incorporated by reference to Exhibit 14.1 of Lakeland Industries, Inc. Form 10-K for the fiscal year ended January 31, 2012).
21	Subsidiaries of Lakeland Industries, Inc. (wholly owned) and jurisdictions of incorporation:

Lakeland Protective Wear, Inc.	Ontario
Lakeland Protective Real Estate	Ontario
Laidlaw, Adams & Peck, Inc. and Subsidiary (Weifang Meiyang Protective Products Co., Ltd.)	Delaware
Weifang Lakeland Safety Products Co., Ltd.	An Qiu City, Shandong
Lakeland Brazil, S.A.	Salvador, Brazil
Lakeland Glove and Safety Apparel Private Ltd.	New Delhi
Lakeland Industries Europe Ltd.	Cardiff, UK
Weifang Meiyang Protective Products Co., Ltd	An Qiu City, Shandong

Lakeland (Beijing) Safety Products, Co., Ltd.	Beijing, China
Lakeland Shanghai	Shanghai, China
Lakeland Industries, Inc. Agencia en Chile	Santiago, Chile
Lakeland Argentina, SRL	Buenos Aires, Argentina
Art Prom, LLC	Ust-Kamenogorsk, Kazakhstan
RussIndProtection, Ltd.	Moscow, Russia
Lakeland (Hong Kong) Trading Co., Ltd.	Hong Kong

Exhibit No.	Description
23.1	Consent of Warren Averett, LLC, Independent Registered Public Accounting Firm
23.2*	Consent of ACAL Consultoria E Auditoria S/S, Independent Registered Public Accounting Firm
23.3*	Consent of RSM China, 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 Gary Pokrassa, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Christopher J. Ryan, Chief Executive Officer, President 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 Gary Pokrassa, Chief Financial Officer, pursuant to Section 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculations Document
101.DEF	XBRL Taxonomy Extension Definitions Document
101.LAB	XBRL Taxonomy Extension Labels Document
101.PRE	XBRL Taxonomy Extension Presentations Document
*	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: August 13, 2014

LAKELAND INDUSTRIES, INC.

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