LAKELAND INDUSTRIES INC
Form 10-Q
December 15, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended **October 31, 2017**

OR

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

For the transition period from _______________ to _______________

Commission File Number: 0-15535

LAKELAND INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

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

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

(631) 981-9700

(Registrant's telephone number, including area code)

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

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 ¨

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

Yes x No ¨

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

Large accelerated filer ¨

Accelerated filer ¨

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

Smaller reporting company x

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Yes ¨ No x

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

Class	**Outstanding at December 12, 2017**
Common Stock, $0.01 par value per share	8,116,199 shares

LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

FORM 10-Q

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

2

LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Introduction

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- there is no assurance that our disposition of our Brazilian subsidiary will be entirely successful in that we may continue to be exposed to certain liabilities in connection with the operations of such company. In addition, while our tax advisors believe that the worthless stock deduction taken by our company in connection therewith is valid, there can be no assurance that the IRS will not challenge it and, if challenged, that we will prevail.
- rapid technological change could negatively affect sales of our products, inventory levels and our performance;
- we must estimate customer demand because we do not have long-term commitments from many of our customers, and errors in our estimates could negatively impact our inventory levels and net sales;
- our operations are substantially dependent upon key personnel;
- we rely on a limited number of suppliers and manufacturers for specific fabrics, and we may not be able to obtain substitute suppliers and manufacturers on terms that are as favorable, or at all, if our supplies are interrupted;
- our inability to protect our intellectual property;
- our effective tax rate could change as a result of tax reform and the result could be a significant one-time noncash charge to tax expense in order to adjust our deferred tax asset;
- we face competition from many other companies, a number of which have substantially greater resources than we do;
- nearly half of our sales are to foreign buyers, which exposes us to additional risks;
- a significant reduction in government funding for preparations for terrorist incidents could adversely affect our net sales;

3

- we may be subject to product liability claims, and insurance coverage could be inadequate or unavailable to cover these claims;
- our directors and executive officers have the ability to exert significant influence on us and on matters subject to a vote of our stockholders;
- our failure to realize anticipated benefits from acquisitions, divestitures or restructurings, or the possibility that such acquisitions, divestitures or restructurings could adversely affect us;
- our ability to make payments on our indebtedness and comply with the restrictive covenants therein;
- covenants in our credit facilities may restrict our financial and operating flexibility;
- the other factors referenced in this Form 10-Q, including, without limitation, in the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the factors described under “Risk Factors” disclosed in our fiscal 2017 Form 10-K.

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	($000's except for share information)			
	2017	2016	2017	2016
Net sales	$23,960	$23,243	$70,831	$65,881
Cost of goods sold	14,907	14,724	44,530	41,999
Gross profit	9,053	8,519	26,301	23,882
Operating expenses	6,388	6,271	18,981	18,886
Operating profit	2,665	2,248	7,320	4,996
Other income (loss), net	7	(2)	13	20
Interest expense	(35)	(150)	(147)	(522)
Income before taxes	2,637	2,096	7,186	4,494
Income tax expense	831	583	1,828	1,548
Net income	$1,806	$1,513	$5,358	$2,946
Net income per common share:				
Basic	$0.23	$0.21	$0.72	$0.41
Diluted	$0.23	$0.21	$0.71	$0.40
Weighted average common shares outstanding:				
Basic	7,894,582	7,258,697	7,477,202	7,255,966
Diluted	7,922,397	7,332,997	7,530,637	7,321,587

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended October 31, ($000's)		Nine Months Ended October 31, ($000's)	
	2017	2016	2017	2016
Net income	$ 1,806	$ 1,513	$ 5,358	$ 2,946
Other comprehensive income (loss):				
Cash flow hedges	122	—	(80)	23
Foreign currency translation adjustments	(40)	(193)	292	(102)
Other comprehensive income (loss)	82	(193)	212	(79)
Comprehensive income	$ 1,888	$ 1,320	$ 5,570	$ 2,867

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	October 31, 2017 ($000's)	January 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$21,493	$ 10,365
Accounts receivable, net of allowance for doubtful accounts of $375 and $417 at October 31, 2017 and January 31, 2017, respectively	13,032	10,704
Inventories, net of allowance of $2,439 and $2,305 at October 31, 2017 and January 31, 2017, respectively	38,453	35,535
Prepaid VAT tax	1,824	1,361
Other current assets	1,843	2,121
Total current assets	76,645	60,086
Property and equipment, net	8,624	8,527
Assets held for sale	901	901
Deferred income tax	12,764	13,515
Prepaid VAT and other taxes	319	478
Other assets	239	176
Goodwill	871	871
Total assets	$100,363	$ 84,554
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$8,547	$ 4,928
Accrued compensation and benefits	1,216	1,311
Other accrued expenses	1,244	1,024
Current maturity of long-term debt	158	50
Short-term borrowings	754	153
Borrowings under revolving credit facility	—	4,865
Total current liabilities	11,919	12,331
Long-term portion of debt	1,351	716
Total liabilities	13,270	13,047
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.01 par; authorized 1,500,000 shares (none issued)	—	—
Common stock, $.01 par; authorized 10,000,000 shares, Issued 8,472,640 and 7,620,215; outstanding 8,116,199 and 7,263,774 at October 31, 2017 and January 31, 2017, respectively	85	76
Treasury stock, at cost; 356,441 shares at October 31, 2017 and January 31, 2017	(3,352)	(3,352)
Additional paid-in capital	74,771	64,764

Retained earnings	17,759	12,401
Accumulated other comprehensive loss	(2,170)	(2,382)
Total stockholders' equity	87,093	71,507
Total liabilities and stockholders' equity	$ 100,363	$ 84,554

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

7

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Nine Months Ended October 31,	
	2017 ($000's)	2016 ($000's)
Cash flows from operating activities:		
Net income	$ 5,358	$ 2,946
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for (recovery of) inventory obsolescence	134	(5)
Recovery of doubtful accounts	(42)	(41)
Deferred income taxes	750	153
Depreciation and amortization	582	963
Stock-based and restricted stock compensation	291	177
Loss on disposal of property and equipment	—	31
(Increase) decrease in operating assets		
Accounts receivable	(2,121)	176
Inventories	(2,953)	4,283
Prepaid VAT taxes	(463)	(374)
Other current assets	366	(510)
Increase (decrease) in operating liabilities		
Accounts payable	3,535	477
Accrued expenses and other liabilities	194	(145)
Net cash used by the sale of Brazil	(99)	80
Net cash provided by operating activities	5,532	8,211
Cash flows from investing activities:		
Purchases of property and equipment	(619)	(116)
Cash flows from financing activities:		
Net repayments under revolving credit facility	(4,865)	(3,687)
Loan repayments, short-term	(867)	(4,511)
Loan borrowings, short-term	102	1,329
Loan repayments, long-term	(66)	—
Loan borrowing, long-term	1,575	—
UK borrowings under line of credit facility, net	538	243
Proceeds from exercise of stock options	—	41
Shares returned to pay employee taxes under restricted stock program	(376)	(3)
Proceeds from public offering, net of issuance costs of approximately $1.0 million	10,113	—
Net cash provided by (used in) financing activities	6,154	(6,588)
Effect of exchange rate changes on cash and cash equivalents	61	(76)
Net increase in cash and cash equivalents	11,128	1,431

Cash and cash equivalents at beginning of period	10,365	7,022
Cash and cash equivalents at end of period	$ 21,493	$ 8,453
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 147	$ 522
Cash paid for taxes	$ 928	$ 1,126

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

Lakeland Industries, Inc. and Subsidiaries ("Lakeland," the "Company," "we," "our" or "us"), a Delaware corporation organize in April 1986, manufactures and sells a comprehensive line of safety garments and accessories for the industrial protective clothing market.

2. Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments (consisting of only normal and recurring adjustments) which are, in the opinion of management, necessary to present fairly the unaudited condensed consolidated financial information required herein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") have been condensed or omitted pursuant to such rules and regulations. While we believe that the disclosures are adequate to make the information presented not misleading, it is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended January 31, 2017.

The results of operations for the three and nine month period ended October 31, 2017 are not necessarily indicative of the results to be expected for the full year.

In this Form 10-Q, (a) "FY" means fiscal year; thus, for example, FY18 refers to the fiscal year ending January 31, 2018, (b) "Q" refers to quarter; thus, for example, Q3 FY18 refers to the third quarter of the fiscal year ending January 31, 2018, (c) "Balance Sheet" refers to the unaudited condensed consolidated balance sheet and (d) "Statement of Operations" refers to the unaudited condensed consolidated statement of operations.

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates and assumptions

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

Accounts Receivable, net

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

Inventories, net

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 net realizable value. Provision is made for slow-moving, obsolete or unusable inventory.

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is evaluated for impairment at least annually; however, this evaluation may be performed more frequently when events or changes in circumstances indicate the carrying amount may not be recoverable. Factors that the Company considers important that could identify a potential impairment include: significant changes in the overall business strategy and significant negative industry or economic trends. The Company measures any potential impairment on a projected discounted cash flow method. Estimating future cash flows requires the Company’s management to make projections that can differ materially from actual results. As of October 31, 2017 and January 31, 2017, no impairment was recorded.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances indicate the carrying value may not be recoverable. The Company measures any potential impairment on a projected undiscounted cash flow method. Estimating future cash flows requires the Company’s management to make projections that can differ materially from actual results. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from the asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. As of October 31, 2017 and January 31, 2017, no impairment was recorded.

Revenue Recognition

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

Income Taxes

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

The Company recognizes tax positions that meet a "more likely than not" minimum recognition threshold. If necessary, the Company recognizes interest and penalties associated with tax matters as part of the income tax provision and would include accrued interest and penalties with the related tax liability in the unaudited condensed consolidated balance sheets.

Foreign Operations and Foreign Currency Translation

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

Pursuant to US GAAP, assets and liabilities of the Company's foreign operations with functional currencies, other than the US dollar, are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average rates prevailing during the periods. Translation adjustments are reported in accumulated other comprehensive loss, a separate component of stockholders' equity. Cash flows are also translated at average translation rates for the periods, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the unaudited condensed consolidated balance sheet. 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. Foreign currency transaction losses included in net income for the three and nine months ended October 31, 2017 were approximately $119,000 and $586,000 and for the three and nine months ended October 31, 2016 were approximately $38,000 and $244,000, respectively.

Fair Value of Financial Instruments

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

The following is a brief description of those three levels:

Level 1:	Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
Level 3:	Unobservable inputs that reflect management's own assumptions.

Foreign currency forward and hedge contracts are recorded in the unaudited condensed consolidated balance sheets at their fair value as of the balance sheet dates based on current market rates as further discussed in Note 10.

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

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

Earnings Per Share

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

Reclassifications

Certain reclassifications have been made to the prior period's unaudited condensed consolidated financial statements to conform to the current period presentation.

Recent Accounting Pronouncements

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

New Accounting Pronouncements Recently Adopted

In July 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." This update requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. The Company adopted this guidance in the first quarter of FY18 using a prospective application. The adoption of this guidance did not have a material impact to the unaudited condensed consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This update addresses several aspects of the accounting for share-based compensation transactions including: (a) income tax consequences when awards vest or are settled, (b) classification of awards as either equity or liabilities, (c) a policy election to account for forfeitures as they occur rather than on an estimated basis and (d) classification of excess tax impacts on the statement of cash flows. The Company adopted this guidance in the first quarter of FY18, which did not have a material impact to the unaudited condensed consolidated financial statements and related disclosures. The amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement will be applied prospectively. The inclusion of excess tax benefits and deficiencies as a component of our income tax expense will increase volatility within our provision for income taxes as the amount of excess tax benefits or deficiencies from share-based compensation awards are dependent on our stock price at the date the awards are exercised or settled. The Company does not expect the impact to be material to the consolidated results of operations; however, such determination is subject to change based on facts and circumstances at the time when awards vest or settle. The Company accounts for forfeitures of share-based awards when they occur. The Company will apply the amendments related to the presentation of excess tax benefits on the consolidated statement of cash flows using a retrospective transition method, and as a result, excess tax benefits related to share-based awards which had been previously classified as cash flows from financing activities will be reclassified as cash flows from operating activities.

New Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in US GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU No. 2015-14, “Deferral of the Effective Date” (“ASU 2015-14”), which defers the effective date for ASU 2014-09 by one year. For public entities, the guidance in ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods), which means it will be effective for the Company’s fiscal year beginning February 1, 2018. In March 2016, the FASB issued ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue versus Net)” (“ASU 2016-08”), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. In April 2016, the FASB issued ASU No. 2016-10, “Identifying Performance Obligations and Licensing” (“ASU 2016-10”), which reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In May 2016, the FASB issued ASU No. 2016-12 “Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), which amends the guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. In December 2016, the FASB further issued ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” (“ASU 2016-20”), which makes minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are intended to address implementation and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. These amendments have the same effective date as the new revenue standard. The Company plans to adopt Topic 606 in the first quarter of its fiscal 2019 using the retrospective transition method. The Company does not expect a significant impact on its consolidated financial statements upon the adoption of this guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. The Company is currently evaluating the impact of this new standard on its consolidated financial statements but has not determined the effects that the adoption of the pronouncement may have on its unaudited condensed consolidated financial statements and related disclosures.

In February 2017, the FASB issued ASU No. 2017-05, “Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets” to clarify the scope of Subtopic 610-20 and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company does not expect that adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting.” The amendment amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For all entities, the ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

In July 2017, the FASB issued ASU No. 2017-11, “Earnings per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Non-public Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.” The amendments in Part I of ASU No. 2017-11 change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of ASU No. 2017-11 recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of ASU No. 2017-11 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

4. *Inventories, net*

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

	October 31, 2017	January 31, 2017
Raw materials	$ 13,490	$ 14,312
Work-in-process	1,993	1,233
Finished goods	22,970	19,990
	$ 38,453	$ 35,535

5. *Debt*

Revolving Credit Facility

On June 28, 2013, as amended on March 31, 2015 and June 3, 2015, Lakeland Industries, Inc. and its wholly owned Canadian subsidiary, Lakeland Protective Wear Inc. (collectively the “Borrowers”), entered into a Loan and Security Agreement (the “AloStar Loan Agreement”) with AloStar Business Credit, a division of AloStar Bank of Commerce (“AloStar”). The AloStar Loan Agreement provided the Borrowers with a $15 million revolving line of credit (the “AloStar Credit Facility”), at a variable interest rate based on LIBOR, with a first priority lien on substantially all of the United States and Canada assets of the Company, except for its Mexican plant and the Canadian warehouse. After these amendments the maturity date of the AloStar Credit Facility was extended to June 28, 2017 and the minimum interest rate floor became 4.25% per annum. On May 10, 2017, the AloStar Loan Agreement was terminated, and the existing balance due was repaid with the proceeds from a new loan agreement with SunTrust Bank.

On May 10, 2017, the Company entered into a Loan Agreement (the “Loan Agreement”) with SunTrust Bank (“Lender”). The Loan Agreement provides the Company with a secured (i) $20.0 million revolving credit facility, which includes a $5.0 million letter of credit sub-facility, and (ii) $1,575,000 term loan with Lender. The Company may request from time to time an increase in the revolving credit loan commitment of up to $10.0 million (for a total commitment of up to $30.0 million). Borrowing pursuant to the revolving credit facility is subject to a borrowing base amount calculated as (a) 85% of eligible accounts receivable, as defined, plus (b) an inventory formula amount, as defined, minus (c) an amount equal to the greater of (i) $1,500,000 or (ii) 7.5% of the then current revolver commitment amount, minus (d) certain reserves as determined by the Loan Agreement. The credit facility matures on May 10, 2020 (subject to earlier termination upon the occurrence of certain events of default as set forth in the Loan Agreement). At the closing, the Company’s existing financing facility with AloStar was fully repaid and terminated using proceeds of the revolver in the amount of approximately $3.0 million.

Borrowings under the term loan and the revolving credit facility bear interest at an interest rate determined by reference whether the loan is a base rate loan or Eurodollar loan, with the rate election made by the Company at the time of the borrowing or at any time the Company elects pursuant to the terms of the Loan Agreement. The term loan is payable in equal monthly principal installments of $13,125 each, beginning on June 1, 2017, and on the first day of each succeeding month, with a final payment of the remaining principal and interest on May 10, 2020 (subject to earlier termination as provided in the Loan Agreement). For that portion of the term loan that consists of Eurodollar loans, the term loan shall bear interest at the LIBOR Market Index Rate ("LIBOR") plus 2.0% per annum, and for that portion of the term loan that consists of base rate loans, the term loan shall bear interest at the base rate then in effect plus 1.0% per annum. All principal and unpaid accrued interest under the revolver credit facility shall be due and payable on the maturity date of the revolver. For that portion of the revolver loan that consists of Eurodollar loans, the revolver shall bear interest at LIBOR plus a margin rate of 1.75% per annum for the first six months and thereafter between 1.5% and 2.0%, depending on the Company's "availability calculation" (as defined in the Loan Agreement) and, for that portion of the revolver that consists of base rate loans, the revolver shall bear interest at the base rate then in effect plus a margin rate of 0.75% per annum for the first six months and thereafter between 0.50% and 1.0%, depending on the availability calculation. As of the closing, the Company elected all borrowings under the Loan Agreement to accrue interest at LIBOR which, as of that date, was 0.99500% (1.2317% as of October 31, 2017). As such, the initial rate of interest for the revolver is 2.745% per annum and the initial rate of interest for the term loan is 2.995% per annum. The Loan Agreement provides for payment of an unused line fee of between 0.25% and 0.50%, depending on the amount by which the revolving credit loan commitment exceeds the amount of the revolving credit loans outstanding (including letters of credit), which shall be payable monthly in arrears on the average daily unused portion of the revolver.

The Company agreed to maintain a minimum “fixed charge coverage ratio” (as defined in the Loan Agreement) as of the end of each fiscal quarter, commencing with the fiscal quarter ended July 31, 2017, of not less than 1.10 to 1.00 during the applicable fiscal quarter, and agreed to certain negative covenants that are customary for credit arrangements of this type, including restrictions on the Company’s ability to enter into mergers, acquisitions or other business combination transactions, conduct its business, grant liens, make certain investments, incur additional indebtedness, and make stock repurchases.

In connection with the Loan Agreement, the Company entered into a security agreement, dated May 10, 2017, with Lender pursuant to which the Company granted to Lender a first priority perfected security interest in substantially all real and personal property of the Company.

Borrowings in UK

On December 31, 2014, the Company and Lakeland Industries Europe, Ltd, (“Lakeland UK”), a wholly owned subsidiary of the Company, amended the terms of its existing line of credit facility with Hong Kong and Shanghai Banking Corporation (“HSBC”) to provide for (i) a one-year extension of the maturity date of the existing financing facility to December 19, 2016, (ii) an increase in the facility limit from £1,250,000 (approximately USD $1.9 million, based on exchange rates at time of closing) to £1,500,000 (approximately USD $2.3 million, based on exchange rates at time of closing), and (iii) a decrease in the annual interest rate margin from 3.46% to 3.0%. In addition, pursuant to a letter agreement dated December 5, 2014, the Company agreed that £400,000 (approximately USD $0.6 million, based on exchange rates at time of closing) of the note payable by the UK subsidiary to the Company shall be subordinated in priority of payment to the subsidiary’s obligations to HSBC under the financing facility. The balance under this loan outstanding at October 31, 2017 and January 31, 2017 was USD $0.7 million and USD $0.1 million, respectively. On December 31, 2016, Lakeland UK entered into an extension of the maturity date of its existing financing facility with HSBC Invoice Finance (UK) Ltd. to December 19, 2017, which was subsequently extended to March 31, 2018. Other than the extension of the maturity date and a small reduction of the service charge from 0.9% to 0.85%, all other terms of the facility remain the same.

Canada Loans

In September 2013, the Company refinanced its loan with the Development Bank of Canada (“BDC”) for a principal amount of approximately $1.1 million in both Canadian dollars and USD (based on exchange rates at time of closing). Such loan is for a term of 240 months at an interest rate of 6.45% per annum with fixed monthly payments of USD $6,048 (CAD $8,169) including principal and interest. It is collateralized by a mortgage on the Company's warehouse in Brantford, Ontario. This loan was paid in full on September 26, 2017. The amount outstanding at January 31, 2017 was USD $716,000 (CAD $1.0 million) in long term borrowings, net of current maturities of USD $50,000.

Argentina Loan

In April 2015, Lakeland Argentina S.R.L. ("Lakeland Argentina"), the Company's Argentina subsidiary was granted a $300,000 line of credit denominated in Argentine pesos, pursuant to a standby letter of credit granted by the parent company. The line of credit was paid in full during the course of normal operations and prior to October 31, 2017, except for approximately USD $60,000 noted below.

On July 1, 2016, Lakeland Argentina and Banco de la Nación Argentina ("BNA") entered into an agreement for Lakeland Argentina to obtain a loan in the amount of ARS 569,000 (approximately USD $38,000, based on exchange rates at time of closing); such loan was for a term of one year at an interest rate of 27.06% per annum. This agreement was paid in full prior to October 31, 2017.

On May 19, 2017 Lakeland Argentina and Banco de la Nación Argentina (“BNA”) entered into an agreement for Lakeland Argentina to obtain a loan in the amount of ARS 1.8 million (approximately USD $112,000, based on exchange rates at time of closing); such loan is for a term of one year at an interest rate of 20.0% per annum. The amount outstanding at October 31, 2017 was ARS 1.1 million (approximately USD $60,000 which is included as short-term borrowings on the unaudited condensed consolidated balance sheet.)

Below is a table to summarize all of the debt amounts pursuant to the various banking arrangements described above (in 000’s):

	Short-Term		Long-term		**Current Maturity of Long-term**		**Revolving Credit Facility**	
	10/31/17	1/31/17	10/31/17	1/31/17	10/31/17	1/31/17	10/31/17	1/31/17
Argentina	$60	$ 27	$—	$ —	$ —	$ —	$ —	$ —
Canada	—	—	—	716	—	50	—	—
UK	694	126	—	—	—	—	—	—
USA	—	—	1,351	—	158	—	—	4,865
TOTALS	$754	$ 153	$1,351	$ 716	$ 158	$ 50	$ 0	$ 4,865

Five-year Debt Payout Schedule

This schedule reflects the liabilities as of October 31, 2017, and does not reflect any subsequent event (in 000’s):

	Total	**1 Year or less**	2 Years	3 Years	4 Years	5 Years	**After 5 Years**
Revolving credit facility	$—	$ —	$ —	$—	$ —	$ —	$ —
Borrowing in USA	1,509	158	158	1,193	—	—	—
Borrowings in Canada	—	—	—	—	—	—	—
Borrowings in UK	694	694	—	—	—	—	—
Borrowings in Argentina	60	60	—	—	—	—	—
Total	$2,263	$ 912	$ 158	$1,193	$ —	$ —	$ —

6. Concentration of Risk

Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents, and trade receivables. Concentration of credit risk with respect to trade receivables is generally diversified due to the large number of entities comprising the Company’s customer base and their dispersion across geographic areas. 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.

The Company’s foreign financial depositories are Bank of America; China Construction Bank; Bank of China; China Industrial and Commercial Bank; HSBC; Rural Credit Cooperative of Shandong; Postal Savings Bank of China; Punjab National Bank; HSBC in India, Argentina and UK; Raymond James in Argentina; TD Canada Trust; Banco Itaú S.A., Banco Credito Inversione in Chile; Banco Mercantil Del Norte SA in Mexico; ZAO KB Citibank Moscow in Russia, and JSC Bank Centercredit in Kazakhstan. The Company monitors its financial depositories by their credit rating which varies by country. In addition, cash balances in banks in the United States of America are insured by the Federal Deposit Insurance Corporation subject to certain limitations. There is approximately $11.1 and $1.4 million total included in the U.S. bank accounts and approximately $10.4 and $9.0 million total in foreign bank accounts as of October 31, 2017 and January 31, 2017, respectively.

Major Customer

No customer accounted for more than 10% of net sales during the three and nine month periods ended October 31, 2017 and 2016.

Major Supplier

No supplier accounted for more than 10% of net purchases during the three and nine month periods ended October 31, 2017 and 2016.

7. Stockholders' Equity

The 2017, 2015 and 2012 Stock Plans

On June 21, 2017, the stockholders of the Company approved the Lakeland Industries, Inc. 2017 Equity Incentive Plan (the "2017 Plan") at the Annual Meeting of Stockholders. The executive officers and all other employees and directors of the Company, including its subsidiaries are eligible to participate in the 2017 Plan. The 2017 Plan is administered by the Compensation Committee of the Board of Directors (the "Committee"), except that with respect to all non-employee directors, the Committee shall be deemed to include the full Board. The 2017 Plan provides for the grant of equity-based compensation in the form of stock options, restricted stock, restricted stock units, performance shares, performance units, or stock appreciation rights.

The 2017 Plan also permits the grant of awards that qualify for "performance-based compensation" within the meaning of Section 162(m) of the U.S. Internal Revenue Code. The Committee has the authority to determine the type of award, as well as the amount, terms and conditions of each award, under the 2017 Plan, subject to the limitations and other provisions of the 2017 Plan. An aggregate of 360,000 shares of the Company's common stock are authorized for issuance under the 2017 Plan, subject to adjustment as provided in the 2017 Plan for stock splits, dividends, distributions, recapitalizations and other similar transactions or events. If any shares subject to an award are forfeited, expire, lapse or otherwise terminate without issuance of such shares, such shares shall, to the extent of such forfeiture, expiration, lapse or termination, again be available for issuance under the 2017 Plan. The following table summarizes the unvested shares granted on September 12, 2017, which have been made under the 2017 Plan.

	Number of shares awarded total			
	Minimum	Target	Maximum	Cap
Employees	21,145	31,718	42,291	50,748
Non-Employee Directors	7,246	10,870	14,493	17,391
Total	28,391	42,588	56,784	68,139

	Value at grant date (numbers below are rounded to the nearest $100)			
	Minimum	Target	Maximum	Cap
Employees	$ 291,800	$ 437,700	$ 583,600	$ 700,300
Non-Employee Directors	100,000	150,000	200,000	240,000
Total	$ 391,800	$ 587,700	$ 783,600	$ 940,300

Of the total number of shares awarded at Maximum, there are an aggregate of 56,784 shares underlying restricted stock awards and in addition in the 2017 Plan there are 6,376 shares underlying awards of stock appreciation rights with a base price of $13.80 per share. These stock appreciation rights are classified as liability awards and are remeasured at fair value each reporting period until the award is settled. As of October 31, 2017 the Company has recorded a liability in the amount of $13,072 related to these stock appreciation rights..

The actual number of shares of common stock of the Company, if any, to be earned by the award recipients is determined over a full three fiscal year performance period commencing on February 1, 2017 and ending on January 31, 2020, based on the level of earnings before interest, taxes, depreciation and amortization ("EBITDA") achieved by the Company over this period. The EBITDA targets have been set for each of the Minimum, Target, Maximum and Cap levels, at higher amounts for each of the higher levels. The actual EBITDA amount achieved is determined by the Committee and may be adjusted for items determined to be unusual in nature or infrequent in occurrence, which items may include, without limitation, the charges or costs associated with restructurings of the Company or any subsidiary, discontinued operations, and the cumulative effects of accounting changes.

Under the 2017 Plan, as described above, the Company awarded performance-based restricted stock and stock appreciation rights to eligible employees and directors. Such awards were at either Minimum, Target, Maximum or Cap levels, based on three year EBITDA targets. The Company recognizes expense related to performance-based restricted share awards over the requisite performance period using the straight-line attribution method based on the most probable outcome (minimum, target, maximum, cap or zero) at the end of the performance period and the price of the Company's common stock price at the date of grant. The Company is recognizing expense related to awards under the 2017 Plan at maximum and these expenses were $62,106 for the nine months ended October 31, 2017.

The 2017 Plan is the successor to the Lakeland Industries, Inc. 2015 Stock Plan (the "2015 Plan"). The executive officers and all other employees and directors of the Company and its subsidiaries were eligible to participate in the 2015 Plan. The 2015 Plan authorized the issuance of awards of restricted stock, restricted stock units, performance shares, performance units and other stock-based awards. The 2015 Plan also permitted the grant of awards that qualify for "performance-based compensation" within the meaning of Section 162(m) of the U.S. Internal Revenue Code. The aggregate number of shares of the Company's common stock that was issuable under the 2015 Plan was 100,000 shares. Under the 2015 Plan, as of October 31, 2017, there were 67,000 shares vested; of which 43,029 shares were issued and 23,971 shares were returned to the Company to pay employee taxes.

The 2015 Plan, was the successor to the Company's 2012 Stock Incentive Plan (the "2012 Plan"). The Company's 2012 Plan authorized the issuance of up to a maximum of 310,000 shares of the Company's common stock to employees and directors of the Company and its subsidiaries in the form of restricted stock, restricted stock units, performance shares, performance units and other share-based awards. Under the 2012 Plan, as of October 31, 2017, the Company issued 293,887 fully vested shares of common stock; there are no outstanding shares to vest according to the terms of the 2012 Plan.

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

As of October 31, 2017, unrecognized stock-based compensation expense totaled $0 pursuant to both the 2012 and 2015 Plans and $822,566 pursuant to the 2017 Plan based on the maximum performance award level. Such unrecognized stock-based compensation expense totaled $0 for both the 2012 and 2015 Plans and $411,283 for the 2017 Plan at the minimum performance award level. The cost of these non-vested awards is expected to be recognized over a weighted-average period of three years for the 2017 Plan.

The Company recognized total stock-based compensation costs, which are reflected in operating expenses:

	Three Months Ended October 31,		**Nine Months Ended October 31,**	
	2017	2016	2017	2016
2012 Plan	$ —	$ 392	$ 206	$ (9,756)
2015 Plan	—	98,642	197,284	186,712
2017 Plan	93,981	—	93,981	—
Total stock-based compensation	$ 93,981	$ 99,034	$ 291,471	$ 176,966
Total income tax benefit recognized for stock-based compensation arrangements	$ 33,833	$ 35,652	$ 104,929	$ 63,708

Shares issued under 2017, 2015 and 2012 Stock Plans	**Outstanding Unvested Grants at Maximum at Beginning of FY18**	**Granted during FY18 through October 31, 2017**	**Becoming Vested during FY18 through October 31, 2017**	**Forfeited during FY18 through October 31, 2017**	**Outstanding Unvested Grants at Maximum at End of October 31, 2017**
Restricted stock grants – employees	67,619	42,291	40,570	27,049	42,291
Restricted stock grants – non-employee directors	—	14,493	—	—	14,493
Retainer in stock – non-employee directors	32,372	2,674	27,151	—	7,895
Total restricted stock	99,991	59,458	67,721	27,049	64,679
Weighted average grant date fair value	$ 10.18	$ 13.89	$ 10.18	$ 10.19	$ 13.59

Other Compensation Plans/Programs

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

October 31, 2017, unrecognized stock-based compensation expense related to these restricted stock awards totaled $0 for the 2015 Plans and $10,519 for the 2017 Plan. The cost of these non-vested awards is expected to be recognized over a weighted-average period. In addition, as of October 31, 2017, the Company granted awards for up to an aggregate of 5,221 for the 2015 Plan and 2,674 for the 2017 Plan.

Stock Repurchase Program

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

Warrants

In October 2014, the Company issued a five-year warrant that is immediately exercisable to purchase up to 55,500 shares of the Company's common stock at an exercise price of $11.00 per share. As of October 31, 2017 and January 31, 2017, the warrant to purchase up to 55,500 shares remains outstanding.

Public Offering

On August 17, 2017, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with Roth Capital Partners, LLC and Craig-Hallum Capital Group LLC, as underwriters (collectively, the “Underwriters”), to issue and sell 725,000 shares of common stock, par value $0.01 per share (“Common Stock”), of the Company at a public offering price of $13.80 per share (the “Offering Price”) in a firm commitment underwritten public offering. The underwriting discount was $0.966 per share sold in the Offering. The Offering with respect to the sale of the 725,000 shares of Common Stock closed on August 22, 2017. Pursuant to the Underwriting Agreement, the Underwriters had the option, exercisable for a period of 45-days after execution of the Underwriting Agreement, to purchase up to an additional 108,750 shares of the Common Stock at the Offering Price. In September 2017, the Underwriters exercised their option to purchase 83,750 shares of Common Stock. The net proceeds to the Company from the Offering, including the overallotment, were approximately $10.1 million, after deducting underwriting discounts and estimated offering expenses payable by the Company.

The offer and sale of shares of Common Stock in the Offering have been registered under the Securities Act of 1933, as amended, pursuant to the Company’s shelf registration statement on Form S-3 (File No. 333-216943) declared effective by the Securities and Exchange Commission (the “Commission”) on April 11, 2017 (the “Registration Statement”). The offer and sale of the shares of Common Stock in the Offering are described in the Company’s prospectus constituting a part of the Registration Statement, as supplemented by a final prospectus supplement filed with the Commission on August 18, 2017.

8. Income Taxes

Income Tax Audits

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

Chinese tax authorities have performed limited reviews on all Chinese subsidiaries as of tax years 2008 through 2015 with no significant issues noted and we believe our tax positions are reasonably stated as of October 31, 2017. Weifang Meiyang Products Co., Ltd. (“Meiyang”), one of our Chinese operations, was changed to a trading company from a manufacturing company in Q1 FY16 and all direct workers and equipment were transferred from Meiyang to Weifang Lakeland Safety Products Co., Ltd. (“WF”), another of our Chinese operation thereby reducing our tax exposure.

Lakeland Protective Wear, Inc., our Canadian subsidiary, is subject to Canadian federal income tax, as well as income tax in the Province of Ontario. Income tax return for the 2014 fiscal year and subsequent years are still within the normal reassessment period and open to examination by tax authorities.

In connection with the exit from Brazil (see Note 11), the Company claimed a worthless stock deduction which generated a tax benefit of approximately USD $9.5 million, net of a USD $2.2 million valuation allowance. While the Company and its tax advisors believe that this deduction is valid, there can be no assurance that the IRS will not challenge it and, if challenged, there is no assurance that the Company will prevail.

Except and as set forth in the next paragraph, it is our practice and intention to reinvest the earnings of our non-US subsidiaries in their operations. As of October 31, 2017, the Company had not made a provision for US or additional foreign withholding taxes on approximately $26.4 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 ($24.7 million at January 31, 2017). Generally, such amounts become subject to US taxation upon remittance of dividends and under certain other circumstances. If these earnings were repatriated to the US, the deferred tax liability associated with these temporary differences would be approximately $3.5 million at October 31, 2017.

The Company's Board of Directors has instituted a plan subject to declaration and approval each year to elect to pay annual dividends to the Company from a portion of Canada's future profits, a portion of Weifang's future profits, a portion of Meiyang's future profits and a portion of the UK's future profits which started in FY15 and from a portion of Beijing's future profits possibly starting in FY19. All other retained earnings are expected to be reinvested indefinitely.

Change in Valuation Allowance

We record net deferred tax assets to the extent we believe these assets will more likely than not to be realized. The valuation allowance was $2.2 million at October 31, 2017 and January 31, 2017.

Income Tax Expense

Income tax expenses consist of federal, state and foreign income taxes. The statutory rate is the US rate. Reconciling items to the effective rate are foreign dividend income, foreign income subject to US tax, tax deductions for restricted stock vesting, company borrowing structures, and other permanent tax differences.

9. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share at October 31, 2017 and 2016, as follows:

	Three Months Ended October 31,		**Nine Months Ended October 31,**	
	(in 000's except for share information)			
	2017	2016	2017	2016
Numerator:				
Net income	$1,806	$1,513	$5,358	$2,946
Denominator:				
Denominator for basic earnings per share (weighted-average shares which reflect 356,441 shares in the treasury)	7,894,582	7,258,697	7,477,202	7,255,966
Effect of dilutive securities from restricted stock plan, from dilutive effect of stock options and warrants	27,815	74,300	53,435	65,621
Denominator for diluted earnings per share (adjusted weighted average shares)	7,922,397	7,332,997	7,530,637	7,321,587
Basic earnings per share	$0.23	$0.21	$0.72	$0.41
Diluted earnings per share	$0.23	$0.21	$0.71	$0.40

10. Derivative Instruments and Foreign Currency Exposure

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

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

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

From time to time, 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. Gains and losses on those forward contracts are included in current earnings. There were no outstanding forward contracts at October 31, 2017 or January 31, 2017.

We may also enter into cash flow hedge contracts with financial institutions to manage our currency exposure on future cash payments denominated in foreign currencies. The effective portion of gain or loss on cash flow hedge is reported as a component of accumulated other comprehensive loss. The notional amount of these contracts was $0.8 million and $1.5 million at October 31, 2017 and January 31, 2017, respectively. The corresponding unrealized income or loss is recorded in the unaudited condensed consolidated statements of comprehensive income. The corresponding asset (liability) amounted to $(53,818) and $25,826 at October 31, 2017 and January 31, 2017, respectively.

11. Contingencies

Litigation:

The Company is involved in various litigation proceedings arising during the normal course of business which, in the opinion of the management of the Company, will not have a material effect on the Company's financial position, results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these matters. As of October 31, 2017, to the best of the Company's knowledge, there were no outstanding claims or litigation.

The Company's exit from Brazil:

Transfer of Shares Agreement

On July 31, 2015 (the "Closing Date"), Lakeland and Lake Brasil Industria E Comercio de Roupas E Equipamentos de Protecao Individual LTDA ("Lakeland Brazil"), completed a conditional closing of a Shares Transfer Agreement (the "Shares Transfer Agreement") with Zap Comércio de Brindes Corporativos Ltda ("Transferee"), a company owned by an existing Lakeland Brazil manager, entered into on June 19, 2015. Pursuant to the Shares Transfer Agreement, the Transferee has acquired all of the shares of Lakeland Brazil owned by the Company. The closing of this agreement was subject to Brazilian approval of the Shares transfer, which was received in October 2015.

The Company understands that under the laws of Brazil, a concept of fraudulent bankruptcy exists, which may hold a parent company liable for the liabilities of its Brazilian subsidiary in the event some level of fraud or misconduct is shown during the period that the parent company owned the subsidiary. While the Company believes that there has been no such fraud or misconduct relating to the proposed transfer of stock of Lakeland Brazil and the transactions contemplated by the Shares Transfer Agreement, as evidenced by the Company's funding support for continuing operations of Lakeland Brazil, there can be no assurance that the courts of Brazil will not make such a finding nonetheless. The risk of exposure to the Company continues to diminish as the Transferee continues to operate Lakeland Brazil, as the risk of a finding of fraudulent bankruptcy lessens and pre-sale liabilities are paid off. Should the Transferee operate Lakeland Brazil for a period of two years, the Company believes the risk of a finding of fraudulent bankruptcy is eliminated.

VAT Tax Issues in Brazil

Value Added Tax (“VAT”) in Brazil is charged at the state level. Lakeland Brazil has three pending VAT claims totaling R$1.3 million (USD $0.5 million) excluding interest, penalties and fees of R$2.7 million (USD $0.9 million), which our attorney informed us were likely to be successfully defended based on state auditor misunderstanding. Any liabilities hereunder are the responsibility of Lakeland Brazil which, as described above, is no longer owned by the Company.

Labor Claims in Brazil

The Company may continue to be exposed to certain liabilities arising in connection with lawsuits pending in the labor courts in Brazil in which plaintiffs were seeking, as at July 31, 2015, a total of nearly USD $8,000,000 in damages from the Company's then Brazilian subsidiary (Lakeland Brazil). The Company believes many of these labor court claims are without merit and the amount of damages being sought is significantly higher than any damages which may have been incurred. Pursuant to the Shares Transfer Agreement, the Company is required to fully fund amounts owed by Lakeland Brazil in connection with the then existing labor claims and to pay amounts potentially owed for future labor claims up to an aggregate amount of $375,000 plus 60% of the excess of such amount until the earlier of (i) the date all labor claims against Lakeland Brazil deriving from events prior to the sale are settled, (ii) by our mutual agreement with Lakeland Brazil or (iii) on the two (2) year anniversary of closing of the sale. Although the two-year period has expired, the Company continues to support Lakeland Brazil in defending the remaining claims. While the vast majority of these labor suits have been resolved, there are four which remain active. In one such case a former employee of our former Brazilian subsidiary filed a counterclaim in the action seeking approximately USD $700,000 that he purports to be owed to him by our former Brazilian subsidiary under a purported promissory note and alleges that we are liable for payment therefor. Management firmly believes the counterclaim is without merit, intends to vigorously defend our position, and does not anticipate a negative outcome resulting in significant expense to us.

12. ***Segment Reporting***

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2017		2016		2017		2016	
Domestic	$12.85	53.64 %	$11.26	48.45 %	$38.18	53.91 %	$35.24	53.49 %
International	11.11	46.36 %	11.98	51.55 %	32.65	46.09 %	30.64	46.51 %
Total	$23.96	100.00%	$23.24	100.00%	$70.83	100.00%	$65.88	100.00%

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

23

	Three Months Ended October 31, (in millions of dollars)		Nine Months Ended October 31, (in millions of dollars)	
	2017	2016	2017	2016
Net Sales:				
USA	$ 14.16	$ 12.75	$ 41.46	$ 38.09
Other foreign	4.94	5.34	13.66	12.25
Europe (UK)	2.24	1.90	6.46	6.95
Mexico	0.90	0.84	2.77	2.42
China	13.47	10.41	36.88	30.37
Corporate	0.45	0.27	0.98	1.44
Less intersegment sales	(12.20)	(8.27)	(31.38)	(25.64)
Consolidated sales	$ 23.96	$ 23.24	$ 70.83	$ 65.88
External Sales:				
USA	$ 12.85	$ 11.26	$ 38.18	$ 35.24
Other foreign	4.39	5.09	12.47	11.49
Europe (UK)	2.24	1.90	6.42	6.95
Mexico	0.51	0.40	1.66	1.13
China	3.97	4.59	12.10	11.07
Consolidated external sales	$ 23.96	$ 23.24	$ 70.83	$ 65.88
Intersegment Sales:				
USA	$ 1.31	$ 1.49	$ 3.28	$ 2.85
Other foreign	0.55	0.25	1.19	0.76
Europe (UK)	—	—	0.04	—
Mexico	0.39	0.44	1.11	1.29
China	9.50	5.82	24.78	19.30
Corporate	0.45	0.27	0.98	1.44
Consolidated intersegment sales	$ 12.20	$ 8.27	$ 31.38	$ 25.64

	Three Months Ended October 31, (in millions of dollars)		**Nine Months Ended October 31, (in millions of dollars)**	
	2017	2016	2017	2016
Operating Profit (Loss):				
USA	$ 2.62	$ 1.58	$ 7.40	$ 5.62
Other foreign	0.92	0.81	2.04	1.36
Europe (UK)	(0.02)	0.01	0.09	0.29
Mexico	(0.06)	0.04	(0.02)	0.05
China	0.66	1.37	2.21	3.15
Corporate	(1.46)	(1.60)	(4.56)	(5.56)
Less intersegment profit (loss)	0.01	0.03	0.16	0.09
Consolidated operating profit	$ 2.67	$ 2.25	$ 7.32	$ 5.00
Depreciation and Amortization Expense:				
USA	$ 0.03	$ 0.04	$ 0.09	$ 0.12
Other foreign	0.04	0.03	0.10	0.11
Europe (UK)	—	—	0.01	—
Mexico	0.03	0.03	0.09	0.09
China	0.06	0.08	0.19	0.25
Corporate	0.05	0.14	0.14	0.43
Less intersegment	(0.01)	0.04	(0.04)	(0.04)
Consolidated depreciation & amortization expense	$ 0.20	$ 0.36	$ 0.58	$ 0.96
Interest Expense:				
USA (shown in Corporate)	$ —	$ —	$ —	$ —
Other foreign	0.02	0.02	0.05	0.08
Europe (UK)	0.01	—	0.01	—
Mexico	—	—	—	—
China	—	0.04	—	0.12
Corporate	0.01	0.09	0.09	0.32
Less intersegment	—	—	—	—
Consolidated interest expense	$ 0.04	$ 0.15	$ 0.15	$ 0.52
Income Tax Expense (Benefits):				
USA (shown in Corporate)	$ —	$ —	$ —	$ —
Other foreign	0.16	0.16	0.42	0.27
Europe (UK)	0.01	0.01	0.05	0.04
Mexico	—	—	—	—
China	0.12	0.36	0.50	0.81
Corporate	0.55	0.04	0.83	0.41
Less intersegment	(0.01)	0.01	0.03	0.02
Consolidated income tax expense	$ 0.83	$ 0.58	$ 1.83	$ 1.55
Capital Expenditures:				
USA	$ 0.01	$ 0.02	$ 0.02	$ 0.02
Other foreign	—	(0.01)	—	—
Europe (UK)	—	—	—	—
Mexico	0.03	—	0.06	—

China	0.01	0.01	0.07	0.03
India	0.06	—	0.08	0.02
Corporate	0.06	0.05	0.39	0.05
Consolidated capital expenditures	$ 0.17	$ 0.07	$ 0.62	$ 0.12

25

	October 31, 2017 (in millions of dollars)	January 31, 2017 (in millions of dollars)
Total Assets:*		
USA	$ 63.84	$ 56.34
Other foreign	21.17	18.16
Europe (UK)	4.65	3.61
Mexico	4.38	3.99
China	36.94	30.54
India	(1.10)	(1.36)
Corporate	29.40	26.00
Less intersegment	(58.92)	(52.73)
Consolidated assets	$ 100.36	$ 84.55
Total Assets Less Intersegment:*		
USA	$ 29.88	$ 30.94
Other foreign	12.87	10.17
Europe (UK)	4.65	3.58
Mexico	4.46	4.07
China	21.33	18.44
India	0.84	0.43
Corporate	26.33	16.92
Consolidated assets	$ 100.36	$ 84.55
Property and Equipment:		
USA	$ 2.01	$ 2.09
Other foreign	1.46	1.55
Europe (UK)	0.03	0.03
Mexico	2.02	2.05
China	1.93	2.05
India	0.10	0.03
Corporate	1.05	0.75
Less intersegment	0.02	(0.02)
Consolidated property and equipment	$ 8.62	$ 8.53
Goodwill:		
USA	$ 0.87	$ 0.87
Consolidated goodwill	$ 0.87	$ 0.87

*Negative assets reflect intersegment amounts eliminated in consolidation

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

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

Based on our closing stock price as reported by The NASDAQ Global Market on July 31, 2017, starting with our next Annual Report on Form 10-K, we will transition to an "accelerated filer" under Rule 12b-2 of the Securities Exchange Act of 1934, and, as such, be required to obtain audits of our internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002 and meet accelerated deadlines for financial reporting.

Overview

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

We have operated facilities in Mexico since 1995 and in China since 1996. Beginning in 1995, we moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. Our facilities and capabilities in China and Mexico allow access to a less expensive labor pool than is available in the United States and permit us to purchase certain raw materials at a lower cost than they are available domestically. As we have increasingly moved production of our products to our facilities in Mexico and China, we have seen improvements in the profit margins for these products. Our net sales attributable to customers outside the United States were $11.1 million and $12.0 million for the three months and $32.7 million and $30.6 million for the nine months ended October 31, 2017 and 2016, respectively.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

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

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

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

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

For larger orders, except in its Lakeland Fire product line, the Company absorbs the cost of shipping and handling. For those customers who are billed the cost of shipping and handling fees, such amounts are included in net sales.

Accounts Receivable, net

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company recognizes losses when information available indicates that it is probable that a receivable has been impaired based on criteria noted above at the date of the consolidated 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 customers, 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.

Inventories, net

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 net realizable value. Provision is made for slow-moving, obsolete or unusable inventory.

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is evaluated for impairment at least annually; however, this evaluation may be performed more frequently when events or changes in circumstances indicate the carrying amount may not be recoverable. Factors that the Company considers important that could identify a potential impairment include: significant changes in the overall business strategy and significant negative industry or economic trends. The Company measures any potential impairment on a projected discounted cash flow method. Estimating future cash flows requires the Company's management to make projections that can differ materially from actual results. As of October 31, 2017 and January 31, 2017, no impairment was recorded.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances indicate the carrying value may not be recoverable. The Company measures any potential impairment on a projected undiscounted cash flow method. Estimating future cash flows requires the Company's management to make projections that can differ materially from actual results. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from the asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. As of October 31, 2017 and January 31, 2017, no impairment was recorded.

Income Taxes

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

The Company recognizes tax positions that meet a "more likely than not" minimum recognition threshold. If necessary, the Company recognized interest and penalties associated with tax matters as part of the income tax provision and would include accrued interest and penalties with the related tax liability in the unaudited condensed consolidated balance sheets.

Foreign Operations and Foreign Currency Translation

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

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

Fair Value of Financial Instruments

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

The following is a brief description of those three levels:

Level 1:	Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
Level 3:	Unobservable inputs that reflect management's own assumptions.

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

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

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

Recent Accounting Pronouncements

See Note 3 in the unaudited condensed consolidated financial statements for management's periodic review of new accounting standards that were issued.

Significant Balance Sheet Fluctuation October 31, 2017, As Compared to January 31, 2017

Balance Sheet Accounts. Cash increased by $11.1 million in the nine-month period ended October 31, 2017 as a result of the Company's public offering in the third quarter of fiscal 2018 fully described in Note 7, accounts payable increased $3.6 million and inventory net of reserves increased $2.9 million as the Company replenished stock of core product while managing high levels of back orders. The Company's borrowings under the revolving credit facility decreased $4.9 million further reducing debt as the Company continues to reduce costs, and accounts receivable increased $2.3 million as sales volume remains strong in the nine months ended October 31, 2017.

Three Months ended October 31, 2017, As Compared to the Three Months Ended October 31, 2016

Net Sales. Net sales increased to $24.0 million for the three months ended October 31, 2017 compared to $23.2 million for the three months ended October 31, 2016, an increase of 3.1%. Sales in the USA increased $1.6 million or 12.2% due primarily to increased disposables sales to national accounts and in response to hurricane clean-up efforts, and to increased sales in the chemical line into oil field service companies and refinery operations as the US economy continues to improve. USA sales of disposables increased $1.2 million, chemicals increased $0.5 million, sales of wovens products increased $0.1 million and sales of gloves increased $0.1 million. Sales of reflective products remained level at $2.1 million and sales of fire products decreased $0.5 million as there were large order in the comparison period last year that did not repeat during the three months ended October 31, 2017. The increase in wovens sales is mostly due to focused penetration of fire retardant "FR" cotton coveralls into the pipeline industry where activity is increasing. Sales in China and to the Asia Pacific Rim increased $3.1 million or 29.4% as industrial activity improved and several larger customers began replacing depleted inventories and as intercompany demand increased and the Company worked through a large backlog. Canada sales increased $0.4 million as that country continues to experience an oil and gas turnaround requiring protective wear and as some customers replenished their stock in response to higher than forecasted demand at higher price points. UK sales increased by $0.3 million or 18.3% as new distributors placed stocking orders. Russia and Kazakhstan sales combined increased $0.3 million or 102.6%, and Latin America sales remain strong at $1.8 million in a continuously improving economy even though compared to the same period in the prior year it is a decrease of 39.8% due to a large sale to Ecuador in the comparison period.

Gross Profit. Gross profit increased $0.5 million, or 6.3%, to $9.1 million for the three months ended October 31, 2017, from $8.5 million for the three months ended October 31, 2016. Gross profit as a percentage of net sales increased to 37.8% for the three-month period ended October 31, 2017, from 36.6% for the three months ended October 31, 2016. Gross margin increases were somewhat offset by labor increases in our manufacturing facilities due to wage increases and overtime associated with relieving the stress in the Company's internal supply chain. Major factors driving gross margins were:

- Disposables gross margins increased 4.6 percentage points due to product mix and increased volume.
- Chemical gross margin increased by 7.5 percentage points primarily due to a reduction in force in the USA to move production to our more cost effective facilities in Mexico and China during Q1FY17 which resulted in improved manufacturing cost, improved volume and sales of higher volume products.
- Fire protection gross margin decreased 2.5 percentage points as the Company prepares for the upcoming change to the National Fire Protection Agency ("NFPA") standards by discounting products produced under the old standard and due to product mix.
- Wovens gross margins increased 18.0 percentage points due to market price increases on contractor FR coveralls.
- Reflective gross margins increased 14.3 percentage points as a result of increased pricing on some products and the product mix.
- UK gross margins increased 5.9 percentage points as a result of increased sales of a higher margin chemical cool suit.
- Chile's gross margin increased 18.8 percentage points as sales of FR garments into the industrial category rebounded and Argentina's gross margin decreased 16.8 percentage points primarily as compared to the prior year period where a large sale into Ecuador had particularly strong margins.

Operating expenses. Operating expense increased 3.1% from $6.3 million for the three months ended October 31, 2016 to $6.4 million for the three months ended October 31, 2017. Operating expense as a percentage of net sales was 26.7% for the three months ended October 31, 2017 and 2016. The main factors for the increase in operating expenses are a $0.1 million increase in sales salaries as the Company continues to grow its sales force, an increase of $0.2 million to freight out as a result of rush shipments associated with the backlog as well as freight line price increases, and increase of $0.2 million to bad debt resulting from an increase to the accounts receivable allowance for several customers that are slow paying and offset by a $0.4 million decrease to commissions as a result of a large sale in Argentina in the same period last year and a $0.1 million decrease in officer salaries resulting from the reduction of one officer due to retirement.

Operating Profit. Operating profit increased to $2.7 million for the three months ended October 31, 2017, from $2.3 million for the three months ended October 31, 2016, as most operating expenses are fixed in nature other than commissions and freight out and sales volume increased as compared to the three months ended October 31, 2016. Operating margins were 11.1% for the three months ended October 31, 2017, compared to 9.7% for the three months ended October 31, 2016 and were impacted by the items highlighted in gross profit and operating expenses.

Interest Expense. Interest expense decreased to $0.1 million for the three months ended October 31, 2017 from $0.2 million for the three months ended October 31, 2016 as the Company utilized lower interest rates from its revolving credit facility and reduced borrowings for the three months ended October 31, 2017, primarily as a result of greater profitability and proceeds from the Company’s public offering.

Income Tax Expense. Income tax expense consists of federal, state and foreign income taxes. Income tax expense was $0.8 million for the three months ended October 31, 2017, as compared to an income tax expense of $0.6 million for the three months ended October 31, 2016. The increase in tax expense was a result of significantly higher operating income in the US during the three months ended October 31, 2017 as well as overall improved profitability.

Net Income. Net income increased to $1.8 million for the three months ended October 31, 2017 from $1.5 million for the three months ended October 31, 2016. The results for three months ended October 31, 2017 are primarily due to continuing cost containment efforts and increases in sales volume as the industrial sector showed marked performance improvements and the global economy improved.

Nine Months ended October 31, 2017, As Compared to the Nine Months Ended October 31, 2016

Net Sales. Net sales increased to $70.8 million for the nine months ended October 31, 2017 compared to $65.9 million for the nine months ended October 31, 2016, an increase of 7.5%. Sales in the USA increased $3.0 million or 7.4% due primarily to increased sales in the chemical and disposables channels. USA sales of disposables increased $1.8 million or 9.1%, sales in the chemicals line increased $0.7 million or 16.1%, sales of fire gear increased $0.4 million or 9.7 %, sales of wovens increased $0.4 million or 16.4% and reflective and glove sales were mostly level at $5.9 million and $2.0 million respectively. Wovens and fire protection sales combined increased $0.8 million or 12.2% mostly due to focused penetration with strategic fire distributors who support and market our fire gear and increased sales of FR cotton coveralls into the pipeline industry where activity is increasing. Sales in China and to the Asia Pacific Rim increased $6.5 million or 21.4% as industrial activity improved and several larger customers began replacing depleted inventories and as intercompany demand increased. Canada sales increased $0.6 million as that country continues to experience an oil and gas turnaround requiring protective wear. UK sales decreased by $0.5 million or 7.1% mostly due to uncertainty in the economy as a result of Brexit, continuing currency challenges and a strategic decision by the Company to exit two private label businesses in Europe. Russia and Kazakhstan sales combined increased $0.5 million or 49.6%, and Latin America sales increased $0.1 million or 2.0% due to resolution of supply chain issues and an overall increase in industrial activity even as compared to last year which included a large Ecuador sale, respectively.

Gross Profit. Gross profit increased $2.4 million, or 10.1%, to $26.3 million for the nine months ended October 31, 2017, from $23.9 million for the nine months ended October 31, 2016. Gross profit as a percentage of net sales increased to 37.1% for the nine-month period ended October 31, 2017, from 36.3% for the nine months ended October 31, 2016. Gross margin increases were somewhat offset by labor increases in our manufacturing facilities due to wage increases and overtime associated with relieving the stress in the Company's internal supply chain. Major factors driving gross margins were:

- Chemical gross margin increased by 6.2 percentage points primarily due to a reduction in force in the USA to move production to our more cost effective facilities in Mexico and China during Q1FY17 which resulted in severance payments in that quarter, improved volume and product mix.
- Disposables margins increased 1.5 percentage points as volume increased and sales of higher margin cleanroom products began to get traction.
- Fire protection gross margin increased 2.8 percentage points due to a reduction in force in the USA to move production to our more cost effective facility in Mexico in Q1FY17, better margins associated with fire distributors in the industrial market, and improved volume.
- Wovens gross margins increased 8.7 percentage points as the Company increased sales of higher margin FR products into the pipeline industry in Q1FY18.
- Glove margins increased 8.8 percentage points due to product mix.
- Reflective gross margins increased 5.8 percentage points as a result of product mix and price increases for some products.
- Chile's gross margin increased 11.3 percentage points as sales into the industrial category rebounded and Argentina's gross margin decreased 9.1 percentage points primarily due to a shift in the product mix.
- Canada's gross margins increased 9.5 percentage points as a result of product mix, increased volume and currency tailwinds.

Operating expenses. Operating expense were up slightly at $19.0 million for the nine months ended October 31, 2017 as compared to $18.9 million for the nine months ended October 31, 2016. Operating expense as a percentage of net sales was 26.8% for the nine months ended October 31, 2017 down from 28.7% for the nine months ended October 31, 2016. The main factors for the increase in operating expenses are a $0.3 million increase in sales salaries as the Company continues to grow its sales force, an increase of $0.2 million to freight out as a result of rush shipments associated with the backlog as well as freight line price increases, an increase of $0.2 million to utilities as a normal course of business, an increase of $0.1 million to bad debt resulting from an increase to the accounts receivable allowance for several customers that are slow paying, an increase to currency fluctuation of $0.2 million in the normal course of business, and an increase to professional fees of $0.1 million from various legal and accounting work and the public offering fully described in the accompanying unaudited condensed consolidated financial statements offset by a $0.3 million decrease to commissions as a result of a large sale in Argentina in the same period last year, a $0.2 million decrease to payroll administration due to a severance accrual in the prior reporting period, a $0.2 million decrease to depreciation in the normal course of business, and a $0.4 million decrease in officer salaries resulting from the reduction of one officer due to retirement.

Operating Profit. Operating profit increased to $7.3 million for the nine months ended October 31, 2017, from $5.0 million for the nine months ended October 31, 2016, mainly as a result of stronger sales volume and the fixed nature of most operating expenses other than commissions and freight out. Operating margins were 10.3% for the nine months ended October 31, 2017, compared to 7.6% for the nine months ended October 31, 2016.

Interest Expense. Interest expense decreased to $0.1 million for the nine months ended October 31, 2017 from $0.5 million for the nine months ended October 31, 2016 as the Company utilized lower interest rates from their revolving credit facility and reduced borrowings for the nine months ended October 31, 2017, primarily as a result of greater profitability, a reduction in inventory levels, and a public offering.

Income Tax Expense. Income tax expense consists of federal, state and foreign income taxes. Income tax expense for the nine months ended October 31, 2017 was $1.8 million and $1.5 million for the nine months ended October 31, 2016. Profitability was higher in Q3 this year vs. Q3 of last year.

Net Income. Net income increased to $5.4 million for the nine months ended October 31, 2017 from $2.9 million for the nine months ended October 31, 2016. The results for nine months ended October 31, 2017 are primarily due to higher sales volume than in the prior fiscal year as well as continuing cost containment efforts, increases in sales volume.

Liquidity and Capital Resources

As of October 31, 2017, we had cash and cash equivalents of approximately $21.5 million and working capital of $64.7 million. Cash and cash equivalents increased $11.1 million and working capital increased $17.0 million from January 31, 2017 as the Company consummated a capital raise and continued cost containment efforts. International cash management is affected by local requirements and movements of cash across borders can be slowed down significantly. We believe that based upon our current cash position and projected future revenue, we will have sufficient cash to fund our operations for the next twelve months.

Of the Company's total cash and cash equivalents of $21.5 million as of October 31, 2017, cash held in the UK of $0.1 million and cash held in India of $0.1 million would not be subject to additional tax as foreign income related thereto has already been subject to US tax. Cash held in Canada of $0.9 million as of October 31, 2017 could be subject to US tax as a result of the change in our financing arrangement. Cash in all other foreign countries of $9.3 million would incur US tax less any foreign tax credits if the cash was repatriated. In the event that the Company repatriated cash from China, of the $8.3 million balance at October 31, 2017 there would be an additional 10% withholding tax incurred in that country. The Company has strategically employed a dividend plan subject to declaration and certain approvals in which its Canadian subsidiary sends dividends to the US in the amount of 100% of the previous year's earnings, the UK subsidiary sends dividends to the US in the amount of 50% of the previous year's earnings, and the

Weifang China subsidiary of the Company sends dividends to the US in declared amounts of the previous year's earnings. Dividends were not declared for our China subsidiary in the first three quarters of FY18 or for the year ended FY17 as management evaluates the possible impact of regulatory changes in the US tax code.

Net cash provided by operating activities of $5.5 million for the nine months ended October 31, 2017 was primarily due to net income of $5.4 million and an increase in accounts payable of $3.5 million, offset by an increase in accounts receivable of $2.1 million and an increase in inventories of $3.0 million. Net cash provided by financing activities of $6.2 million was the result of the equity raise which generated $10.1 million, an increase in long term borrowings of $1.6 million and an increase to UK and short term borrowings of $0.6 million, offset by an increase in repayments under our revolving credit facility of $4.9 million and short term and longer term repayments of $0.9 million.

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

Capital Expenditures. Our capital expenditures through Q3FY18 of $0.6 million principally relate to additions to equipment in China and manufacturing equipment, computer system and leasehold improvements in the USA. We anticipate FY18 capital expenditures to be approximately $1.2 million as there is a new ERP project underway.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

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

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

In connection with our operations in China, we purchase a significant amount of products from outside of the United States. However, our purchases in China are primarily made in Chinese RMB, the value of which had been largely pegged to the US dollar for the last decade. However, the Chinese RMB has been decoupled from the US Dollar and allowed to float by the Chinese government and, therefore, we have been exposed to additional foreign exchange rate risk on our Chinese raw material and component purchases.

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

Interest Rate Risk

We are exposed to interest rate risk with respect to our credit facilities, which have variable interest rates based upon the London Interbank Offered Rate. At October 31, 2017, we had approximately $1.5 million in borrowings outstanding under our bank credit facility. If the interest rate applicable to this variable rate debt rose 1% in the year ended January 31, 2018, our interest expense would have increased $0.2 million.

Tax Risks

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

The Company claimed a worthless stock deduction in connection with our exit from Brazil which has generated a tax benefit of approximately US $9.5 million. While, along with our tax advisors, we believe that this deduction is valid, there can be no assurance that the IRS will not challenge it and, if challenged, there is no assurance that the Company will prevail.

Risks Associated with Discontinued Foreign Operations.

During the fiscal year ended January 31, 2016 the Company formally executed its exit from Brazil, but we may continue to be exposed to certain liabilities arising in connection with the prior operations of Lakeland Brazil. These risks include but are not limited to pre-existing VAT claims in the amount of $0.5 million excluding interest, penalties and fees and outstanding labor claims totaling approximately $0.3 million as of and at the quarter ended October 31, 2017. The Company understands that under the laws of Brazil, a concept of fraudulent bankruptcy exists, which may hold a parent company liable for the liabilities of a former Brazilian subsidiary in the event some level of fraud or misconduct is shown during the period that the parent company owned the subsidiary. While the Company believes that there has been no such fraud or misconduct relating to operations of and their exit from Brazil, there can be no assurance that the courts of Brazil will not make such a finding. The risk of exposure to the Company continues to diminish as the former subsidiary continues to operate, as the risk of a finding of fraudulent bankruptcy lessens and pre-sale liabilities are paid off. Should the former subsidiary stay in operations for a period of two years, the Company believes the risk of a finding of fraudulent bankruptcy is eliminated.

As disclosed in our periodic filings with the SEC, we agreed to make certain payments in connection with ongoing labor litigation involving our former Brazilian subsidiary. While the vast majority of these labor suits have been resolved, there are four which remain active. In one such case a former employee of our former Brazilian subsidiary recently filed a counterclaim in the action seeking approximately US $700,000 that he purports to be owed to him by our former Brazilian subsidiary under a purported promissory note and alleges that we are liable for payment therefore. Management firmly believes the counterclaim is without merit, intends to vigorously defend our position, and does not anticipate a negative outcome resulting in significant expense to us.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of October 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2017.

Changes in Internal Control over Financial Reporting

There have been no changes that occurred during Lakeland's third quarter of fiscal 2018 which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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

Item 6. **Exhibits**:

Exhibits:

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

101.INS* XBRL instance Document
101.SCH* XBRL Taxonomy Extension Schema Document
101.CAL* XBRL Taxonomy Extension Definitions Document
101.DEF* XBRL Taxonomy Extension Labels Document
101.LAB* XBRL Taxonomy Extension Labels Document
101.PRE* XBRL Taxonomy Extension Presentations Document

* Filed herewith

SIGNATURES

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

LAKELAND INDUSTRIES, INC.
(Registrant)

Date: December 15, 2017 */s/ Christopher J. Ryan*
Christopher J. Ryan,
Chief Executive Officer, President and Secretary
(Principal Executive Officer and Authorized Signatory)

Date: December 15, 2017 */s/ Teri W. Hunt*
Teri W. Hunt,
Chief Financial Officer
(Principal Accounting Officer and Authorized Signatory)