LAKELAND INDUSTRIES INC
Form 10-Q
September 14, 2016

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 **July 31, 2016**

OR

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

For the transition period from _______________ to _______________

Commission File Number: 0-15535

LAKELAND INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

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

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

(631) 981-9700

(Registrant's telephone number, including area code)

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

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 or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act. Check one.

Large accelerated filer ¨		Accelerated filer ¨
Nonaccelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company x

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 September 13, 2016
Common Stock, $0.01 par value per share	7,256,197 shares

LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

FORM 10-Q

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

LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Introduction

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- there is no assurance that our disposition of our Brazilian subsidiary will be entirely successful in that we may continue to be exposed to certain liabilities in connection with the operations of such company. In addition, while the Company's tax advisors believe that the worthless stock deduction taken by the Company in connection therewith is valid, there can be no assurance that the IRS will not challenge it and, if challenged, that the Company will prevail.
- rapid technological change could negatively affect sales of our products, inventory levels and our performance;
- we must estimate customer demand because we do not have long-term commitments from many of our customers, and errors in our estimates could negatively impact our inventory levels and net sales;
- our operations are substantially dependent upon key personnel;
- we rely on a limited number of suppliers and manufacturers for specific fabrics, and we may not be able to obtain substitute suppliers and manufacturers on terms that are as favorable, or at all, if our supplies are interrupted;
- our inability to protect our intellectual property;
- we face competition from other companies, a number of which have substantially greater resources than we do;
- some of our sales are to foreign buyers, which exposes us to additional risks;
- a significant reduction in government funding for preparations for terrorist incidents could adversely affect our net sales;
- we may be subject to product liability claims, and insurance coverage could be inadequate or unavailable to cover these claims;
- our directors and executive officers have the ability to exert significant influence on us and on matters subject to a vote of our stockholders;

- our failure to realize anticipated benefits from acquisitions, divestitures or restructurings, or the possibility that such acquisitions, divestitures or restructurings could adversely affect us;
- our ability to make payments on our indebtedness and comply with the restrictive covenants therein;
- covenants in our credit facilities may restrict our financial and operating flexibility;
- the other factors referenced in this Form 10-Q, including, without limitation, in the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the factors described under “Risk Factors” disclosed in our fiscal 2016 Form 10-K.

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended July 31, ($000's) except for share information		Six Months Ended July 31, ($000's) except for share information	
	2016	2015	2016	2015
Net sales from continuing operations	$ 22,269	$ 29,465	$ 42,638	$ 54,284
Cost of goods sold from continuing operations	13,679	17,670	27,272	33,211
Gross profit from continuing operations	8,590	11,795	15,366	21,073
Operating expenses from continuing operations	5,959	6,095	12,566	12,154
Operating profit from continuing operations	2,631	5,700	2,800	8,919
Other income (loss), net from continuing operations	(35)	—	(27)	16
Interest expense from continuing operations	175	210	373	393
Income before taxes from continuing operations	2,421	5,490	2,400	8,542
Income tax expense from continuing operations	990	1,902	966	2,794
Net income from continuing operations	1,431	3,588	1,434	5,748
Non-cash reclassification of Other Comprehensive Income to Statement of Operations (no impact on stockholders' equity)	—	(1,286)	—	(1,286)
Loss from operations from discontinued operations	—	(322)	—	(1,253)
Loss from disposal of discontinued operations	—	(515)	—	(515)
Loss before taxes for discontinued operations	—	(2,123)	—	(3,054)
Income tax benefit from discontinued operations	—	(569)	—	(569)
Net loss from discontinued operations	—	(1,554)	—	(2,485)
Net income	$ 1,431	$ 2,034	$ 1,434	$ 3,263
Net income (loss) per common share – Basic:				
Income from continuing operations	$ 0.20	$ 0.50	$ 0.20	$ 0.81
Loss from discontinued operations	$ —	$ (0.22)	$ —	$ (0.35)
Net income	$ 0.20	$ 0.28	$ 0.20	$ 0.46
Net income (loss) per common share – Diluted:				
Income from continuing operations	$ 0.20	$ 0.50	$ 0.20	$ 0.80
Loss from discontinued operations	$ —	$ (0.22)	$ —	$ (0.35)
Net income	$ 0.20	$ 0.28	$ 0.20	$ 0.45
Weighted average common shares outstanding:				
Basic	7,254,999	7,145,418	7,254,585	7,104,471
Diluted	7,311,166	7,167,123	7,315,867	7,191,469

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

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LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended July 31, ($000's)		Six Months Ended July 31, ($000's)	
	2016	2015	2016	2015
Net income	$ 1,431	$ 2,034	$ 1,434	$ 3,263
Other comprehensive income (loss):				
Cash flow hedge in China	—	(116)	26	(41)
Cash flow hedge in United Kingdom	(3)	16	(3)	56
Foreign currency translation adjustments:				
Brazil non-cash reclassification of Other Comprehensive Income to Statement of Operations (transfer of shares Brazil)	—	1,286	—	1,286
Brazil	—	—	—	193
Canada	(24)	(40)	43	12
United Kingdom	(92)	94	27	(12)
China	(180)	(77)	(75)	(28)
Russia	7	1	122	42
Kazakhstan	(62)	(4)	(26)	(4)
Other comprehensive income (loss)	(354)	1,160	114	1,504
Comprehensive income	$ 1,077	$ 3,194	$ 1,548	$ 4,767

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	July 31, 2016 ($000's)	January 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$7,940	$ 7,022
Accounts receivable, net of allowance for doubtful accounts of $573 and $593 at July 31, 2016 and January 31, 2016, respectively	11,978	11,476
Inventories, net of allowance of $2,355 and $2,566 at July 31, 2016 and January 31, 2016, respectively	39,239	40,841
Deferred income taxes	1,171	1,555
Prepaid VAT tax	1,430	1,143
Other current assets	2,925	1,635
Total current assets	64,683	63,672
Property and equipment, net	8,810	9,268
Assets held for sale	1,051	1,101
Deferred income tax, noncurrent	12,783	12,783
Prepaid VAT and other taxes	377	377
Security deposits	111	93
Other assets	8	95
Goodwill	871	871
Total assets	$88,694	$ 88,260
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$6,616	$ 4,254
Accrued compensation and benefits	995	1,157
Other accrued expenses	1,763	1,813
Current maturity of long-term debt	50	50
Short-term borrowing	3,232	3,226
Borrowings under revolving credit facility	6,160	9,458
Total current liabilities	18,816	19,958
Long-term portion of debt	731	691
VAT taxes payable	8	95
Total liabilities	19,555	20,744
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.01 par; authorized 1,500,000 shares (none issued)	—	—
Common stock, $0.01 par; authorized 10,000,000 shares, Issued 7,612,638 and 7,610,603; outstanding 7,256,197 and 7,254,162 at July 31, 2016 and January 31, 2016, respectively	76	76

Treasury stock, at cost; 356,441 shares at July 31, 2016 and January 31, 2016	(3,352)	(3,352)
Additional paid-in capital	64,543	64,468
Retained earnings	9,942	8,508
Accumulated other comprehensive loss	(2,070)	(2,184)
Total stockholders' equity	69,139	67,516
Total liabilities and stockholders' equity	$88,694	$ 88,260

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

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LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

Six months ended July 31, 2016

($000’s)

except for share information

	Common Stock		Treasury Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Earnings	Loss	Total
Balance, January 31, 2016	7,610,603	$ 76	(356,441)	$(3,352)	$64,468	$8,508	$ (2,184)	$67,516
Net income	—	—	—	—	—	1,434	—	1,434
Other comprehensive income	—	—	—	—	—	—	114	114
Stock-based compensation:								
Restricted stock issued	2,035	—	—	—	—	—	—	—
Restricted Stock Plan	—	—	—	—	78	—	—	78
Return of shares in lieu of payroll tax withholding	—	—	—	—	(3)	—	—	(3)
Balance, July 31, 2016	7,612,638	$ 76	(356,441)	$(3,352)	$64,543	$9,942	$ (2,070)	$69,139

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

LAKELAND INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended July 31, 2016 (000's)	2015
Cash flows from operating activities:		
Net income	$ 1,434	$ 3,263
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision (recovery) for inventory obsolescence	(211)	151
Recovery for doubtful accounts	(21)	(2)
Deferred income taxes	296	1,118
Depreciation and amortization	604	474
Stock-based and restricted stock compensation	78	255
Loss on disposal of property and equipment	81	31
Interest expense resulting from Arbitration Award	—	(112)
Non-cash reclassification of other comprehensive income to statement of operations due to the disposal of Brazil	—	1,286
(Increase) decrease in operating assets:		
Accounts receivable	(418)	(2,551)
Inventories	1,925	(5,009)
Prepaid VAT taxes and other current assets	(287)	60
Other current assets	(1,265)	(457)
Increase (decrease) in operating liabilities:		
Accounts payable	2,311	938
Accrued expenses and other liabilities	(169)	183
Accrued expenses for disposal of Brazil	—	753
Arbitration award in Brazil	—	(3,759)
Net cash used by the sale of Brazil	(63)	(927)
Net cash provided by (used in) operating activities	4,295	(4,305)
Cash flows from investing activities:		
Proceeds from sale of property	—	451
Purchases of property and equipment	(46)	(475)
Net cash used in investing activities	(46)	(24)
Cash flows from financing activities:		
Net borrowings (repayments) under credit agreement (revolver)	(3,298)	3,255
Canada loan repayments	(12)	(11)
Argentina borrowings	54	201
Argentina repayments	(152)	—
UK borrowings (repayments), net	137	(22)
China borrowings	1,275	(29)

China repayments	(1,300)	—
Shares returned to pay employee taxes under restricted stock program	(3)	(717)
Net cash (used in) provided by financing activities	(3,299)	2,677
Effect of exchange rate changes on cash	(32)	8
Net increase (decrease) in cash and cash equivalents	918	(1,644)
Cash and cash equivalents at beginning of period	7,022	6,709
Cash and cash equivalents at end of period	$ 7,940	$ 5,065
Cash paid for interest	$ 372	$ 394
Cash paid for taxes	$ 592	$ 995

The accompanying notes are an integral part of these 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. The principal market for the Company's products is in the United States. No customer accounted for more than 10% of net sales during the three and six month periods ending July 31, 2016 and 2015. In April 2015, the Company decided to exit operations in Brazil. See Note 15 for further description.

2. Basis of Presentation

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

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

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

In this Form 10-Q, (a) "FY" means fiscal year; thus, for example, FY17 refers to the fiscal year ending January 31, 2017, (b) "Q" refers to quarter; thus, for example, Q2 FY17 refers to the second quarter of the fiscal year ending January

31, 2017, (c) “Balance Sheet” refers to the unaudited condensed consolidated balance sheet and (d) “Statement of Operations" refers to the unaudited condensed consolidated statement of operations.

3. *Summary of Significant Accounting Policies*

Principles of Consolidation

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

Revenue Recognition

The Company derives its sales primarily from its limited use/disposable protective clothing and secondarily from its sales of high-end chemical protective suits, firefighting and heat protective apparel, gloves and arm guards and reusable woven garments. Sales are recognized when goods are shipped, at which time title and the risk of loss pass to the customer. 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.

Allowance for Doubtful Accounts

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

Inventories

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

Goodwill and Intangible Assets

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill and indefinite lived intangible assets are evaluated for impairment at least annually; however, this evaluation may be performed more frequently when events or changes in circumstances indicate the carrying amount may not be recoverable. Factors that the Company considers important that could identify a potential impairment include: significant changes in the overall business strategy and significant negative industry or economic trends. Management assesses whether it is more likely than not that goodwill is impaired and, if necessary, compares the current value of the entity acquired to the carrying value. Fair value is generally determined by management either based on estimating future discounted cash flows for the reporting unit or by estimating a sales price for the reporting unit based on a multiple of earnings. These estimates require the Company's management to make projections that can differ materially from actual results.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of long-lived assets to be held and used when events or changes in circumstances indicate the carrying value may not be recoverable. The Company measures any potential impairment on a projected undiscounted cash flow method. Estimating future cash flows requires the Company's management to make projections that can differ materially from actual results. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from the asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset.

Income Taxes

The Company is required to estimate its income taxes in each of the jurisdictions in which it operates as part of preparing the consolidated financial statements. This involves estimating the actual current tax in addition to assessing temporary differences resulting from differing treatments for tax and financial accounting purposes. These differences, together with net operating loss carryforwards and tax credits, are recorded as deferred tax assets or liabilities on the Company’s 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. The Company has not had any recent U.S. corporate income tax returns examined by the Internal Revenue Service. Returns for the years since 2012 are still open based on statutes of limitation only.

Use of Estimates and assumptions

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

Foreign Operations and Foreign Currency Translation

The Company maintains manufacturing operations in Mexico, Argentina and the People's Republic of China and can access independent contractors in Mexico, Argentina and China. It also maintains sales and distribution entities located in India, Canada, the U.K., Chile, China, Argentina, Russia, Kazakhstan and Mexico. The Company is vulnerable to currency risks in these countries. The functional currency of foreign subsidiaries is the US dollar, except for the UK operation (Euro), trading companies in China (RenminBi), Russia (Russian Ruble), Kazakhstan (Tenge) and the Canadian Real Estate (Canadian dollar) subsidiary.

Pursuant to US GAAP, assets and liabilities of the Company's foreign operations with functional currencies, other than the US dollar, are translated at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average rates prevailing during the periods. Translation adjustments are reported in accumulated other comprehensive loss, a separate component of stockholders' equity.

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 using Level 1 inputs, as further discussed in Note 11.

Reclassification

Liabilities of discontinued operations in Brazil in the January 31, 2016 unaudited condensed consolidated balance sheet have been grouped as a single line item, other accrued expenses, to conform to the current period presentation. This reclassification has no effect on the accompanying unaudited condensed consolidated financial statements.

4. Inventories, net

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

	July 31, 2016	January 31, 2016
Raw materials	$ 14,454	$ 15,435
Work-in-process	1,945	784
Finished goods	22,840	24,622
	$ 39,239	$ 40,841

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

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5. 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.

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

	Three Months Ended July 31, (in $000s)		Six Months Ended July 31, (in $000s)	
	2016	2015	2016	2015
Numerator				
Net income from continuing operations	$1,431	$3,588	$1,434	$5,748
Net loss from discontinued operations	—	(1,554)	—	(2,485)
Net income	$1,431	$2,034	$1,434	$3,263
Denominator				
Denominator for basic earnings per share (weighted-average shares which reflect 356,441 shares in the treasury as a result of the stock repurchase program that ended in 2011)	7,254,999	7,145,418	7,254,585	7,104,471
Effect of dilutive securities from restricted stock plan and from dilutive effect of stock options	56,167	21,705	61,282	86,998
Denominator for diluted earnings per share (adjusted weighted average shares)	7,311,166	7,167,123	7,315,867	7,191,469
Basic earnings per share from continuing operations	$0.20	$0.50	$0.20	$0.81
Basic loss per share from discontinued operations	$—	$(0.22)	$—	$(0.35)
Basic earnings per share	$0.20	$0.28	$0.20	$0.46
Diluted earnings per share from continuing operations	$0.20	$0.50	$0.20	$0.80
Diluted loss per share from discontinued operations	$—	$(0.22)	$—	$(0.35)
Diluted earnings per share	$0.20	$0.28	$0.20	$0.45

6. Long-Term Debt

Revolving Credit Facility

On June 28, 2013, the Lakeland Industries, Inc. and its wholly-owned Canadian subsidiary, Lakeland Protective Wear Inc. (collectively the “Borrowers”), entered into a Loan and Security Agreement (the “Senior Loan Agreement”) with AloStar Business Credit, a division of AloStar Bank of Commerce (the “Senior Lender”). The Senior Loan Agreement provides the Borrowers with a three-year $15 million revolving line of credit, at a variable interest rate based on LIBOR, with a first priority lien on substantially all of the United States and Canada assets of the Company, except for the Canadian warehouse and Mexican plant.

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

On June 3, 2015, the Borrowers entered into a Second Amendment (the “Second Amendment”) to the Senior Loan Agreement. The primary purposes of the Second Amendment are to (i) modify the definition of Permitted Asset Disposition to provide the Company with the ability to transfer the stock of the Company’s then wholly-owned Brazilian subsidiary, Lake Brasil Indústria e Comércio de Roupas e Equipamentos de Proteção Individual Ltda. (“Lakeland Brazil”), and (ii) allow the Borrowers to transfer funds to Lakeland Brazil for the specific purposes of settling arbitration claims, paying contractual expenses, and paying expenses incurred in connection with a transfer of the stock of Lakeland Brazil so long as, after giving effect to any such transfer, the amount Borrowers have as excess availability under the revolver loans, excluding the $15 million facility cap for this purpose only, calculated pursuant to and under the Senior Loan Agreement, is at least $3.0 million. Also, as part of the Second Amendment, Senior Lender consented to the sale of the Company’s corporate offices in Ronkonkoma, New York on the condition that the net cash proceeds from the sale in the amount of at least $450,000 are used by the Company to pay down the Borrower’s obligations to Lender under the Senior Loan Agreement.

The $0.6 million of unamortized fees attributable to the Senior Debt will remain on the Company’s books and continue to be amortized over the remaining term of the Senior Debt through June 2017 as amended.

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

$15 million Senior Credit Facility

- Borrowing pursuant to a revolving credit facility subject to a borrowing base calculated as the sum of:
  - 85% of eligible accounts receivable as defined
  - The lesser of 60% of eligible inventory as defined or 85% of net orderly liquidation value of inventory
  - In transit inventory in bound to the US up to a cap of $1,000,000
  - Receivables and inventory held by the Canadian operating subsidiary to be included, up to a cap of $2 million of availability
- On July 31, 2016, there was $8.8 million available for further borrowings under the senior credit facility.
- Collateral
  - A perfected first security lien on all of the Borrowers' United States and Canadian assets, other than its Mexican plant and the Canadian warehouse
  - Pledge of 65% of Lakeland Industries, Inc. stock in all foreign subsidiaries other than 100% pledge of stock of its Canadian subsidiaries
- Collection
  - All customers of Borrowers must remit to a lockbox controlled by Senior Lender or into a blocked account with all collection proceeds applied against the outstanding loan balance.
- Maturity
  - An initial term of three years from June 28, 2013 (the "Closing Date"), which has been extended to June 28, 2017 pursuant to the Amendment

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- Prepayment penalties of 2% if prior to the second anniversary of the Closing Date and 1% thereafter
- Interest Rate
  - Rate equal to LIBOR rate plus 525 basis points, reduced to 325 basis points on March 31, 2015 per the Amendment
  - Rate at July 31, 2016 of 4.25% per annum
  - Floor rate of 6.25%, reduced to 4.25% on March 31, 2015 per annum per the Amendment
- Fees: Borrowers shall pay to the Lender the following fees:
  - Origination fee of $225,000, paid on the Closing Date and being amortized over the term of loans
  - 0.50% per annum on unused portion of commitment
  - A non-refundable collateral monitoring fee in the amount of $3,000 per month
  - All legal and other out of pocket costs
- Financial Covenants
  - Borrowers covenanted that, from the Closing Date until the commitment termination date and full payment of the obligations to Senior Lender, Lakeland Industries, Inc. (the parent company), together with its subsidiaries on a consolidated basis, excluding its Brazilian subsidiary (which has since been transferred to a third party), shall comply with the following additional covenants:

- Fixed Charge Coverage Ratio. At the end of each fiscal quarter of Borrowers, Borrowers shall maintain a Fixed Charge Coverage Ratio of not less than 1.1 to 1.00 for the four quarter period then ending.
- Minimum Quarterly Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). Borrowers shall achieve, on a rolling four quarter basis excluding the operations of the Borrower's then Brazilian subsidiary, EBITDA of not less than $4.1 million.
- Capital Expenditures. Borrowers shall not during any fiscal year make capital expenditures in an amount exceeding $1 million in the aggregate.
- The Company is in compliance with all loan covenants of the Senior Debt at July 31, 2016.
- Other Covenants
  - Standard financial reporting requirements as defined
  - Limitation on amounts that can be advanced to or on behalf of Brazilian operations, limited to one aggregate total of $200,000 for the term of the loan and as amended on June 3, 2015 to facilitate the transfer of the then Brazilian subsidiary to a third party.
  - Limitation on total net investment in foreign subsidiaries of a maximum of $1.0 million per annum

Borrowings in UK

On December 31, 2014, the Company and its UK subsidiary amended the terms of its existing financing facility with HSBC Bank to provide for (i) a one-year extension of the maturity date of the existing financing facility to December 19, 2016, (ii) an increase in the facility limit from £1,250,000 (approximately USD $1.9 million) to £1,500,000 (approximately USD $2.3 million), and (iii) a decrease in the annual interest rate margin from 3.46% to 3.0%. In addition, pursuant to a letter agreement dated December 5, 2014, the Company agreed that £400,000 (approximately USD $0.6 million) of the note payable by the UK subsidiary to the Company shall be subordinated in priority of payment to the subsidiary's obligations to HSBC under the financing facility. The balance under this loan outstanding at July 31, 2016 was US $0.1 million and is included in short-term borrowings on the unaudited condensed consolidated balance sheet. The per annum interest rate was 3.00% and the term was for a minimum period of one year renewable on December 19, 2016. On December 31, 2015, Lakeland Industries Europe, Ltd., a wholly owned subsidiary of Lakeland Industries, Inc., entered into an extension of the maturity date of its existing financing facility with HSBC Invoice Finance (UK) Ltd. to December 19, 2016. Other than the extension of the maturity date, all other terms of the facility remain the same.

Canada Loans

In September 2013, the Company refinanced its loan with the Development Bank of Canada ("BDC") for a principal amount of approximately $1.1 million in both Canadian and USD (based on exchange rates at time of closing). Such loan is for a term of 240 months at an interest rate of 6.45% per annum with fixed monthly payments of approximately US $6,048 (C$8,169) including principal and interest. It is collateralized by a mortgage on the Company's warehouse in Brantford, Ontario. The amount outstanding at July 31, 2016 is C$1,018,763 which is included as USD $731,499 long term borrowings on the accompanying unaudited condensed consolidated balance sheet, net of current maturities of US $50,000.

China Loans

On March 28, 2016, Weifang Lakeland Safety Products Co., Ltd., ("WF"), the Company's Chinese subsidiary and Chinese Rural Credit Cooperative Bank ("CRCCB") completed an agreement for WF to obtain a line of credit for financing in the amount of US $1.3 million, with interest at 120% of the benchmark rate supplied by CRCCB (which is currently 4.6% per annum). The effective per annum interest rate is currently 5.35%. The loan is collateralized by inventory owned by WF. CRCCB had hired a professional firm to supervise WF's inventory flow. The balance under this loan outstanding at July 31, 2016 was USD $1.3 million and is included in short-term borrowings on the unaudited condensed consolidated balance sheet. The line of credit is due within a one year period.

On December 1, 2015, WF and CRCCB completed an agreement for WF to obtain a line of credit for financing in the amount of RMB 6,000,000 (approximately USD $0.9 million), with interest at 120% of the benchmark rate supplied by CRCCB (which is currently 4.6% per annum). The effective per annum interest rate is currently 5.52%. The loan is collateralized by inventory owned by WF. CRCCB had hired a professional firm to supervise WF's inventory flow. The balance under this loan outstanding at July 31, 2016 was USD $0.9 million and is included in short-term borrowings on the unaudited condensed consolidated balance sheet. The line of credit is due within a one year period.

On October 10, 2015, WF and Bank of China Anqiu Branch completed an agreement for WF to obtain a line of credit for financing in the amount RMB 5,000,000 (approximately USD $0.8 million). The effective per annum interest rate is currently 7%. The loan is collateralized by inventory owned by WF. The balance under this loan outstanding at July 31, 2016 was RMB 5,000,000 (approximately USD $0.8 million) and is included in short-term borrowings on the unaudited condensed consolidated balance sheet. The line of credit is due within a one year period.

Argentina Loan

In April 2015, the Company's Argentina subsidiary was granted a $300,000 line of credit denominated in Argentine pesos, pursuant to a standby letter of credit granted by the parent company. There are several drawdowns each with six month terms at an annual rate of 34%. The balance under this loan outstanding at July 31, 2016 was US $0.1 million and is included in short-term borrowings on the unaudited condensed consolidated balance sheet.

7. Major Supplier

No supplier accounted for more than 10% of cost of sales during the three and six month periods ended July 31, 2016 and 2015.

8. Employee Stock Compensation and Stock Repurchase Program

The 2012 and 2015 Plans

At the Annual Meeting of Stockholders held on July 8, 2015, the Company's stockholders approved the Lakeland Industries, Inc. 2015 Stock Plan (the "2015 Plan"). The executive officers and all other employees and directors of the Company and its subsidiaries are eligible to participate in the 2015 Plan. The 2015 Plan is currently administered by the compensation committee of the Company's Board of Directors ("Committee"), except that with respect to all non-employee director awards, the Committee shall be deemed to include the full Board. The 2015 Plan authorizes the issuance of awards of restricted stock, restricted stock units, performance shares, performance units and other stock-based awards. The 2015 Plan also permits the grant of awards that qualify for "performance-based compensation" within the meaning of Section 162(m) of the U.S. Internal Revenue Code. The aggregate number of shares of the Company's common stock that may be issued under the 2015 Plan may not exceed 100,000 shares. Awards covering no more than 20,000 shares of common stock may be awarded to any plan participant in any one calendar year. Under the 2015 Plan, as of July 31, 2016, the Company granted awards for up to an aggregate of 94,049 restricted shares assuming maximum award levels are achieved.

The 2015 Plan, which terminates in July 2017, is the successor to the Company's 2012 Stock Incentive Plan (the "2012 Plan"). The Company's 2012 Plan authorized the issuance of up to a maximum of 310,000 shares of the Company's common stock to employees and directors of the Company and its subsidiaries in the form of restricted stock, restricted stock units, performance shares, performance units and other share-based awards. Under the 2012 Plan, as of July 31, 2016, the Company issued 288,896 fully vested shares of common stock and 4,991 restricted shares which will continue to vest according to the terms of the 2012 Plan.

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

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

As of July 31, 2016, unrecognized stock-based compensation expense related to share-based stock awards totaled $990 pursuant to the 2012 Plan and $616,996 pursuant to the 2015 Plan, before income taxes, based on the maximum performance award level. Such unrecognized stock-based compensation expense related to restricted stock awards totaled $990 for the 2012 Plan and $341,367 for the 2015 Plan at the baseline performance level. The cost of these non-vested awards is expected to be recognized over a weighted-average period of three years for the 2012 Plan and two years for the 2015 Plan.

The Company recognized total stock-based compensation costs of $77,933 and $254,826 for the six months ended July 31, 2016 and 2015, respectively, of which $(10,137) and $254,826 result from the 2012 Plan, and $88,070 and $0 result from the 2015 Plan. These amounts are reflected in operating expenses. The total income tax benefit recognized for stock-based compensation arrangements was $33,072 and $91,737 for the six months ended July 31, 2016 and 2015, respectively.

Shares under 2015 and 2012 Stock Plan	Outstanding Unvested Grants at Maximum at Beginning of FY17	Granted during FY17 through July 31, 2016	Becoming Vested during FY17 through July 31, 2016	Forfeited during FY17 through July 31, 2016	Outstanding Unvested Grants at Maximum at End of July 31, 2016
Restricted stock grants – employees	72,999	—	—	5,380	67,619
Matching award program	3,000	—	—	—	3,000
Bonus in stock - employees	2,500	—	—	2,500	—
Retainer in stock - directors	30,764	—	2,343	—	28,421
Total restricted stock plans	109,263	—	2,343	7,880	99,040
Weighted average grant date fair value	$ 9.93	—	$ 6.53	$ 9.68	$ 10.04

Other Compensation Plans/Programs

The Company previously awarded stock-based options to non-employee directors under its Non-employee Directors' Option Plan (the "Directors' Plan") which expired on December 31, 2012. All stock option awards granted under the Directors' Plan were fully vested at July 31, 2016. During the six months ended July 31, 2016 there have been zero forfeitures or options exercised, and there were options outstanding to purchase an aggregate of 5,000 shares at a weighted-average exercise price of $8.28 per share. All outstanding stock options have a weighted average remaining contractual term of 0.57 years.

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

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

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

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.

9. Segment Data

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

	Three Months Ended July 31,	Six Months Ended July 31,