

LAKELAND INDUSTRIES INC

Form 424B4

June 16, 2004

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-115162

PROSPECTUS

1,205,000 Shares

Common Stock

We are offering 1,100,000 shares of our common stock and the selling stockholders identified in this prospectus are offering 105,000 shares of our common stock.

Our shares of common stock are listed on the Nasdaq National Market under the symbol LAKE. The last reported sale price of our common stock on June 14, 2004 was \$23.64 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 8 to read about the risks you should consider before buying shares of our common stock.

| | <u>Per Share</u> | <u>Total</u> |
|---|------------------|--------------|
| Public offering price | \$21.0000 | \$25,305,000 |
| Underwriters' discounts and commissions | \$ 1.4175 | \$ 1,708,088 |
| Proceeds, before expenses, to us | \$19.5825 | \$21,540,750 |
| Proceeds to selling stockholders | \$19.5825 | \$ 2,056,163 |

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters a 30-day option to purchase up to 180,750 additional shares of our common stock at the public offering price, less the underwriting discounts and commissions, solely to cover over-allotments, if any.

We expect that the shares of our common stock will be ready for delivery to purchasers on or about June 18, 2004.

FRIEDMAN BILLINGS RAMSEY

The date of this prospectus is June 14, 2004

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You should rely only on the information contained or incorporated by reference in this prospectus. We, the selling stockholders and the underwriters have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We, the selling stockholders and the underwriters are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition, results of operations and prospects may have changed since those dates. See [Incorporation of Certain Information By Reference](#) and [Where You Can Find More Information](#).

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The Lakeland name and logo and the names of products offered by us are trademarks, registered trademarks, service marks or registered service marks of Lakeland. All other trademarks and service marks appearing in this prospectus are the property of their respective holders.

As used here, Body Gard[®], Despro[™], Fyrepel[™], Grapolator[™], Mock Twist, Kut Buster[™], Micromax[®], Pyrolon[®], Rytex[®], Safeguard 76[®], Sterling Heights Thermbar[™] and TomTex[®] are trademarks of Lakeland Industries, Inc. Kevlar[®], Nomex[®], TyChem[®] SL, BR and TK and Tyvek[®] are registered trademarks of E.I. DuPont de Nemours and Company. Spectra[®] is a registered trademark of Honeywell International, Inc. Indura[®] is a registered trademark of Westex, Inc. Basofil[®] is a registered trademark of BASF Aktiengesellschaft. Millenia[®] is a registered trademark of Southern Mills.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this prospectus and in the documents that we incorporate by reference into this prospectus. This prospectus 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. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors. Unless the context otherwise requires, references in this prospectus to Lakeland, we, us and our mean Lakeland Industries, Inc. and its subsidiaries. Any reference in this prospectus to any fiscal year of our company refers to our fiscal year ended or ending on January 31 of such year.

Lakeland Industries, Inc.

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial protective clothing market. Our products are sold by our in-house sales force and independent sales representatives to a network of over 500 safety and mill supply distributors. These distributors in turn supply end user industrial customers such as chemical/petrochemical, automobile, steel, glass, construction, smelting, janitorial, pharmaceutical and high technology electronics manufacturers, as well as hospitals and laboratories. In addition, we supply federal, state and local governmental agencies and departments such as fire and police departments, airport crash rescue units, the Department of Defense, Central Intelligence Agency, Federal Bureau of Investigation, U.S. Secret Service and the Centers for Disease Control. In fiscal 2004, we had net sales of \$89.7 million and diluted earnings per share of \$1.11, which represent a growth rate of 15.3% and 38.8%, respectively, over our previous fiscal year. For the three months ended April 30, 2004, we had net sales of \$26.8 million and diluted earnings per share of \$0.43, which represent a growth rate of 12.6% and 69.2%, respectively, from the three months ended April 30, 2003. Our net sales attributable to customers outside the United States were \$4.5 million, \$5.7 million, \$8.0 million and \$2.8 million in fiscal 2002, fiscal 2003, fiscal 2004 and the three months ended April 30, 2004, respectively.

Our major product categories and their applications are described below:

Limited Use/ Disposable Protective Clothing. We manufacture a complete line of limited use/disposable protective garments offered in coveralls, lab coats, shirts, pants, hoods, aprons, sleeves and smocks. These garments are made from several non-woven fabrics, primarily Tyvek® and TyvekQC (both DuPont manufactured fabrics) and also our proprietary fabrics manufactured pursuant to customer order. These garments provide protection from low-risk contaminants or irritants, such as chemicals, pesticides, fertilizers, paint, grease and dust, and from limited exposure to hazardous waste and toxic chemicals, including acids, asbestos, lead and hydro-carbons (or PCBs) that pose health risks after exposure for long periods of time. Additional applications include protection from viruses and bacteria, such as AIDS, streptococcus, SARS and hepatitis, at hospitals, clinics and emergency rescue sites and use in clean room environments to prevent human contamination in the manufacturing processes. This is our largest product line.

High-End Chemical Protective Suits. We manufacture heavy duty chemical suits made from TyChem® SL, TK and BR, which are DuPont manufactured fabrics. These suits are worn by individuals on hazardous material teams to provide protection from powerful, highly concentrated and hazardous or potentially lethal chemical and biological toxins, such as toxic wastes at Super Fund sites, toxic chemical spills or biological discharges, chemical or biological warfare weapons (such as anthrax or ricin), and chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. Due to Homeland Security measures and government funding of personal protective equipment for first responders to terrorist threats or attacks have recently resulted in increased demand for our high-end chemical suits and we believe demand for these suits will continue to increase in the future.

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Fire Fighting and Heat Protective Apparel. We manufacture an extensive line of fire fighting and heat protective apparel for use by fire fighters and other individuals that work in extreme heat environments such as industrial maintenance crews and military and airport crash and rescue teams.

Gloves and Arm Guards. We manufacture gloves and arm guards from Kevlar® and Spectra®, a cut resistant fiber made by Honeywell. Our gloves are used primarily in the automotive, glass and metal fabrication industries to protect the wearer's hand and arms from lacerations and heat without sacrificing manual dexterity or comfort.

Reusable Woven Garments. We manufacture a line of reusable and washable woven garments that complement our fire fighting and heat protective apparel offerings and provide alternatives to our limited use/disposable protective clothing lines. These products are ultimately sold to the automotive and electrical manufacturing industries and to hospitals for protection against blood borne pathogens and bacteria such as AIDS, streptococcus and hepatitis, and flame resistant Nomex® coveralls used in chemical and petroleum plants and for wild land fire fighting.

We believe we are one of the largest independent customers of DuPont's Tyvek® and TyChem® apparel grade material. We purchase Tyvek® under North American licensing agreements and other DuPont materials, such as Kevlar®, under international licensing agreements. While we have operated under these trademark agreements since 1995, we have been a significant customer of these DuPont materials since 1982. The trademark agreements require certain quality standards and the identification of the DuPont trademark on the finished product manufactured by us. We believe this brand identification with DuPont and Tyvek® significantly benefits the marketing of our largest product line, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing. We believe our relationship with DuPont to be excellent.

We maintain manufacturing facilities in Decatur, Alabama; Celaya, Mexico; AnQui City, China; Jiaozhou, China; and St. Joseph, Missouri, where our products are designed, manufactured and sold. We also have a relationship with a sewing subcontractor in Mexico, which we can utilize for unexpected production surges. Our China and Mexico facilities allow us to take advantage of favorable labor and supplier costs, thereby increasing our profit margins on products manufactured in these facilities. We have significantly improved our profit margins in these product lines by shifting production to our international facilities and we intend to expand our international manufacturing capabilities to include our gloves and reusable woven protective apparel product lines in the future.

Industry Overview

According to Global Industry Analysts, Inc., the global market for industrial protective clothing is projected to be approximately \$6.0 billion in 2004, and is projected to grow at a compound annual growth rate of approximately 6.5%. Our primary market, North America, is the largest market, expected to make up over one-third, or approximately \$2.0 billion, of the global market. The industrial protective clothing market includes our limited use/disposable protective clothing, our high-end chemical protective suits, our fire fighting and heat protective apparel and our reusable woven garments. Global Industry Analysts, Inc. estimates that the market for gloves was over \$2.6 billion worldwide in 2003.

The industrial protective clothing market has evolved over the past 35 years as a result of governmental regulations and requirements and commercial product development. In 1970, Congress enacted the Occupational Safety and Health Act, or OSHA, which requires employers to supply protective clothing in certain work environments. Almost two million workers are subject to OSHA standards today. Certain states have also enacted worker safety laws that supplement OSHA standards and requirements.

Business Strategy

Key elements of our strategy include:

Increase Sales to the First Responder Market. Our high-end chemical protective suits meet all of the requirements and are particularly well qualified to provide protection to first responders to

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chemical or biological attacks. For example, our products have been used for response to recent threats such as the 2001 anthrax letters and the 2004 ricin letters. A portion of appropriations for the Fire Act of 2002 and the Bio Terrorism Preparedness and Response Act of 2002 are available for purchase of products for first responders that we manufacture, and we intend to aggressively target this market.

Improve Marketing in Existing Markets. We believe significant growth opportunities are available to us through the better positioning, marketing and enhanced cross-selling of our reusable woven protective clothing, glove and arm guards and high-end chemical suit product lines, along with our limited use/disposable lines.

Increase Penetration of the North American Tyvek® Market. We intend to increase our sales of Tyvek®-based garments by introducing Tyvek® in industries which have generally used woven reusable garments, such as food processing and food service industries including kitchens, grocery stores and chicken and fishery slaughter operations. We believe that limited use/disposable garments are more effective at preventing contamination than reusable garments that are exposed to possible contamination while in transit or while being laundered. We also plan to expand our sales of Tyvek®-based products and marketing efforts in Mexico and Canada. Industrial safety gear utilized in U.S. manufacturing often gains acceptance as standard equipment for new facilities and factories operated by U.S. companies in other countries.

Emphasize Customer Service. We continue to offer a high level of customer service to distinguish our products and to create customer loyalty. We offer well-trained and experienced sales and support personnel, on-time delivery and accommodation of custom and rush orders. We also seek to extensively advertise our brand names.

Decrease Manufacturing Expenses by Moving Production to International Facilities. We have additional opportunities to take advantage of our low cost production capabilities in Mexico and China. Beginning in 1995, we successfully moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. Beginning January 1, 2005, pursuant to the United States World Trade Organization Treaty with China, quota requirements imposed by the U.S. on textiles such as our reusable woven garments and gloves are scheduled to be removed, making it more cost effective to move production for these product lines to our assembly facilities in China. We are in the early stages of this process and expect to complete this process by the third quarter of fiscal 2005. As a result, we expect to see profit margin improvements for these product lines, which will allow us to compete more effectively as the quota restrictions are removed.

Acquisitions. We believe that the protective clothing market is fragmented and presents the opportunity to acquire businesses that offer comparable products or specialty products that we do not offer. We intend to consider acquisitions that afford us economies of scale, enhanced opportunity for cross-selling, expanded product offerings and an increased market presence. We have no letters of intent or understandings with respect to any potential acquisitions.

Introduction of New Products. We continue our history of product development and innovation by introducing new proprietary products across all our product lines. Our innovations have included Micromax® disposable protective clothing line, our Despro™ glove and Grapolator™ sleeve lines for hand and arm cut protection and our Thermbar™ Mock Twist glove for hand and arm heat protection. We own seven patents on fabrics and production machinery and have eight additional patents in application. We will continue to dedicate resources to research and development.

Our Competitive Strengths

Our competitive strengths include:

Industry Reputation. We devote significant resources to creating customer loyalty by accommodating custom and rush orders and focusing on on-time delivery. Additionally, our ISO 9001

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certified facilities manufacture high-quality products. As a result of these factors, we believe that we have an excellent reputation in the industry.

Long-standing Relationship with DuPont. We believe we are the largest independent customer for Dupont's Tyvek® and TyChem® material for use in the industrial protective clothing market. Our trademark agreements with DuPont for Tyvek®, TyChem® and Kevlar® require certain quality standards and the identification of the DuPont brand on the finished product. We believe this brand identification with DuPont significantly benefits the marketing of our product lines, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing. We believe our relationship with DuPont to be excellent.

International Manufacturing Capabilities. We have operated manufacturing facilities in Mexico since 1995 and in China since 1996. Our three facilities in China total over 160,000 sq. ft. of manufacturing, warehousing and administrative space while our facility in Mexico totals over 14,000 sq. ft. of manufacturing, warehousing and administrative space. 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.

Comprehensive Inventory. We have a large product offering with numerous specifications, such as size, styles and pockets, and maintain a large inventory of each in order to satisfy customer orders in a timely manner. Many of our customers traditionally make purchases of industrial protective gear with expectations of immediate delivery. We believe our ability to provide timely service for these customers enhances our reputation in the industry and positions us strongly for repeat business, particularly in our limited use/disposable protective clothing product lines.

Manufacturing Flexibility. By locating labor-intensive manufacturing processes such as sewing in Mexico and China, and by utilizing sewing sub-contractors, we have the ability to increase production without substantial additional capital expenditures. Our manufacturing systems allow us flexibility for unexpected production surges and alternative capacity in the event any of our independent contractors become unavailable.

Experienced Management Team. We have an experienced management team. Our executive officers average greater than 20 years of experience in the industrial protective clothing market. The knowledge, relationships and reputation of our management team helps us maintain and build our customer base.

Recent Development

On May 27, 2004, we issued a press release announcing guidance for net sales and net income per common share for fiscal year 2005. We expect net sales to be between \$99 million and \$100 million and net income per common share (before giving effect to the issuance of shares in this offering) to be between \$1.50 and \$1.60 for the fiscal year ended January 31, 2005.

General Information

We were first incorporated in New York in 1982 and later reincorporated in Delaware in 1986. Our principal executive offices are located at 711-2 Koehler Avenue, Ronkonkoma, New York 11779. Our telephone number is (631) 981-9700. Our website can be visited at www.lakeland.com. Information contained on our website is not part of this prospectus.

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The Offering

| | |
|---|---|
| Common stock offered by us | 1,100,000 shares |
| Common stock offered by the selling stockholders | 105,000 shares |
| Common stock to be outstanding after this offering ⁽¹⁾ | 4,380,135 shares |
| Use of proceeds | We intend to use the net proceeds of this offering, which are estimated to be approximately \$21.0 million, for repayment of debt, potential acquisitions, working capital and other general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholders. See Use of Proceeds. |
| Over-allotment option | We have granted the underwriters an option to purchase up to an additional 180,750 shares of common stock to be sold solely to cover over-allotments. |
| <u>Nasdaq National Market Symbol</u> | LAKE |

(1) Based on the number of shares outstanding as of June 14, 2004. This does not include 285,330 shares of common stock issuable under our employee and director option plans as of June 14, 2004, consisting of:

6,330 shares underlying options outstanding at a weighted average exercise price of \$6.66 per share, of which 6,330 shares were exercisable; and

279,000 shares available for future issuance under our employee and director option plans.

Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' over-allotment option.

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The following summary consolidated financial data for our fiscal years 2000, 2001, 2002, 2003 and as of and for our fiscal year 2004 have been derived from our audited consolidated financial statements, which have been audited by Grant Thornton LLP as of and for the fiscal years ended January 31, 2000, 2001 and 2002 and by PricewaterhouseCoopers LLP as of and for the fiscal years ended January 31, 2003 and 2004. The summary financial data as of and for the three months ended April 30, 2003 and April 30, 2004 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus and, in our opinion, reflect all adjustments, consisting of normal accruals, necessary for a fair presentation of the data for those periods. Our results of operations for the three months ended April 30, 2004 may not be indicative of results that may be expected for the full year. You should read the information set forth below in conjunction with our

Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included in this prospectus.

| | Year Ended January 31, | | | | | Three Months Ended April 30, | |
|---|------------------------|-----------|-----------|-----------|-----------|------------------------------|-----------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 | 2004 |
| (in thousands, except share and per share data) | | | | | | | |
| Income Statement Data: | | | | | | | |
| Net sales | \$ 58,644 | \$ 76,108 | \$ 76,431 | \$ 77,826 | \$ 89,717 | \$ 23,825 | \$ 26,838 |
| Costs of goods sold | 48,156 | 64,798 | 63,294 | 62,867 | 71,741 | 19,729 | 20,859 |
| Gross profit | 10,488 | 11,310 | 13,137 | 14,959 | 17,976 | 4,096 | 5,979 |
| Operating expenses: | | | | | | | |
| Selling and shipping | 4,177 | 4,825 | 5,414 | 6,338 | 7,342 | 1,847 | 2,145 |
| General and administrative | 3,014 | 3,794 | 4,134 | 4,262 | 4,596 | 776 | 1,441 |
| Impairment of goodwill | | | | | 249 | | |
| Total operating expenses | 7,191 | 8,619 | 9,548 | 10,600 | 12,187 | 2,623 | 3,586 |
| Operating profit | 3,297 | 2,691 | 3,589 | 4,359 | 5,789 | 1,473 | 2,393 |
| Other income (expense): | | | | | | | |
| Interest expense | (821) | (1,248) | (882) | (643) | (535) | (138) | (137) |
| Interest income | 26 | 27 | 18 | 20 | 19 | 3 | 2 |
| Other income net | 7 | 15 | 91 | 40 | 24 | 12 | 7 |
| Total other expense | 788 | 1,206 | 773 | 583 | 492 | 123 | (128) |
| Income before income taxes | 2,509 | 1,485 | 2,816 | 3,776 | 5,297 | 1,350 | 2,265 |
| Income tax expense | (761) | (362) | (846) | (1,172) | (1,659) | 486 | 721 |
| Minority interest in net income of variable interest entities | | | | | | | 119 |
| Net income | \$ 1,748 | \$ 1,123 | \$ 1,970 | \$ 2,604 | \$ 3,638 | \$ 864 | \$ 1,425 |

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| | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net income per common share (Basic) ⁽¹⁾ | \$ 0.54 | \$ 0.35 | \$ 0.61 | \$ 0.80 | \$ 1.11 | \$ 0.26 | \$ 0.44 |
| Net income per common share (Diluted) ⁽¹⁾ | \$ 0.54 | \$ 0.35 | \$ 0.61 | \$ 0.80 | \$ 1.11 | \$ 0.26 | \$ 0.43 |
| Weighted average common shares outstanding ⁽¹⁾ : | | | | | | | |
| Basic | 3,211,280 | 3,200,990 | 3,222,956 | 3,261,116 | 3,268,551 | 3,266,997 | 3,273,925 |
| Diluted | 3,234,873 | 3,227,265 | 3,247,290 | 3,269,039 | 3,275,501 | 3,274,757 | 3,278,803 |

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| | As of April 30, 2004 | |
|----------------------------|----------------------|----------------------------|
| | Actual | As Adjusted ⁽²⁾ |
| | (in thousands) | |
| Balance Sheet Data: | | |
| Current assets | \$46,174 | \$50,255 |
| Total assets | 51,348 | 55,429 |
| Current liabilities | 5,938 | 5,938 |
| Long-term liabilities | 17,690 | 780 |
| Stockholders' equity | 26,452 | 47,443 |

- (1) Adjusted for periods prior to July 31, 2003 to reflect our 10% stock dividends to stockholders of record as of July 31, 2002 and July 31, 2003. Earnings per share have been restated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share.
- (2) The as adjusted column gives effect upon the closing of this offering to the sale of 1,100,000 shares of common stock by us in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, and the application of the estimated net proceeds.

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RISK FACTORS

You should carefully consider the following risks before investing in our common stock. These are not the only risks that we may face. If any of the events referred to below actually occurs, our business, financial condition, liquidity and results of operations could suffer. In that case, the trading price of our common stock could decline and you may lose all or part of your investment. You should also refer to the other information in this prospectus and in the documents we incorporate by reference into this prospectus, including our consolidated financial statements and the related notes.

Risks Related to Our Business

We rely on a limited number of suppliers and manufacturers for specific fabrics, including Tyvek®, 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 business is dependent to a significant degree upon close relationships with vendors and our ability to purchase raw materials at competitive prices. The loss of key vendor support, particularly support by DuPont for its Tyvek® products, could have a material adverse effect on our business, financial condition, results of operations and cash flows. We do not have long-term supply contracts with DuPont or our other fabric suppliers. In addition, DuPont also uses Tyvek® in some of its own products which compete directly with our Tyvek®-based products. As a result, there can be no assurance that we will be able to acquire Tyvek® and other raw materials and components at competitive prices or on competitive terms in the future. For example, certain materials that are high profile and in high demand may be allocated by vendors to their customers based upon the vendors' internal criteria, which are beyond our control.

In fiscal 2004, we purchased approximately 77.4% of the dollar value of our raw materials from DuPont, and Tyvek® constituted approximately 55% of our cost of goods sold and approximately 71.2% of the dollar value of our raw material purchases. In the three months ended April 30, 2004, we purchased approximately 77.2% of the dollar value of our raw materials from DuPont, and Tyvek® constituted approximately 65.3% of our cost of goods sold and approximately 66.9% of the dollar value of our raw material purchases. For periods in 1985 and 1989, DuPont placed all purchasers of Tyvek® on allocation. Allocation is a circumstance in which demand outstrips supply and fabrics are sold based upon the amount a buyer purchased the prior year. This allocation limited our ability to meet demand for products made of Tyvek®. Although we have not experienced delays in obtaining Tyvek® since 1989, there can be no assurance that an adequate supply of Tyvek® will be available in the future. Any shortage could adversely affect our ability to manufacture our products, and thus reduce our net sales.

Other than DuPont's Tyvek® and TyChem® fabrics, we generally use standard fabrics and components in our products. We rely on non-affiliated suppliers and manufacturers for the supply of these fabrics and components that are incorporated in our products. If such suppliers or manufacturers experience financial, operational, manufacturing capacity or quality assurance difficulties, or if there is a disruption in our relationships, we will be required to locate alternative sources of supply. We cannot assure you that we will be able to locate such alternative sources. In addition, we do not have any long-term contracts with any of our suppliers for any of these components. Our inability to obtain sufficient quantities of these components, if and as required in the future, may result in:

interruptions and delays in manufacturing and resulting cancellations of orders for our products;

increases in fabric or component prices that we may not be able to pass on to our customers; and

our holding more inventory than normal because we cannot finish assembling our products until we have all of the components.

We are subject to risks as a result of our international manufacturing operations.

Because most of our products are manufactured at our facilities located in China and Mexico, our operations are subject to risks inherent in doing business internationally. Such risks include the adverse

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effects on operations from war, international terrorism, civil disturbances, political instability, governmental activities and deprivation of contract and property rights. In particular, since 1978, the Chinese government has been reforming its economic and political systems, and we expect this to continue. Although we believe that these reforms have had a positive effect on the economic development of China and have improved our ability to successfully operate our facilities in China, we cannot assure you that these reforms will continue or that the Chinese government will not take actions that impair our operations or assets in China. In addition, periods of international unrest may impede our ability to manufacture goods in other countries and could have a material adverse effect on our business and results of operations.

Our results of operations could be negatively affected by potential fluctuations in foreign currency exchange rates.

Most of our assembly arrangements with our foreign-based subsidiaries or third party suppliers require payment to be made in U.S. dollars. These payments aggregated \$6.2 million and \$2.1 million in fiscal 2004 and the three months ended April 30, 2004, respectively. Any decrease in the value of the U.S. dollar in relation to foreign currencies could increase the cost of the services provided to us upon contract expirations or supply renegotiations. There can be no assurance that we will be able to increase product prices to offset any such cost increases and any failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We are also exposed to foreign currency exchange rate risks as a result of our sales in foreign countries. Our net sales to customers in Canada and China were \$4.8 million and \$0.6 million, respectively, in fiscal 2004 and \$1.3 million and \$0.2 million, respectively, in the three months ended April 30, 2004. Our sales in Canada are denominated in Canadian dollars. If the value of the U.S. dollar increases relative to the Canadian dollar and we are unable to raise our prices proportionally, then our profit margins could decrease because of the exchange rate change. Although our sales in China are denominated in the Chinese Yuan, this currency has recently been largely pegged to the U.S. dollar, which has minimized our foreign currency exchange rate risk in China. However, if in the future the Chinese Yuan is not pegged to the U.S. dollar, we will be exposed to additional foreign currency exchange rate risk. This risk will also increase as we increase our sales in other foreign countries. See Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk.

Rapid technological change could negatively affect sales of our products and our performance.

The rapid development of fabric technology continually affects our apparel applications and may directly impact the performance of our products. For example, microporous film-based products have eroded the market share of Tyvek® in certain applications. We cannot assure you that we will successfully maintain or improve the effectiveness of our existing products, nor can we assure you that we will successfully identify new opportunities or continue to have the needed financial resources to develop new fabric or apparel manufacturing techniques in a timely or cost-effective manner. In addition, products manufactured by others may render our products obsolete or non-competitive. If any of these events occur, our business, prospects, financial condition and operating results will be materially and adversely affected.

Acquisitions or future expansion could be unsuccessful.

In the future, we may seek to acquire selected safety products lines or safety-related businesses which will complement our existing products. Our ability to acquire these businesses is dependent upon many factors, including our management's relationship with the owners of these businesses, many of which are small and closely held by individual stockholders. In addition, we will be competing for acquisition and expansion opportunities with other companies, many of which have greater name recognition, marketing support and financial resources than us, which may result in fewer acquisition opportunities for us as well as higher acquisition prices. There can be no assurance that we will be able to identify, pursue or acquire any targeted businesses and, if acquired, there can be no assurance that we will be able to profitably

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manage additional businesses or successfully integrate acquired businesses into our company without substantial costs, delays and other operational or financial problems.

If we proceed with any significant acquisition for cash, we may use a substantial portion of our available cash in order to consummate any such acquisition. We may also seek to finance any such acquisition through debt or equity financings, and there can be no assurance that such financings will be available on acceptable terms or at all. If consideration for an acquisition consists of equity securities, our stockholders could be diluted. If we borrow funds in order to finance an acquisition, we may not be able to obtain such funds on terms that are favorable to us. In addition, such indebtedness may limit our ability to operate our business as we currently intend because of restrictions placed on us under the terms of the indebtedness and because we may be required to dedicate a substantial portion of our cash flow to payments on the debt instead of to our operations, which may place us at a competitive disadvantage.

Acquisitions involve a number of special risks in addition to those mentioned above, including the diversion of management's attention to the assimilation of the operations and personnel of the acquired companies, the potential loss of key employees of acquired companies, potential exposure to unknown liabilities, adverse effects on our reported operating results, and the amortization or write down of acquired intangible assets. We cannot assure you that any acquisition by us will or will not occur, that if an acquisition does occur that it will not materially and adversely affect our results of operations or that any such acquisition will be successful in enhancing our business.

If we are unable to manage our growth, our business could be adversely affected.

Our operations and business have expanded substantially in recent years, with a large increase in employees and business areas in a short period of time. To manage our rapid growth properly, we have been and will be required to expend significant management and financial resources. There can be no assurance that our systems, procedures and controls will be adequate to support our operations as they expand. There can also be no assurance that our management will be able to manage our growth and operate a larger organization efficiently or profitably. To the extent that we are unable to manage growth efficiently and effectively or are unable to attract and retain additional qualified management personnel, our business, financial condition and results of operations could be materially and adversely affected.

We must recruit and retain skilled employees, including our senior management, to succeed in our business.

Our performance is substantially dependent on the continued services and performance of our senior management and certain other key personnel, including Christopher J. Ryan, our chief executive officer, president, general counsel and secretary, James McCormick, our chief financial officer and treasurer, Greg Willis, our national sales manager, and Harvey Pride, Jr., our vice president in charge of manufacturing, due to their long experience in our industry. Our executive officers have an average tenure with us of 16 years and an average of 22 years of experience in our industry. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, financial condition and results of operations. In addition, any future expansion of our business will depend on our ability to identify, attract, hire, train, retain and motivate other highly skilled managerial, marketing, customer service and manufacturing personnel and our inability to do so could have a material adverse effect on our business, financial condition and results of operations.

Because we do not have long-term commitments from many of our customers, we must estimate customer demand and errors in our estimates could negatively impact our inventory levels and net sales.

Our sales are generally made on the basis of individual purchase orders, which may later be modified or canceled by the customer, rather than long-term commitments. We have historically been required to place firm orders for fabrics and components with our suppliers, prior to receiving an order for our products, based on our forecasts of customer demands. Our sales process requires us to make multiple demand forecast assumptions, each of which may introduce error into our estimates, causing excess inventory to accrue or a lack of manufacturing capacity when needed. If we overestimate customer

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demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect or at all. As a result, we would have excess inventory, which would negatively impact our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would lose sales opportunities, lose market share and damage our customer relationships. On occasion, we have been unable to adequately respond to delivery dates required by our customers because of the lead time needed for us to obtain required materials or to send fabrics to our assembly facilities in China and Mexico.

We face competition from other companies, two of which have substantially greater resources than we do.

Most parts of our business are highly competitive. Two of our competitors, DuPont and Kimberly Clark, have substantially greater financial, marketing and sales resources than we do. In addition, we believe that the barriers to entry in the reusable garments and gloves markets are relatively low. We cannot assure you that our present competitors or competitors that choose to enter the marketplace in the future will not exert significant competitive pressures. Such competition could have a material adverse effect on our net sales and results of operations. For further discussion of the competition we face in our business, see Business Competition.

Some of our sales are to foreign buyers, which exposes us to additional risks.

We derived approximately 8.9% and 10.3% of our net sales from customers located in foreign countries in fiscal 2004 and the three months ended April 30, 2004, respectively. We intend to increase the amount of foreign sales we make in the future. The additional risks of foreign sales include:

potential adverse fluctuations in foreign currency exchange rates;

higher credit risks;

restrictive trade policies of foreign governments;

currency nullification and weak banking institutions;

changing economic conditions in local markets;

political and economic instability in foreign markets; and

changes in leadership of foreign governments.

Some or all of these risks may negatively impact our results of operations and financial condition.

Covenants in our credit facilities may restrict our financial and operating flexibility.

We currently have two credit facilities:

an \$18 million revolving credit facility, of which we had \$16.6 million of borrowings outstanding as of June 11, 2004; and

a \$3 million revolving credit facility (the availability of which reduces incrementally over its 3-year term), of which we had no borrowings outstanding as of June 11, 2004.

Our current credit facilities require, and any future credit facilities may also require, that we comply with specified financial covenants relating to interest coverage, debt coverage, minimum consolidated net worth, and earnings before interest, taxes, depreciation and amortization. Our ability to satisfy these financial covenants can be affected by events beyond our control, and we cannot assure you that we will meet the requirements of these covenants. These restrictive covenants could affect our financial and operational flexibility or impede our ability to operate or expand our business. Default under our credit facilities would allow the lenders to declare all amounts outstanding to be immediately due and payable. Our lenders have a security interest in substantially all of our assets to secure the debt under our current credit facilities, and it is likely that our future lenders will have security interests in our assets. If our

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lenders declare amounts outstanding under any credit facility to be due, the lenders could proceed against our assets. Any event of default, therefore, could have a material adverse effect on our business.

We may need additional funds, and if we are unable to obtain these funds, we may not be able to expand or operate our business as planned.

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of equity or by borrowing money, to fund acquisitions, for the future growth and development of our business or to fund our operations and inventory, particularly in the event of a market downturn. Although we have the ability until July 31, 2005 to borrow additional sums under our \$18 million revolving credit facility, this facility contains a borrowing base provision and financial covenants that may limit the amount we can borrow thereunder or from other sources. We may not be able to replace or renew this credit facility upon its expiration on terms that are as favorable to us or at all. In addition, a number of factors could affect our ability to access debt or equity financing, including:

our financial condition, strength and credit rating;

the financial markets confidence in our management team and financial reporting;

general economic conditions and the conditions in the homeland security sector; and

capital markets conditions.

Even if available, additional financing could be costly or have adverse consequences. If additional funds are raised through the issuance of stock, dilution to our stockholders may result. If additional funds are raised through the incurrence of debt, we will incur increased debt servicing costs and may become subject to additional restrictive financial and other covenants. We can give no assurance as to the terms or availability of additional capital. If we are not successful in obtaining sufficient capital, it could reduce our net sales and net income and adversely impact our financial position, and we may not be able to expand or operate our business as planned.

A reduction in government funding for preparations for terrorist incidents could adversely affect our net sales.

As a general matter, a significant portion of our sales growth to our distributors is dependent upon resale by those distributors to customers that are funded in large part by federal, state and local government funding. Specifically, approximately 60% of our high-end chemical suit sales is dependent on government funding. Congress passed the 2001 Assistance to Firefighters Grant Program and the Bioterrorism Preparedness and Response Act of 2002. Both of these Acts provide for funding to fire and police departments and medical and emergency personnel to respond to terrorist incidents. Appropriations for these Acts by the federal government could be reduced or eliminated altogether. Any such reduction or elimination of federal funding, or any reduction in state or local funding, could cause sales of our products purchased by fire and police departments and medical and emergency personnel to decline.

We may be subject to product liability claims, and insurance coverage could be inadequate or unavailable to cover these claims.

We manufacture products used for protection from hazardous or potentially lethal substances, such as chemical and biological toxins, fire, viruses and bacteria. The products that we manufacture are typically used in applications and situations that involve high levels of risk of personal injury. Failure to use our products for their intended purposes, failure to use our products properly or the malfunction of our products could result in serious bodily injury to or death of the user. In such cases, we may be subject to product liability claims arising from the design, manufacture or sale of our products. If these claims are decided against us and we are found to be liable, we may be required to pay substantial damages and our insurance costs may increase significantly as a result. We cannot assure you that our insurance coverage would be sufficient to cover the payment of any potential claim. In addition, we cannot assure you that this or any other insurance coverage will continue to be available or, if available, that we will be able to

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obtain it at a reasonable cost. Any material uninsured loss could have a material adverse effect on our financial condition, results of operations and cash flows.

Environmental laws and regulations may subject us to significant liabilities.

Our U.S. operations, including our manufacturing facilities, are subject to federal, state and local environmental laws and regulations relating to the discharge, storage, treatment, handling, disposal and remediation of certain materials, substances and wastes. Any violation of any of those laws and regulations could cause us to incur substantial liability to the Environmental Protection Agency, the state environmental agencies in any affected state or to any individuals affected by any such violation. Any such liability could have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Common Stock and This Offering

The market price of our common stock may fluctuate widely and trade at prices below the offering price.

The market price of our common stock could be subject to significant fluctuations in response to quarter-to-quarter variations in our operating results, announcements of new products or services by us or our competitors, and other events or factors. For example, a shortfall in net sales or net income, or an increase in losses, from levels expected by securities analysts, could have an immediate and significant adverse effect on the market price of our common stock. In addition, the stock market in recent years has experienced extreme price and volume fluctuations that have particularly affected the market prices of many micro and small capitalization companies and that have often been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price for our common stock.

Our results of operations may vary widely from quarter to quarter.

Our quarterly results of operations have varied and are expected to continue to vary in the future. These fluctuations may be caused by many factors, including:

competitive pricing pressures;

seasonal buying patterns resulting from the cyclical nature of the business of some of our customers;

the size and timing of individual sales;

changes in the mix of products and services sold;

the timing of introductions and enhancements of products by us or our competitors;

market acceptance of new products;

technological changes in fabrics or production equipment used to make our products;

changes in the mix of domestic and international sales;

personnel changes;

our expansion of international operations; and

general industry and economic conditions.

These variations could negatively impact our stock price.

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Compliance with the Sarbanes-Oxley Act of 2002 and rules and regulations relating to corporate governance and public disclosure may result in additional expenses and negatively impact our results of operations.

The Sarbanes-Oxley Act of 2002 and rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices for public companies, including our company. Keeping abreast of, and in compliance with, these laws, rules and regulations has required an increased amount of resources and management attention. In the future, this may result in increased general and administrative expenses and a diversion of management time and attention from sales-generating activities to compliance activities, which would negatively impact our results of operations.

In addition, the corporate governance, reporting and disclosure laws, rules and regulations could also make it more difficult for us to attract and retain qualified executive officers and members of our board of directors. In particular, the Nasdaq Stock Market rules require a majority of our directors to be independent as determined by our board of directors in compliance with the Nasdaq rules. Although our board of directors has determined that a majority of our directors are independent, some of these independent directors have interests in entities with which we conduct business, including from which we lease certain of our properties. For a description of these relationships, see Certain Relationships and Related Party Transactions. If any of these directors ceases in the future to be independent, including as a result of any of these transactions, we would have to replace that director or increase the size of our board of directors in order to comply with the Nasdaq rules. In that event, the amount of time and resources that our management devotes to compliance activities could increase further.

Our directors and executive officers have the ability to exert significant influence on our company and on matters subject to a vote of our stockholders.

As of June 14, 2004, our directors and executive officers beneficially owned approximately 30.2% of the outstanding shares of our common stock. As a result of their ownership of common stock and their positions in our company, our directors and executive officers are able to exert significant influence on our company and on matters submitted to a vote by our stockholders. In particular, as of June 14, 2004, Raymond J. Smith, our chairman of the board, and Christopher J. Ryan, our chief executive officer, president, general counsel and secretary and a director, beneficially owned approximately 16.3% and 8.9% of our common stock, respectively. The ownership interest of our directors and executive officers, including Messrs. Smith and Ryan, could have the effect of delaying or preventing a change of control of our company that may be favored by our stockholders generally.

Our common stock will have limited liquidity after this offering.

After this offering is completed, our company will have approximately 4,380,135 shares of common stock outstanding, assuming the underwriters do not exercise their over-allotment option. After giving effect to this offering by us and the selling stockholders, approximately 20.2% of our common stock will be beneficially owned by our directors and executive officers. Further, the trading volume of our common stock prior to this offering has been relatively limited and we expect this to continue. Therefore, people who buy shares of our common stock in this offering may have difficulty selling their shares in the future or they may have to settle for a lower price than might be the case if our common stock were traded more actively.

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Provisions in our restated certificate of incorporation and by-laws and Delaware law could make a merger, tender offer or proxy contest difficult.

Our restated certificate of incorporation contains super majority voting and classified board provisions, authorized preferred stock that could be utilized to implement various poison pill defenses and a stockholder authorized, but as yet unused, Employee Stock Ownership Plan, all of which may have the effect of discouraging a takeover of Lakeland which is not approved by our board of directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibit us from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in the prescribed manner. For a description of these provisions, see Description of Capital Stock Anti-Takeover Provisions.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements. When used in this prospectus 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 used 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 prospectus 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 historical 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 fabrics and components from suppliers and manufacturers;

risks associated with our international manufacturing operations;

potential fluctuations in foreign currency exchange rates;

our ability to respond to rapid technological change;

our ability to identify and complete acquisitions or future expansion;

our ability to manage our growth;

our ability to recruit and retain skilled employees, including our senior management;

our ability to accurately estimate customer demand;

competition from other companies, including some with greater resources;

risks associated with sales to foreign buyers;

restrictions on our financial and operating flexibility as a result of covenants in our credit facilities;

our ability to obtain additional funding to expand or operate our business as planned;

the impact of a decline in federal funding for preparations for terrorist incidents;

the impact of potential product liability claims;

liabilities under environmental laws and regulations;

fluctuations in the price of our common stock;

variations in our quarterly results of operations;

the cost of compliance with the Sarbanes-Oxley Act of 2002 and rules and regulations relating to corporate governance and public disclosure;

the significant influence of our directors and executive officer on our company and on matters subject to a vote of our stockholders;

the limited liquidity of our common stock;

the anti-takeover effects of provisions of our restated certificate of incorporation and bylaws and Delaware law; and

the other factors referenced in this prospectus, including, without limitation, in the sections entitled Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Business.

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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 prospectus, 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 prospectus might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

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USE OF PROCEEDS

We estimate the net proceeds to us from the sale of our common stock in this offering, based upon the public offering price of \$21.00 per share, to be approximately \$21.0 million, after deducting the estimated expenses related to this offering including underwriting discounts and commissions. If the underwriters exercise the over-allotment option in full, we estimate the net proceeds to us will be approximately \$24.5 million. We will not receive any proceeds from the sale of the shares to be sold by the selling stockholders in this offering.

We intend to use the net proceeds we receive:

to repay all amounts outstanding under our \$18 million revolving credit facility, which we expect to be approximately \$16.6 million;

to fund all or a portion of the costs of any acquisitions of complementary businesses we determine to pursue in the future, although we cannot assure you that we will be able to successfully identify or consummate such acquisitions; and

for working capital and other general corporate purposes.

Under our \$18 million revolving credit facility, borrowings bear interest at the rate offered at the London Interbank Offering Rate (LIBOR) plus 2%. Our \$18 million revolving credit facility is provided by Merrill Lynch Business Financial Services Inc., expires on July 31, 2005 and can be repaid at any time. As of June 11, 2004, we had an aggregate of \$16.6 million of borrowings outstanding under our \$18 million revolving credit facility, which bore interest at a weighted average interest rate of 3.098% per annum at such date and which mature on July 31, 2005.

Pending our actual use of proceeds, we may invest the net proceeds of this offering in short-term, investment grade, interest-bearing securities or guaranteed obligations of the United States or its agencies.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY**

Our common stock is currently traded on the Nasdaq National Market under the symbol LAKE. The following table sets forth for the periods indicated the high and low sales prices for our common stock as reported by the Nasdaq National Market. The stock prices in the table below have been adjusted for periods prior to July 31, 2003 to reflect our 10% stock dividends to stockholders of record on July 31, 2002 and July 31, 2003.

| | Price Range of Common Stock | |
|--|--|------------|
| | High | Low |
| Fiscal 2003 | | |
| First Quarter | \$ 8.64 | \$ 6.72 |
| Second Quarter | 9.92 | 5.46 |
| Third Quarter | 8.77 | 5.52 |
| Fourth Quarter | 7.29 | 5.69 |
| Fiscal 2004 | | |
| First Quarter | \$ 8.44 | \$ 6.14 |
| Second Quarter | 10.92 | 7.73 |
| Third Quarter | 12.99 | 9.67 |
| Fourth Quarter | 18.87 | 11.78 |
| Fiscal 2005 | | |
| First Quarter | \$27.56 | \$14.45 |
| Second Quarter (through June 14, 2004) | \$24.69 | \$15.87 |

On June 14, 2004 the last reported sale price of our common stock on the Nasdaq National Market was \$23.64 per share. As of June 14, 2004, there were approximately 75 record holders of shares of our common stock.

We have never paid any cash dividends on our common stock and we currently intend to retain any future earnings for use in our business. The payment and rate of future dividends, if any, are subject to the discretion of our board of directors and will depend upon our earnings, financial condition, capital requirements, contractual restrictions under our credit facilities and other factors.

In the past, we have declared dividends in stock to our stockholders. We paid a 10% dividend in additional shares of our common stock to holders of record on July 31, 2002 and another 10% dividend in additional shares of our common stock to holders of record on July 31, 2003. We may pay stock dividends in future years at the discretion of our board of directors.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization as of April 30, 2004 on an actual basis and on an as adjusted basis. The as adjusted data give effect to the sale of 1,100,000 shares of common stock by us at the public offering price of \$21.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses, and the application of a portion of the proceeds therefrom to the repayment of our debt as described in Use of Proceeds.

You should read this table together with the sections of this prospectus entitled Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

| | As of April 30, 2004 | |
|--|--|--------------------|
| | Actual | As Adjusted |
| | (in thousands, except share and per share data) | |
| Cash and cash equivalents | \$ 2,774 | \$ 6,854 |
| Current liabilities | 5,938 | 5,938 |
| Long-term debt, less current portion | 16,910 | |
| Stockholders' equity: | | |
| Preferred Stock, \$0.01 par value; 1,500,000 shares authorized; none issued | | |
| Common Stock, \$0.01 par value; 10,000,000 shares authorized; 3,273,925 shares issued and outstanding (actual) ⁽¹⁾ ; 4,373,925 shares issued and outstanding (as adjusted) ⁽¹⁾ | 33 | 44 |
| Additional paid-in capital | 11,862 | 32,842 |
| Retained earnings | 14,557 | 14,557 |
| | <u>26,452</u> | <u>47,443</u> |
| Total stockholders' equity | 26,452 | 47,443 |
| | <u>\$26,452</u> | <u>\$47,443</u> |

(1) Does not include 291,540 shares of common stock issuable under our employee and director option plans as of April 30, 2004, consisting of:

12,540 shares underlying options outstanding at a weighted average exercise price of \$7.70 per share, of which 12,540 shares were exercisable; and

279,000 shares available for future issuance under our employee and director option plans.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data as of and for our fiscal years 2000, 2001, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements, which have been audited by Grant Thornton LLP as of and for the fiscal years ended January 31, 2000, 2001 and 2002 and by PricewaterhouseCoopers LLP as of and for the fiscal years ended January 31, 2003 and 2004. The selected financial data as of and for the three months ended April 30, 2003 and April 30, 2004 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus and, in our opinion, reflect all adjustments, consisting of normal accruals, necessary for a fair presentation of the data for those periods. Our results of operations for the three months ended April 30, 2004 may not be indicative of results that may be expected for the full year. You should read the information set forth below in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included in this prospectus.

| | Year Ended January 31, | | | | | Three Months Ended April 30, | |
|---|------------------------|-----------|-----------|-----------|-----------|------------------------------|-----------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 | 2004 |
| (in thousands, except share and per share data) | | | | | | | |
| Income Statement Data: | | | | | | | |
| Net sales | \$ 58,644 | \$ 76,108 | \$ 76,431 | \$ 77,826 | \$ 89,717 | \$ 23,825 | \$ 26,838 |
| Costs of goods sold | 48,156 | 64,798 | 63,294 | 62,867 | 71,741 | 19,729 | 20,859 |
| Gross profit | 10,488 | 11,310 | 13,137 | 14,959 | 17,976 | 4,096 | 5,979 |
| Operating expenses: | | | | | | | |
| Selling and shipping | 4,177 | 4,825 | 5,414 | 6,338 | 7,342 | 1,847 | 2,145 |
| General and administrative | 3,014 | 3,794 | 4,134 | 4,262 | 4,596 | 776 | 1,441 |
| Impairment of goodwill | | | | | 249 | | |
| Total operating expenses | 7,191 | 8,619 | 9,548 | 10,600 | 12,187 | 2,623 | 3,586 |
| Operating profit | 3,297 | 2,691 | 3,589 | 4,359 | 5,789 | 1,473 | 2,393 |
| Other income (expense): | | | | | | | |
| Interest expense | (821) | (1,248) | (882) | (643) | (535) | (138) | (137) |
| Interest income | 26 | 27 | 18 | 20 | 19 | 3 | 2 |
| Other income - net | 7 | 15 | 91 | 40 | 24 | 12 | 7 |
| Total other expense | 788 | 1,206 | 773 | 583 | 492 | 123 | (128) |
| Income before income taxes | 2,509 | 1,485 | 2,816 | 3,776 | 5,297 | 1,350 | 2,265 |
| Income tax expense | (761) | (362) | (846) | (1,172) | (1,659) | 486 | 721 |
| Net income | \$ 1,748 | \$ 1,123 | \$ 1,970 | \$ 2,604 | \$ 3,638 | \$ 864 | \$ 1,425 |
| Minority interest in net income of variable interest entities | | | | | | | 119 |
| Net income per common share (Basic) ⁽¹⁾ | \$ 0.54 | \$ 0.35 | \$ 0.61 | \$ 0.80 | \$ 1.11 | \$ 0.26 | \$ 0.44 |
| Net income per common share (Diluted) ⁽¹⁾ | \$ 0.54 | \$ 0.35 | \$ 0.61 | \$ 0.80 | \$ 1.11 | \$ 0.26 | \$ 0.43 |
| Weighted average common shares outstanding ⁽¹⁾ : | | | | | | | |
| Basic | 3,211,280 | 3,200,990 | 3,222,956 | 3,261,116 | 3,268,551 | 3,266,997 | 3,273,925 |

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| Diluted | 3,234,873 | 3,227,265 | 3,247,290 | 3,269,039 | 3,275,501 | 3,274,757 | 3,278,803 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Balance Sheet Data (at period end): | | | | | | | |
| Current assets | \$ 32,460 | \$ 36,099 | \$ 39,545 | \$ 38,859 | \$ 43,285 | \$ 38,806 | \$ 46,174 |
| Total assets | 34,770 | 38,628 | 42,417 | 42,823 | 47,304 | 43,236 | 51,348 |
| Current liabilities | 16,551 | 20,052 | 22,778 | 20,934 | 21,509 | 20,426 | 5,938 |
| Long-term liabilities | 2,814 | 2,039 | 912 | 529 | 768 | 576 | 17,690 |
| Stockholders equity | 15,405 | 16,537 | 18,727 | 21,359 | 25,027 | 22,233 | 26,452 |

- (1) Adjusted for periods prior to July 31, 2003 to reflect our 10% stock dividends to stockholders of record as of July 31, 2002 and July 31, 2003. Earnings per share have been restated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this prospectus and in the documents that we incorporate by reference into this prospectus. This prospectus 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. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors.

Overview

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial protective clothing market. Our products are sold by our in-house sales force and independent sales representatives to a network of over 500 safety and mill supply distributors. These distributors in turn supply end user industrial customers such as chemical/petrochemical, automobile, steel, glass, construction, smelting, janitorial, pharmaceutical and high technology electronics manufacturers, as well as hospitals and laboratories. In addition, we supply federal, state and local governmental agencies and departments such as fire and police departments, airport crash rescue units, the Department of Defense, Central Intelligence Agency, Federal Bureau of Investigation, U.S. Secret Service and the Centers for Disease Control. Our net sales attributable to customers outside the United States were \$4.5 million, \$5.7 million, \$8.0 million and \$2.8 million in fiscal 2002, fiscal 2003, fiscal 2004 and the three months ended April 30, 2004, respectively.

In fiscal 2004, we hired five additional sales personnel, increasing our sales team from nine to fourteen. Although it has taken time to identify and train the new personnel, we believe our increase in net sales in the year ended January 31, 2004 compared to the year ended January 31, 2003 is in part attributable to our increased focus on our internal sales team. As sales increase, we intend to continue to invest in the hiring of additional sales personnel.

Our sales of limited use/disposable protective clothing grew approximately 13% in the year ended January 31, 2004 compared to the year ended January 31, 2003 and 7.9% in the three months ended April 30, 2004 compared to the three months ended April 30, 2003. Our expectation is to see continued growth. We expect that distributors will continue to stock more inventory as economic conditions in the United States continue to improve. We also expect our net sales to increase as we introduce our Tyvek®-based products into new industries in which the use of Tyvek® is not widespread. In addition, our net sales are driven in part by government funding and health-related events. Our net sales attributable to chemical suits increased 55% and 62.5% and our net sales attributable to fire gear and aluminized apparel increased 25% and 36.4% in the year ended January 31, 2004 compared to the year ended January 31, 2003 and the three months ended April 30, 2004 compared to the three months ended April 30, 2003, respectively. These sales increases were driven primarily by grants from the federal government under the Fire Act of 2002 and the Bio Terrorism Preparedness and Response Act of 2002 as part of the Homeland Security initiatives. During fiscal 2004, as a result of the SARS virus outbreak in various cities in 2003, we sold approximately \$1.1 million of SARS-related garments in China, Toronto, Hong Kong and Taiwan. The Centers for Disease Control has recommended protective garments be used to protect healthcare workers in the fight against the spread of the SARS virus. In the event of future outbreaks of SARS or other similar contagious viruses, such as avian flu in 2004, we have positioned ourselves with increased production capacity.

We have operated manufacturing 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

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facilities in Mexico and China, we have seen improvements in the profit margins for these products. We are in the early stages of moving production of our reusable woven garments and gloves to these facilities and expect to complete this process by the third quarter of fiscal 2005. As a result, we expect to see profit margin improvements for these product lines as well.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net sales and expenses, and disclosure of contingent assets and liabilities. We base estimates on our 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 consolidated financial statements.

Revenue Recognition. We derive our sales primarily from our limited use/disposable protective clothing and secondarily from our sales of high-end chemical protective suits, fire fighting and heat protective apparel, gloves and arm guards, and reusable woven garments. Sales are recognized when goods are shipped to our distributors at which time title and the risk of loss passes. 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.

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.

Allowance for Doubtful Accounts. We establish an allowance for doubtful accounts to provide for accounts receivable that may not be collectible. In establishing the allowance for doubtful accounts, we analyze the collectibility of individual large or past due accounts customer-by-customer. We establish reserves for accounts that we determine to be doubtful of collection.

Income Taxes and Valuation Reserves. We are required to estimate our income taxes in each of the jurisdictions in which we operate as part of preparing our 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 our balance sheet. A judgment must then be made of the likelihood that any deferred tax assets will be realized 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 we determine that we may not be able to realize all or part of our deferred tax asset in the future, or that new estimates indicate that a previously recorded valuation allowance is no longer required, an adjustment to the deferred tax asset is charged or credited to net income in the period of such determination.

Valuation of Goodwill and Other Intangible Assets. On February 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which provides that goodwill and other intangible assets are no longer amortized, but are assessed for impairment annually and upon occurrence of an event that indicates impairment may have occurred. Goodwill impairment is evaluated utilizing a two step process as required by SFAS No. 142. Factors that we consider important that could identify a potential impairment include: significant underperformance relative to expected historical or projected future operating results; significant changes in the overall business strategy; and significant negative industry or economic trends. When we determine that the carrying value of intangibles and goodwill may not be recoverable based upon one or more of these indicators of

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impairment, we measure any potential impairment based on a projected discounted cash flow method. Estimating future cash flows requires our management to make projections that can differ materially from actual results. In fiscal 2004, as a result of our decision to move a portion of our reusable woven garment assembly from the United States to China, we reviewed this portion of our business for impairment. An impairment was calculated based on estimating the fair value, utilizing a discounted cash flow analysis, resulting in an impairment charge of \$0.2 million. We have no remaining goodwill recorded as of April 30, 2004.

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

Results of Operations

The following table sets forth for each period indicated our historical results of operations as a percentage of our net sales.

| | Year Ended January 31, | | | Three Months Ended April 30, | |
|---|------------------------|--------|--------|------------------------------|--------|
| | 2002 | 2003 | 2004 | 2003 | 2004 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 82.8% | 80.8% | 80.0% | 82.8% | 77.7% |
| Gross profit | 17.2% | 19.2% | 20.0% | 17.2% | 22.3% |
| Operating expenses | 12.5% | 13.6% | 13.6% | 11.0% | 13.4% |
| Operating profit | 4.7% | 5.6% | 6.4% | 6.2% | 8.9% |
| Interest expense, net | 1.0% | 0.8% | 0.5% | 0.5% | 0.5% |
| Income tax expense | 1.1% | 1.5% | 1.8% | 2.1% | 2.7% |
| Minority interest in net income of variable interest entities | | | | | 0.4% |
| Net income | 2.6% | 3.3% | 4.1% | 3.6% | 5.3% |

Three Months Ended April 30, 2004 Compared to the Three Months Ended April 30, 2003

Net Sales. Net sales increased \$3.0 million, or 12.6%, to \$26.8 million for the three months ended April 30, 2004 from \$23.8 million for the three months ended April 30, 2003. The increase was due primarily to an increase in our market share in our Tyvek®-based product lines. Increased sales were also driven by an improving U.S. economy which increased demand for our products, particularly in the industrial Tyvek® markets we serve, and increased demand for our chemical protective suits and fire turnout gear for Homeland Security purposes.

Gross Profit. Gross profit increased \$1.9 million, or 46.0%, to \$6.0 million for the three months ended April 30, 2004 from \$4.1 million for the three months ended April 30, 2003. Gross profit as a percent of net sales increased to 22.3% for the three months ended April 30, 2004 from 17.2% for the three months ended April 30, 2003, primarily because of cost reductions achieved by shifting production of additional Tyvek®-based products and chemical suits to China and Mexico. We have increasingly shifted production to these lower-cost facilities.

Operating Expenses. Operating expenses increased \$1.0 million, or 36.7%, to \$3.6 million for the three months ended April 30, 2004 from \$2.6 million for the three months ended April 30, 2003. As a percent of net sales, operating expenses increased to 13.4% for the three months ended April 30, 2004 from 11.0% for the three months ended April 30, 2003. The \$1.0 million increase in operating expenses in

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the three months ended April 30, 2004 compared to the three months ended April 30, 2003 was principally due to increased expenses corresponding to our increase in net sales.

Interest Expense. Interest expense remained constant at \$0.1 million for the three months ended April 30, 2004 and the three months ended April 30, 2003.

Income Tax Expense. Income tax expense consists of federal, state and foreign income taxes. Income tax expense increased \$0.2 million, or 48.4%, to \$0.7 million for the three months ended April 30, 2004 from \$0.5 million for the three months ended April 30, 2003. The increase was due to a relative increase in our income recognized in the United States as compared to the income recognized in China, where income tax rates are lower. Our effective tax rate was 31.8% and 36.0% in the three months ended April 30, 2004 and 2003, respectively. Our effective tax rate varied from the federal statutory rate of 34% due primarily to lower foreign tax rates.

Minority Interest. Minority interest in net income of variable interest entities increased to \$0.1 million for the three months ended April 30, 2004 as a result of our adoption of Interpretation No. 46R (FIN 46R), Consolidation of Variable Interest Entities, effective February 1, 2004. Subsequent to our adoption of FIN 46R, we determined that certain entities from which we lease real property and which are owned by related parties are variable interest entities governed by FIN 46R. As a result, these entities have been consolidated in our statement of income for the three months ended April 30, 2004.

Net Income. Net income increased \$0.6 million, or 64.9%, to \$1.4 million for the three months ended April 30, 2004 from \$0.9 million for the three months ended April 30, 2003. The increase in net income was the result of an increase in net sales and increased productivity as a result of shifts in production to our China facilities, partially offset by an increase in costs and expenses due to higher volumes of our products being sold.

Year Ended January 31, 2004 Compared to Year Ended January 31, 2003

Net Sales. Net sales increased \$11.9 million, or 15.3%, to \$89.7 million for the year ended January 31, 2004 from \$77.8 million for the year ended January 31, 2003. The increase was due primarily to an increase in our market share in our Tyvek®-based product lines as well as an increase in the price of these products beginning in May 2003. Increased sales were also driven by an improving U.S. economy which increased demand for our products, particularly in the industrial Tyvek® markets we serve, and increased demand for our chemical protective suits and fire turnout gear for Homeland Security purposes. In addition, as a result of the SARS outbreak, we sold our products for the first time in domestic China, which amounted to \$0.6 million in the year ended January 31, 2004.

Gross Profit. Gross profit increased \$3.0 million, or 20.2%, to \$18.0 million for the year ended January 31, 2004 from \$15.0 million for the year ended January 31, 2003. Gross profit as a percent of net sales increased to 20.0% for the year ended January 31, 2004 from 19.2% for the year ended January 31, 2003, primarily because of cost reductions achieved by shifting production of additional Tyvek®-based products and chemical suits to China and Mexico. We have increasingly shifted production to these lower-cost facilities. In addition, we increased the price of our Tyvek®-based products beginning in May 2003, which contributed to an increase in our gross margins for these products. In the year ended January 31, 2004, we also determined that a portion of our inventory was obsolete. As a result, we wrote off \$0.4 million of inventory, offsetting the factors contributing to an increase in gross profit discussed above.

Operating Expenses. Operating expenses increased \$1.6 million, or 15%, to \$12.2 million for the year ended January 31, 2004 from \$10.6 million for the year ended January 31, 2003. As a percent of net sales, operating expenses remained constant at 13.6% for the year ended January 31, 2004 and the year ended January 31, 2003. The \$1.6 million increase in operating expenses in the year ended January 31, 2004 compared to the year ended January 31, 2003 was principally due to increased expenses corresponding to our increase in net sales, as well as impairment of goodwill of \$0.2 million. This was offset by a decrease in bad debt expense of \$0.3 million in fiscal 2004 resulting from improvement in the U.S. economy and a reorganization of our credit department.

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Interest Expense. Interest expense decreased \$0.1 million, or 16.8%, to \$0.5 million for the year ended January 31, 2004 from \$0.6 million for the year ended January 31, 2003. The decrease was primarily due to a decrease in average monthly borrowings under our credit facilities.

Income Tax Expense. Income tax expense increased \$0.5 million, or 41.6%, to \$1.7 million for the year ended January 31, 2004 from \$1.2 million for the year ended January 31, 2003. The increase was due to a relative increase in our income recognized in the United States as compared to the income recognized in China, where income tax rates are lower. Our effective tax rate was 31.3% and 31.0% in the years ended January 31, 2004 and 2003, respectively. Our effective tax rate varied from the federal statutory rate of 34% due primarily to lower foreign tax rates.

Net Income. Net income increased \$1.0 million, or 39.7%, to \$3.6 million for the year ended January 31, 2004 from \$2.6 million for the year ended January 31, 2003. The increase in net income was the result of an increase in net sales and increased productivity as a result of shifts in production to our China facilities, partially offset by an increase in costs and expenses due to higher volumes of our products being sold.

Year Ended January 31, 2003 Compared to Year Ended January 31, 2002

Net Sales. Net sales increased \$1.4 million, or 1.8%, to \$77.8 million for the year ended January 31, 2003 from \$76.4 million for the year ended January 31, 2002. The increase in net sales was principally attributable to slowly improving economic conditions and to an increase in the price of our Tyvek®-based products beginning in April 2002.

Gross Profit. Gross profit increased by \$1.8 million, or 13.9%, to \$15.0 million for the year ended January 31, 2003 from \$13.1 million for the year ended January 31, 2002. Gross profit as a percentage of net sales increased to 19.2% for the year ended January 31, 2003 from 17.2% for the prior year, principally due to an increase in the price of our Tyvek®-based products beginning in April 2002, which contributed to an increase in our gross margins for these products. Labor and overhead costs also decreased in the year ended January 31, 2003 compared to the year ended January 31, 2002 due to a headcount reduction in our Decatur, Alabama facility and our continuing shift of production to China, where the labor costs are lower. This was partially offset by an increase in inventory reserves of \$0.2 million as well as a decrease in our margins on our Tyvek®-based products in the period between March 2002 and April 2002 during which we were unable to pass on the Tyvek® price increase to our customers.

Operating Expenses. Operating expenses increased by \$1.1 million, or 11%, to \$10.6 million for the year ended January 31, 2003 from \$9.5 million for the year ended January 31, 2002. As a percent of net sales, operating expenses increased to 13.6% for the year ended January 31, 2003 from 12.5% for the year ended January 31, 2002. The \$1.1 million increase in operating expenses for the year ended January 31, 2003 compared to the year ended January 31, 2002 was due primarily to a \$0.3 million increase in freight costs as a result of price increases by our carriers, a \$0.3 million increase in sales commissions as a result of a corresponding increase in our chemical suit sales which have a higher commission rate than our Tyvek®-based products, and a \$0.3 million increase in bad debt expense as a result of general economic conditions. These increases were offset in part by a \$0.2 million decrease in labor expenses as a result of increased automation in our manufacturing processes, and a \$0.2 million decrease in research and development expenses as a result of the completion of our development of our Micromax® products.

Interest Expense. Interest expense decreased by \$0.3 million, or 27.1%, to \$0.6 million for the year ended January 31, 2003 from \$0.9 million for the year ended January 31, 2002. This decrease was primarily due to a decrease in average borrowings under our revolving credit facilities and to decreasing interest rates.

Income Tax Expense. Income tax expense increased \$0.4 million, or 50.0%, to \$1.2 million for the year ended January 31, 2003 from \$0.8 million for the year ended January 31, 2002. The increase was due to a relative increase in our income recognized in the United States as compared to the income recognized in China, where income tax rates are lower. Our effective tax rate was 31.0% and 30.0% in the years ended

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January 31, 2003 and 2002, respectively. Our effective tax rate varied from the federal statutory rate of 34% due primarily to lower foreign tax rates.

Net Income. Net income increased \$0.6 million, or 32.2%, to \$2.6 million for the year ended January 31, 2003 from \$2.0 million for the year ended January 31, 2002. The increase in net income was primarily the result of the price increase of our Tyvek®-based products, offset in part by the increase in operating expenses discussed above.

Liquidity and Capital Resources

Cash Flows

As of April 30, 2004 we had cash and cash equivalents of \$2.8 million and working capital of \$40.2 million, an increase of \$0.3 million and \$18.5 million, respectively, from January 31, 2004. In May 2004, we extended the expiration date of our \$18 million revolving credit facility to July 31, 2005. The increase in working capital at April 30, 2004 from January 31, 2004 was due primarily to the classification of borrowings under this credit facility as long term as a result of the extension of the expiration date. Such borrowings were characterized as short term at January 31, 2004. Our primary sources of funds for conducting our business activities have been from cash flow provided by operations and borrowings under our credit facilities described below. We require liquidity and working capital primarily to fund increases in inventories and accounts receivable associated with our net sales and, to a lesser extent, for capital expenditures.

Net cash provided by operating activities of \$0.4 million for the three months ended April 30, 2004 was due primarily to net income from operations of \$1.4 million and an increase in accounts payable of \$1.1 million, offset in part by an increase in inventories of \$1.2 million and an increase in accounts receivable of \$1.5 million. Net cash provided by operating activities of \$1.9 million for the three months ended April 30, 2003 was primarily attributable to net income from operations of \$0.9 million, a decrease in inventories of \$3.1 million and an increase in accounts payable of \$1.0 million, offset by an increase in accounts receivable of \$2.9 million.

Net cash provided by operating activities of \$2.2 million for the year ended January 31, 2004 was due primarily to net income from operations of \$3.6 million and an increase in accounts payable of \$0.4 million, offset in part by an increase in inventories of \$0.8 million and an increase in accounts receivable of \$2.2 million. Net cash provided by operating activities of \$1.8 million for the year ended January 31, 2003 was primarily attributable to net income from operations of \$2.6 million and a decrease in inventories of \$1.0 million, offset in part by a decrease in accounts payable of \$1.9 million and an increase in accounts receivable of \$0.8 million.

Net cash used in investing activities of \$0.2 million and \$0.6 million in the three months ended April 30, 2004 and 2003, respectively, was due to purchases of property and equipment. Net cash used in investing activities of \$1.4 million and \$1.7 million in the years ended January 31, 2004 and 2003, respectively, was also due to purchases of property and equipment.

Net cash provided by financing activities of \$0.1 million in the three months ended April 30, 2004 and net cash used by financing activities of \$1.4 million in the three months ended April 30, 2003 was primarily attributable to borrowings and payments under our credit facilities. Net cash provided by financing activities in the years ended January 31, 2004 and 2003 was also primarily attributable to payments and borrowings under our credit facilities.

Credit Facilities

We currently have two credit facilities:

an \$18 million revolving credit facility, of which we had \$16.6 million of borrowings outstanding as of June 11, 2004; and

a \$3 million revolving credit facility (the availability of which reduces incrementally over its 3-year term), of which we had no borrowings outstanding as of June 11, 2004.

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In November 1999, we entered into a 5-year \$3 million term loan which we repaid in full on March 31, 2003.

Our \$18 million revolving credit facility permits us to borrow up to the lower of \$18 million and a borrowing base determined by reference to a percentage of our eligible accounts receivable and inventory. As of January 31, 2004, our \$18 million revolving credit facility was to expire on July 31, 2004. In May 2004, we extended the expiration of this credit facility to July 31, 2005. Borrowings under this revolving credit facility bear interest at the London Interbank Offered Rate (LIBOR) plus 2% and were approximately \$16.8 million at January 31, 2004. As of June 11, 2004, we had \$1.4 million of borrowing availability under this revolving credit facility.

In January 2004, we entered into a new 3-year \$3 million revolving credit facility which expires on January 21, 2007. Availability under this facility decreases from \$3 million by \$83,333 each month over the 3-year term and is also subject to the borrowing base limitation discussed above in connection with our \$18 million revolving credit facility. Borrowings under this revolving credit facility bear interest at LIBOR plus 2.5%. We did not have any borrowings outstanding under this facility at January 31, 2004. As of June 11, 2004, we had \$2.8 million of borrowing availability under this revolving credit facility.

Our credit facilities require that we comply with specified financial covenants relating to interest coverage, debt coverage, minimum consolidated net worth, and earnings before interest, taxes, depreciation and amortization. These restrictive covenants could affect our financial and operational flexibility or impede our ability to operate or expand our business. Default under our credit facilities would allow the lenders to declare all amounts outstanding to be immediately due and payable. Our lenders have a security interest in substantially all of our assets to secure the debt under our credit facilities. As of June 11, 2004, we were in compliance with all covenants contained in our credit facilities.

We believe that cash flow from operations along with borrowing availability under our \$3 million revolving credit facility and our \$18 million revolving credit facility will be sufficient to meet our currently anticipated operating, capital expenditures and debt service requirements for at least the next 12 months. Historically, we have been able to renew our primary credit facility on acceptable terms, but there can be no assurance that such financing will continue to be available after its current expiration or that any renewal will be on terms as favorable as our current facility.

Capital Expenditures

Our capital expenditures principally relate to purchases of manufacturing equipment, computer equipment, leasehold improvement and automobiles, as well as payments related to the construction of our facilities in China. Our capital spending plans for fiscal 2005 include the last payment on our 90,415 square foot facility in Jiaozhou, China due to a construction company as payment for the construction of this facility in 2004. Our facilities in China are not encumbered by commercial bank mortgages and thus Chinese commercial mortgage loans may be available with respect to these real estate assets if we need additional liquidity. We expect our capital expenditures to be approximately \$1.1 million in fiscal 2005.

Contractual Obligations

We had no off-balance sheet arrangements at April 30, 2004. As shown below, at April 30, 2004, our contractual cash obligations totaled approximately \$20.7 million, including lease renewals entered into subsequent to April 30, 2004.

| | Payments Due by Period | | | | |
|---------------------------|------------------------|---------------------|-----------|-----------|------------------|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| | (in thousands) | | | | |
| Operating leases | \$ 3,702 | \$ 848 | \$ 1,589 | \$ 1,265 | \$ |
| Automobiles leased | 78 | 30 | 34 | 14 | |
| Revolving credit facility | 16,910 | 16,910 | | | |
| Total | \$20,690 | \$17,424 | \$1,623 | \$1,279 | \$ |

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Seasonality

Our operations have historically been seasonal, with higher sales generally occurring in February, March, April and May when scheduled maintenance occurs on nuclear, coal, oil and gas fired utilities, chemical, petrochemical and smelting facilities, and other heavy industrial manufacturing plants occurs, primarily due to cooler temperatures. Sales decline during the warmer summer and vacation months, and generally increase from Labor Day through February with slight declines during holidays. As a result of this seasonality in our sales, we have historically experienced a corresponding seasonality in our working capital, specifically inventories, with peak inventories occurring between September and March coinciding with lead times required to accommodate the spring maintenance schedules. We believe that by sustaining higher levels of inventory, we gain a competitive advantage in the marketplace. Certain of our large customers seek sole sourcing to avoid sourcing their requirements from multiple vendors whose prices, delivery times and quality standards differ.

In recent years, due to increased demand by first responders for our chemical suits and fire gear, our historical seasonal pattern has shifted. Governmental disbursements are dependent upon budgetary processes and grant administration processes that do not follow our traditional seasonal sales patterns. Due to the size and timing of these governmental orders, our net sales, results of operations, working capital requirements and cash flows can vary between different reporting periods. As a result, we expect to experience increased variability in net sales, net income, working capital requirements and cash flows on a quarterly basis.

Effects of Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*—an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. This interpretation expands on the existing accounting guidance and disclosure requirements for most guarantees, including indemnifications. It requires that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligations it assumes under that guarantee if the amount is reasonably estimable, and must disclose that information in its interim and annual financial statements. The provisions for initial recognition and measurement of the liability are to be applied on a prospective basis to guarantees issued or modified on or after January 1, 2003. Our initial adoption of this statement on January 1, 2003 did not have an impact on our results of operations, financial position or cash flows.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*. This interpretation provides guidance with respect to the consolidation of certain entities, referred to as variable interest entities (VIE), in which an investor is subject to a majority of the risk of loss from the VIE's activities, or is entitled to receive a majority of the VIE's residual returns. This interpretation also provides guidance with respect to the disclosure of VIEs in which an investor maintains an interest but is not required to consolidate. The provisions of the interpretation are effective immediately for all VIEs created after January 31, 2003, or in which we obtain an interest after that date. In October 2003, the FASB issued a revision to this pronouncement, FIN 46R, which, among other things, clarified certain provisions and modified the effective date from July 1, 2003 to March 15, 2004 for VIEs created before February 1, 2003.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 requires that certain financial instruments that were accounted for as equity under previous guidance must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets, and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have any impact on our consolidated financial statements for the year ended and at January 31, 2004.

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In December 2003, the FASB issued a revised SFAS No. 132, *Employers Disclosures about Pension and Other Postretirement Benefits*, to improve financial statement disclosures for defined benefit plans. We have adopted SFAS No. 132, which includes new disclosure requirements.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk, including changes in interest rates and currency exchange rates.

Foreign Currency Risk

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-U.S. 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 Yuan, the value of which has been largely pegged to the U.S. dollar for the last decade. As a result, any currency risks related to these transactions are deemed to be immaterial to us as a whole.

Our primary risk from foreign currency exchange rate changes is presently related to non-U.S. dollar denominated sales in Canada and, to a smaller extent, in Europe. Our sales in Canada are denominated in Canadian dollars. If the value of the U.S. dollar increases relative to the Canadian dollar and we are unable to raise our prices proportionally, then our profit margins could decrease because of the exchange rate change. Although our sales in China are denominated in the Chinese Yuan, because this currency has recently been largely pegged to the U.S. dollar, our foreign currency exchange rate risk in China has been minimized. At this time, we do not manage the foreign currency exchange rate risk through the use of derivative instruments. A 10% decrease in the value of the U.S. dollar relative to foreign currencies would not have a material impact on our results of operations or financial position. As non-U.S. dollar denominated international purchases and sales grow, exposure to volatility in exchange rates could have a material adverse impact on our financial results.

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. We had \$16.8 million and \$16.9 million of borrowings outstanding under these credit facilities at January 31, 2004 and April 30, 2004, respectively. If the interest rate applicable to this variable rate debt rose 1% in the year ended January 31, 2004 and the three months ended April 30, 2004, our interest expense would have increased and our income before income taxes would have decreased by less than \$200,000 in each of such periods.

Table of Contents**BUSINESS****Overview**

We manufacture and sell a comprehensive line of safety garments and accessories for the industrial protective clothing market. Our products are sold by our in-house sales force and independent sales representatives to a network of over 500 safety and mill supply distributors. These distributors in turn supply end user industrial customers such as chemical/petrochemical, automobile, steel, glass, construction, smelting, janitorial, pharmaceutical and high technology electronics manufacturers, as well as hospitals and laboratories. In addition, we supply federal, state and local governmental agencies and departments such as fire and police departments, airport crash rescue units, the Department of Defense, Central Intelligence Agency, Federal Bureau of Investigation, U.S. Secret Service and the Centers for Disease Control. In fiscal 2004, we had net sales of \$89.7 million and earnings per share of \$1.11, which represent a growth rate of 15.3% and 38.8%, respectively, over our previous fiscal year. For the three months ended April 30, 2004, we had net sales of \$26.8 million and earnings per share of \$0.44, which represent a growth rate of 12.6% and 69.2%, respectively, from the three months ended April 30, 2003. Our net sales attributable to customers outside the United States were \$4.5 million, \$5.7 million, \$8.0 million and \$2.8 million in fiscal 2002, fiscal 2003, fiscal 2004 and the three months ended April 30, 2004, respectively.

Our major product categories and their applications are described below:

Limited Use/Disposable Protective Clothing. We manufacture a complete line of limited use/disposable protective garments offered in coveralls, lab coats, shirts, pants, hoods, aprons, sleeves and smocks. These garments are made from several non-woven fabrics, primarily Tyvek® and TyvekQC (both DuPont manufactured fabrics) and also our proprietary fabrics manufactured pursuant to customer order. These garments provide protection from low-risk contaminants or irritants, such as chemicals, pesticides, fertilizers, paint, grease and dust, and from limited exposure to hazardous waste and toxic chemicals, including acids, asbestos, lead and hydro-carbons (or PCBs) that pose health risks after exposure for long periods of time. Additional applications include protection from viruses and bacteria, such as AIDS, streptococcus, SARS and hepatitis, at hospitals, clinics and emergency rescue sites and use in clean room environments to prevent human contamination in the manufacturing processes. This is our largest product line.

High-End Chemical Protective Suits. We manufacture heavy duty chemical suits made from TyChem® SL, TK and BR, which are DuPont manufactured fabrics. These suits are worn by individuals on hazardous material teams to provide protection from powerful, highly concentrated and hazardous or potentially lethal chemical and biological toxins, such as toxic wastes at Super Fund sites, toxic chemical spills or biological discharges, chemical or biological warfare weapons (such as anthrax or ricin), and chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. These suits can be used in conjunction with a fire protective shell that we manufacture to protect the user from both chemical and flash fire hazards. Homeland Security measures and government funding of personal protective equipment for first responders to terrorist threats or attacks have recently resulted in increased demand for our high-end chemical suits and we believe demand for these suits will continue to increase in the future.

Fire Fighting and Heat Protective Apparel. We manufacture an extensive line of fire fighting and heat protective apparel for use by fire fighters and other individuals that work in extreme heat environments. Our branded fire fighting apparel Fyrepel™ is sold to local municipalities and industrial fire fighting teams. Our heat protective aluminized fire suits are manufactured from Nomex®, a fire and heat resistant material, and Kevlar®, a cut and heat resistant, high-strength, lightweight, flexible and durable material produced by DuPont. This apparel is also used for maintenance of extreme high temperature equipment, such as coke ovens, kilns, glass furnaces, refinery installations and smelting plants, as well as for military and airport crash and rescue teams.

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Gloves and Arm Guards. We manufacture gloves and arm guards from Kevlar® and Spectra®, a cut resistant fiber made by Honeywell. Our gloves are used primarily in the automotive, glass and metal fabrication industries to protect the wearer's hand and arms from lacerations and heat without sacrificing manual dexterity or comfort.

Reusable Woven Garments. We manufacture a line of reusable and washable woven garments that complement our fire fighting and heat protective apparel offerings and provide alternatives to our limited use/disposable protective clothing lines. Product lines include electrostatic dissipative apparel used in the automotive industry for control of static electricity in the manufacturing process, clean room apparel to prevent human contamination in the manufacturing processes, hospital garments to protect against blood borne pathogens and bacteria such as AIDS, streptococcus and hepatitis, and flame resistant Nomex® coveralls used in chemical and petroleum plants and for wild land fire fighting.

We believe we are one of the largest independent customers of DuPont's Tyvek® and TyChem® apparel grade material. We purchase Tyvek® under North American licensing agreements and other DuPont materials, such as Kevlar®, under international licensing agreements. While we have operated under these trademark agreements since 1995, we have been a significant customer of these DuPont materials since 1982. The trademark agreements require certain quality standards and the identification of the DuPont trademark on the finished product manufactured by us. We believe this brand identification with DuPont and Tyvek® significantly benefits the marketing of our largest product line, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing. We believe our relationship with DuPont to be excellent.

We maintain manufacturing facilities in Decatur, Alabama; Celaya, Mexico; AnQui City, China; Jiaozhou, China; and St. Joseph, Missouri, where our products are designed, manufactured and sold. We also have a relationship with a sewing subcontractor in Mexico, which we can utilize for unexpected production surges. Our China and Mexico facilities allow us to take advantage of favorable labor and supplier costs, thereby increasing our profit margins on products manufactured in these facilities. Our China and Mexico facilities are designed for the manufacture of limited use/disposable protective clothing as well as our high-end chemical protective suits. We have significantly improved our profit margins in these product lines by shifting production to our international facilities and we intend to expand our international manufacturing capabilities to include our gloves and reusable woven protective apparel product lines in the future.

Industry Overview

According to Global Industry Analysts, Inc., the global market for industrial protective clothing is projected to be approximately \$6.0 billion in 2004, and is projected to grow at a compound annual growth rate of approximately 6.5%. Our primary market, North America, is the largest market, expected to make up over one-third, or approximately \$2.0 billion, of the global market. The industrial protective clothing market includes our limited use/disposable protective clothing, our high-end chemical protective suits, our fire fighting and heat protective apparel and our reusable woven garments. Global Industry Analysts, Inc. estimates that the market for gloves was over \$2.6 billion worldwide in 2003.

The industrial protective clothing market has evolved over the past 35 years as a result of governmental regulations and requirements and commercial product development. In 1970, Congress enacted the Occupational Safety and Health Act, or OSHA, which requires employers to supply protective clothing in certain work environments. Almost two million workers are subject to OSHA standards today. Certain states have also enacted worker safety laws that supplement OSHA standards and requirements.

The advent of OSHA coincided with DuPont's development of Tyvek® which, for the first time, allowed for the economical production of lightweight, disposable protective clothing. The attraction of disposable garments grew in the late 1970s as a result of increases in labor and material costs of producing cloth garments and the promulgation of federal, state and local safety regulations.

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In 1990, additional standards proposed and developed by the National Fire Protection Association and the American Society for Testing and Materials were adopted by OSHA. These standards identify four levels of protection, A through D, and specify the equipment and clothing required to adequately protect the wearer at each level:

Level A requires total encapsulation in a vapor proof chemical suit with self contained breathing apparatus, or SCBA, and appropriate accessories.

Level B calls for SCBA or a positive pressure supplied respirator with escape SCBA, plus hooded chemical resistant clothing (coveralls), one or two piece chemical splash suit, or disposable chemical resistant coveralls.

Level C requires hooded chemical resistant clothing, such as coveralls, two piece chemical splash suit, or disposable chemical resistant coveralls.

Level D involves work and/or training situations that require minimal coverall protection.

In response to the terrorist attacks that took place on September 11, 2001, the federal government has provided for additional protective equipment funding through programs that are part of the Homeland Security initiative. The Fire Act of 2002 created the federal Assistance to Firefighters Grant Program, or AFGP, to provide funds directly to local fire districts to help improve their readiness and capability to respond to terrorist attacks. Funds are allocated under AFGP to the following areas: fire operations/firefighter safety; fire prevention; emergency medical services; and firefighting vehicle acquisition. AFGP will provide more than \$1.3 billion in funding through 2004, with approximately \$750 million appropriated for 2003 and \$750 million more appropriated for 2004. The Bio Terrorism Preparedness and Response Act of 2002, which we refer to as the Bio Terrorism Act, appropriated \$337 million for bio-defense equipment and another \$770 million to purchase equipment for first responders, such as fire, police, medical and military personnel. These bio terrorism monies are expected to be disbursed in late 2005 and 2006.

Recently, federal and state purchasing of industrial protective clothing and federal grants to fire departments have increased demand for industrial protective clothing to protect first responders against actual or threatened terrorist incidents. Specific events such as the 2002 U.S. Winter Olympics, the anthrax letters incidents in 2001 and the ricin letter incidents in 2004 have also resulted in increased demand for our products.

Industry Consolidation

The industrial protective clothing industry is highly fragmented and consists of a large number of small, closely-held family businesses. DuPont, Kimberly Clark and Lakeland and are the dominant disposable industrial protective apparel manufacturers. Since 1997, the markets for manufacturing and distribution have consolidated. A number of large distributors with access to capital have acquired smaller distributors. The acquisitions include Vallen Corporation's acquisitions of Safety Centers, Inc., All Supplies, Inc., Shepco Manufacturing Co., and Century Safety (Canada) and Hagemeyer's acquisition of Vallen Corporation; W.W. Grainger's acquisitions of Allied Safety, Inc., Lab Safety Supply, Inc., Acklands Limited, Gempler's safety supply division and Ben Meadows, Inc.; Air Gas's acquisitions of Rutland Tool & Supply Co., Inc., IPCO Safety Supply, Inc., Lyon Safety, Inc., Safety Supply, Inc., Safety West, Inc. and Delta Safety Supply, Inc.; and Fischer Scientific's acquisitions of Safety Services of America, Cole-Parner, Retsch and Emergo.

As these safety distributors consolidate and grow, we believe they are looking to reduce the number of safety manufacturing vendors they deal with and support, while at the same time shifting the burden of end user selling to the manufacturer. This creates a significant capital availability issue for small safety manufacturers as end user selling is more expensive, per sales dollar, than selling to safety distributors. As a result, the manufacturing sector in this industry is seeing follow-on consolidation. DuPont has acquired Marmac Manufacturing, Inc., Kappler, Inc., Cellucup, Melco, Mfg., and Regal Manufacturing since 1998, while in the related safety product industries Norcross Safety Products L.L.C. has acquired Morning Pride,

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Ranger-Servus, Salisbury, North and Pro Warrington and Christian Dalloz has acquired Bacou, USA which itself acquired Uvex Safety, Inc., Survivair, Howard Leight, Perfect Fit, Biosystems, Fenzy, Titmus, Optrel, OxBridge and Delta Protection.

We believe a larger industrial protective clothing manufacturer has competitive advantages over a smaller competitor including:

economies of scale when selling to end users, either through the use of a direct sales force or independent representation groups;

broader product offerings that facilitate cross-selling opportunities;

the ability to employ dedicated protective apparel training and selling teams;

the ability to offer volume and growth incentives to safety distributors; and

access to international sales.

We believe we have a substantial opportunity to pursue acquisitions in the industrial protective clothing industry, particularly because many smaller manufacturers share customers with us.

Business Strategy

Key elements of our strategy include:

Increase Sales to the First Responder Market. Our high-end chemical protective suits meet all of the requirements and are particularly well qualified to provide protection to first responders to chemical or biological attacks. For example, our products have been used for response to recent threats such as the 2001 anthrax letters and the 2004 ricin letters. A portion of appropriations for the Fire Act of 2002 and the Bio Terrorism Act of 2002 are available for purchase of products for first responders that we manufacture, and we intend to aggressively target this market.

Improve Marketing in Existing Markets. We believe significant growth opportunities are available to us through the better positioning, marketing and enhanced cross-selling of our reusable woven protective clothing, glove and arm guards and high-end chemical suit product lines, along with our limited use/disposable lines.

Increase Penetration of the North American Tyvek® Market. We intend to increase our sales of Tyvek®-based garments by introducing Tyvek® in industries which have generally used woven reusable garments, such as food processing and food service industries including kitchens, grocery stores and chicken and fishery slaughter operations. We believe that limited use/disposable garments are more effective at preventing contamination than reusable garments that are exposed to possible contamination while in transit or while being laundered. We also plan to expand our sales of Tyvek®-based products and marketing efforts in Mexico and Canada. Industrial safety gear utilized in U.S. manufacturing often gains acceptance as standard equipment for new facilities and factories operated by U.S. companies in other countries.

Emphasize Customer Service. We continue to offer a high level of customer service to distinguish our products and to create customer loyalty. We offer well-trained and experienced sales and support personnel, on-time delivery and accommodation of custom and rush orders. We also seek to extensively advertise our brand names.

Decrease Manufacturing Expenses by Moving Production to International Facilities. We have additional opportunities to take advantage of our low cost production capabilities in Mexico and China. Beginning in 1995, we successfully moved the labor intensive sewing operation for our limited use/disposable protective clothing lines to these facilities. Beginning January 1, 2005, pursuant to the United States World Trade Organization Treaty with China, quota requirements imposed by the U.S. on textiles such as our reusable woven garments and gloves are scheduled to be removed, making it more cost effective to move production for these product lines to our

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assembly facilities in China. We are in the early stages of this process and expect to complete this process by the third quarter of fiscal 2005. As a result, we expect to see profit margin improvements for these product lines, which will allow us to compete more effectively as the quota restrictions are removed.

Acquisitions. We believe that the protective clothing market is fragmented and presents the opportunity to acquire businesses that offer comparable products or specialty products that we do not offer. We intend to consider acquisitions that afford us economies of scale, enhanced opportunity for cross-selling, expanded product offerings and an increased market presence. We have no letters of intent or understandings with respect to any potential acquisitions.

Introduction of New Products. We continue our history of product development and innovation by introducing new proprietary products across all our product lines. Our innovations have included Micromax® disposable protective clothing line, our Despro™ glove and Grapolator™ sleeve lines for hand and arm cut protection and our Thermbar™ Mock Twist glove for hand and arm heat protection. We own seven patents on fabrics and production machinery and have eight additional patents in application. We will continue to dedicate resources to research and development.

Our Competitive Strengths

Our competitive strengths include:

Industry Reputation. We devote significant resources to creating customer loyalty by accommodating custom and rush orders and focusing on on-time delivery. Additionally, our ISO 9001 certified facilities manufacture high-quality products. As a result of these factors, we believe that we have an excellent reputation in the industry.

Long-standing Relationship with DuPont. We believe we are the largest independent customer for Dupont's Tyvek® and TyChem® material for use in the industrial protective clothing market. Our trademark agreements with DuPont for Tyvek®, TyChem® and Kevlar® require certain quality standards and the identification of the DuPont brand on the finished product. We believe this brand identification with DuPont significantly benefits the marketing of our product lines, as over the past 30 years Tyvek® has become known as the standard for limited use/disposable protective clothing. We believe our relationship with DuPont to be excellent.

International Manufacturing Capabilities. We have operated manufacturing facilities in Mexico since 1995 and in China since 1996. Our three facilities in China total over 160,000 sq. ft. of manufacturing, warehousing and administrative space while our facility in Mexico totals over 14,000 sq. ft. of manufacturing, warehousing and administrative space. 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.

Comprehensive Inventory. We have a large product offering with numerous specifications, such as size, styles and pockets, and maintain a large inventory of each in order to satisfy customer orders in a timely manner. Many of our customers traditionally make purchases of industrial protective gear with expectations of immediate delivery. We believe our ability to provide timely service for these customers enhances our reputation in the industry and positions us strongly for repeat business, particularly in our limited use/disposable protective clothing product lines.

Manufacturing Flexibility. By locating labor-intensive manufacturing processes such as sewing in Mexico and China, and by utilizing sewing sub-contractors, we have the ability to increase production without substantial additional capital expenditures. Our manufacturing systems allow us flexibility for unexpected production surges and alternative capacity in the event any of our independent contractors become unavailable.

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Experienced Management Team. We have an experienced management team. Our executive officers average greater than 20 years of experience in the industrial protective clothing market. The knowledge, relationships and reputation of our management team helps us maintain and build our customer base.

Products

The following table summarizes our principal product lines, the raw materials used to manufacture them, their applications and end markets:

| Product Line | Raw Material | Protection Against | End Market |
|--|---|---|---|
| Limited use/disposable protective clothing | Tyvek® and TyvekQC, laminates of Polyethylene, Micromax®, SMS, Polypropylene, Pyrolon®, and other non-woven fabrics | Contaminants, irritants, metals, chemicals, fertilizers, pesticides, acids, asbestos, PCBs, lead, dioxin and many other hazardous chemicals Viruses and bacteria (AIDS, streptococcus, SARS and hepatitis) | Chemical/petrochemical industries Automotive and pharmaceutical industries Public utilities Government (terrorist response) Janitorial |
| High-end chemical protective suits | TyChem® SL TyChem® TK TyChem® BR Other Lakeland patented co-polymer laminates | Chemical spills Toxic chemicals used in manufacturing processes Terrorist attacks, biological warfare (anthrax and ricin) | Hazardous material teams Chemical and nuclear industries Fire departments Government (first responders) |
| Fire fighting and heat protective apparel | PBI Nomex® Millenia® Basofil® Advance Indura® Ultrasoft Aluminized Nomex® Aluminized Kevlar® | Fire, burns and excessive heat | Municipal, corporate and volunteer fire departments Wildland fire fighting Hot equipment maintenance personnel and industrial fire departments Oil well fires Airport crash rescue Automotive, glass and metal fabrication industries Chemical plants |
| Gloves and arm guards | Kevlar® yarns Spectra® yarns Kevlar® wrapped steel core yarns | Cuts, lacerations, heat and chemical irritants | |
| Reusable woven garments | Staticsorb carbon thread with polyester Cotton polyester blends Cotton Polyester FR cottons/ Nomex® | Protects manufactured products from human contamination or static electrical charge Bacteria, viruses and blood borne pathogens Protection from flash fires | Hospital and industrial facilities Clean room environments Emergency medical ambulance services Chemical and refining |

Limited Use/ Disposable Protective Clothing

We manufacture a complete line of limited use/disposable protective garments, including coveralls, laboratory coats, shirts, pants, hoods, aprons, sleeves and smocks. Limited use garments can also be coated or laminated to increase splash protection against many inorganic acids, bases and other liquid chemicals. Limited use garments are made from several non-woven fabrics, including Tyvek® and TyvekQC (both DuPont fabrics) and our own fabrics such as Pyrolon® Plus 2, XT, CRFR, Micromax®, Safeguard 76®, Zonogard, Body Gard®, RyTex® and TomTex®, which are made of spunlaced polyester, polypropylene and polyethylene materials, laminates, films and derivatives. We incorporate many seaming techniques depending on the level of protection needed in the end use application.

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Typical users of these garments include chemical plants, petrochemical refineries and related installations, automotive manufacturers, pharmaceutical companies, construction companies, coal and oil power generation utilities and telephone utility companies. Numerous smaller industries use these garments for specific safety applications unique to their businesses. Additional applications include protection from viruses and bacteria, such as AIDS, streptococcus, SARS and hepatitis, at hospitals, clinics and emergency rescue sites and use in clean room environments to prevent human contamination in the manufacturing processes.

Our limited use/disposable protective clothing products range in unit price from \$0.04 for shoe covers to approximately \$14.00 for a Tyvek® QC laminated hood and booted coverall. Our largest selling item, a standard white Tyvek® coverall, sells for approximately \$2.75 to \$3.75 per garment. By comparison, similar reusable cloth coveralls range in price from \$30.00 to \$60.00, exclusive of laundering, maintenance and shrinkage expenses.

We cut, warehouse and sell our limited use/disposable garments primarily at our Decatur, Alabama and China facilities. The fabric is cut into required patterns at our Decatur plant and shipped to our Mexico facility for assembly. Our assembly facilities in China or Mexico and independent contractors sew and package the finished garments and return them primarily to our Decatur, Alabama plant, normally within one to eight weeks, for immediate shipment to the customer.

We presently utilize nine independent domestic sewing contractors and one international contractor under agreements that are terminable at will by either party. In fiscal 2004 and the three months ended April 30, 2004, no independent sewing contractor accounted for more than 5% of our production of limited use/disposable garments. We believe that we can obtain adequate alternative production capacity should any of our independent contractors become unavailable.

The capacity of our facilities, complemented by the availability of our independent sewing contractors, allow us to reduce by 10%, or alternately increase by 20%, our production capacity without incurring large ongoing costs typical of many manufacturing operations. This allows us to react quickly to changing unit demand for our products.

High-End Chemical Protective Suits

We manufacture heavy-duty chemical suits made from DuPont TyChem® SL, TK and BR fabrics. These suits are worn by individuals on hazardous material teams to provide protection from powerful, highly concentrated and hazardous or potentially lethal chemical and biological toxins, such as toxic wastes at Super Fund sites, toxic chemical spills or biological discharges, chemical or biological warfare weapons (such as anthrax or ricin), and chemicals and petro-chemicals present during the cleaning of refineries and nuclear facilities. Our line of chemical suits range in cost from \$24 per coverall to \$1,461. The chemical suits can be used in conjunction with a fire protective shell that we manufacture to protect the user from both chemical and flash fire hazards. We have also introduced two garments approved by the National Fire Protection Agency for varying levels of protection that are manufactured from DuPont materials:

TyChem® TK a co-polymer film laminated to a durable spun bonded substrate. This garment offers the broadest temperature range for limited use garments of -94F to 194F. TyChem® TK meets all OSHA Level A requirements. It is available in National Fire Protection Agency 1991-2000 certified versions when worn with an aluminized over cover.

TyChem® BR meets all OSHA Level B and all National Fire Protection Agency 1994 fabric requirements and offers splash protection against a wide array of chemicals.

We manufacture chemical protective clothing at our facilities in Decatur, Alabama and Mexico. Using fabrics such as TyChem® SL, TK and BR, we design, cut, glue and/or sew the materials to meet customer purchase orders.

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The federal government, through the Fire Act of 2002, appropriated approximately \$750 million in 2003 to fire departments in the United States and its territories to fund the purchase, among other things, of personal protective equipment, including our fire fighting and heat protective apparel and high-end chemical protective suits. An additional \$750 million has been appropriated for 2004. The Bio Terrorism Preparedness and Response Act of 2002 includes an appropriation of \$337 million for bio-defense equipment and \$770 million to purchase equipment for first responders, such as fire, police, medical and military personnel. Purchases of equipment under these appropriations will include our personal protective equipment and are expected to be made in late 2005 and in 2006.

Fire Fighting and Heat Protective Apparel

We manufacture an extensive line of products to protect individuals who work in high heat environments. Our heat protective aluminized fire suit product lines include the following:

Fire entry suit to allow total flame entry when dealing with volatile and highly flammable products.

Kiln entry suit to protect kiln maintenance workers from extreme heat.

Proximity suits to give protection in high heat areas where exposure to hot liquids, steam or hot vapors is possible.

Approach suits to protect personnel engaged in maintenance, repair and operational tasks where temperatures do not exceed 200F ambient, with a radiant heat exposure up to 2,000F.

We manufacture fire fighter protective apparel for domestic and foreign fire departments. We developed the popular Sterling Heights™ style (short coat and bib pants) bunker gear. Crash rescue continues to be a major market for us, as we were one of the first manufacturers to supply military and civilian markets with airport fire fighting protection.

Our fire suits range in price from \$480 for standard fire department turn out gear to \$2,000 for a fire entry suit. All of our heat protective clothing is currently manufactured at our facility in St. Joseph, Missouri. Our Fyrepel™ brand of fire fighting apparel continues to benefit from ongoing research and development investment, as we seek to address the ergonomic needs of stressful occupations.

Gloves and Arm Guards

We manufacture and sell specially designed gloves and arm guards made from Kevlar®, a cut and heat resistant material produced by DuPont, Spectra®, a cut resistant fiber made by Honeywell, and our proprietary patented yarns. We are one of only twelve companies licensed in North America to sell 100% Kevlar® gloves, which are high strength, lightweight, flexible and durable. Kevlar® gloves offer a better overall level of protection and lower worker injury rates, and are more cost effective, than traditional leather, canvas or coated work gloves. Kevlar® gloves, which can withstand temperatures of up to 400F and are cut resistant enough to allow workers to safely handle sharp or jagged unfinished sheet metal, are used primarily in the automotive, glass and metal fabrication industries. Our higher end Kevlar® and Spectra® gloves range in price from \$37 to \$240 for a dozen pair.

We manufacture gloves primarily at our Decatur, Alabama facility, but we are shifting production to our Mexico and China facilities. We expect to complete this shift by the third quarter of fiscal 2005 as quotas and tariffs on products of this type expire. Foreign production will allow lower fabric and labor costs.

We have applied for patents on manufacturing processes that provide hand protection to the areas of a glove where it is most needed in various applications. For example, while the top or back of a glove generally does not require the same thickness as the palm or thumb of a glove, gloves typically have a uniform level of yarn protection. This manufacturing process allows us to produce our gloves more economically.

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Reusable Woven Garments

We manufacture and market a line of reusable and washable woven garments that complement our fire fighting and heat protective apparel offerings and provide alternatives to our limited use/disposable protective clothing lines and give us access to the much larger woven industrial and health care-related markets. Cloth reusable garments are favored by customers for certain uses or applications because of familiarity with and acceptance of these fabrics and woven cloth's heavier weight, durability and longevity. These products allow us to supply and satisfy a wider range of safety and customer needs. Our product lines include the following:

Electrostatic dissipative apparel used primarily in the automotive industry.

Clean room apparel used in semiconductor manufacturing and pharmaceutical manufacturing to protect against human contamination.

Hospital garments used to protect against blood borne pathogens and common bacteria.

Flame resistant Nomex® coveralls/pants/jackets used in chemical and petroleum plants and for wild land firefighting.

Our reusable woven garments range in price from \$10 to \$100 per garment. We manufacture and sell woven cloth garments at our facility in St. Joseph, Missouri. We continue to relocate highly repetitive sewing processes for our high volume, standard product lines such as woven protective coveralls and electrostatic dissipative apparel to our facilities in China where lower fabric and labor costs allow increased profit margins. We expect the relocation process to be substantially complete by the third quarter of fiscal 2005.

Quality Control

Our Alabama, Missouri, Mexico and China manufacturing facilities are ISO 9001 certified. ISO standards are internationally recognized quality manufacturing standards established by the International Organization for Standardization based in Geneva, Switzerland. To obtain our ISO registration, our factories were independently audited to test our compliance with the applicable standards. In order to maintain registration, our factories receive regular announced inspections by an independent certification organization. We believe that the ISO 9001 certification makes us more competitive in the marketplace, as customers increasingly recognize the standard as an indication of product quality.

Marketing and Sales

We employ an in-house sales force of 14 people and utilize 42 independent sales representatives. These employees and representatives call on over 500 safety and mill supply distributors nationwide in order to promote, provide product information for and sell our products. Distributors buy our products for resale and typically maintain inventory at the local level in order to assure quick response times and the ability to service their customers properly. Our sales employees and independent representatives have consistent communication with end users and decision makers at the distribution level, thereby allowing us valuable feedback on market perception of our products, as well as information about new developments in our industry. During fiscal 2004 and the three months ended April 30, 2004, no single distributor accounted for more than 5% of our net sales.

We seek to maximize the efficiency of our established distribution network through direct promotion of our products at the end user level. We advertise primarily through trade publications and our promotional activities include sales catalogs, mailings to end users, a nationwide publicity program and our Internet web site. We exhibit at both regional and national trade shows such as the National Safety Congress and the American Industrial Hygienists Convention.

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Research and Development

We continue to evaluate and engineer new or innovative products. We recently introduced the Micromax® line of disposable protective clothing; a newly configured line of fire retardant work coveralls and fire turn-out gear; a SARS protective medical gown for Chinese hospital personnel; the Despro™, Grapolator™ and Kut Buster™ cut protective glove and sleeve lines; and our patented Thermbar™ Mock Twist that provides heat protection for temperatures up to 600F. We own seven patents on various fabrics, patterns and production machinery. We plan to continue investing in research and development in protective apparel fabrics and manufacturing equipment. Specifically, we plan to continue to develop new specially knit and coated gloves, woven gowns for industrial and medical uses, fire retardant cotton fabrics and protective non-woven fabrics. During fiscal 2002, fiscal 2003, fiscal 2004 and the three months ended April 30, 2004, we spent approximately \$378,000, \$164,000, \$82,000 and \$5,000, respectively, on research and development.

Suppliers and Materials

Our largest supplier is DuPont, from whom we purchase Tyvek® under North American trademark licensing agreements and Kevlar® under international trademark licensing agreements. Commencing in 1995, anticipating the expiration of certain patents on its proprietary materials, DuPont offered certain customers of these materials the opportunity to enter into two year trademark licensing agreements. We entered into such agreements and have renewed them continually since. In fiscal 2004, we purchased approximately 77.4% of the dollar value of our raw materials from DuPont, and Tyvek® constituted approximately 55% of our cost of goods sold and approximately 71.2% of the dollar value of our raw material purchases. In the three months ended April 30, 2004, we purchased approximately 77.2% of the dollar value of our raw materials from DuPont, and Tyvek® constituted approximately 65.3% of our cost of goods sold and approximately 66.9% of the dollar value of our raw material purchased. We believe our relationship with DuPont to be excellent and expect to continue our licenses.

We do not have long-term, formal agreements with any other suppliers of non-woven fabric raw materials used by us in the production of our limited use/disposable protective clothing product lines. Materials such as polypropylene, polyethylene, polyvinyl chloride, spun laced polyester and their derivatives are available from thirty or more major mills. Flame retardant fabrics are also available from a number of both domestic and international mills. The accessories used in the production of our disposable garments, such as thread, boxes, snaps and elastics are obtained from unaffiliated suppliers. We have not experienced difficulty in obtaining our requirements for these commodity component items.

We have not experienced difficulty in obtaining materials, including cotton, polyester and nylon, used in the production of reusable non-wovens and commodity gloves. We obtain Spectra® yarn used in our super cut-resistant Dextra Guard gloves from Honeywell, and we believe Honeywell will be able to meet our needs for this material in the future. We obtain Kevlar®, used in the production of our specialty safety gloves, from independent mills that purchase the fiber from DuPont. Our use of Kevlar® is subject to the trademark licensing agreements described above.

Materials used in our fire and heat protective suits include glass fabric, aluminized glass, Nomex®, aluminized Nomex®, Kevlar®, aluminized Kevlar®, polybenzimidazole and Gortex, as well as combinations utilizing neoprene coatings. Traditional chemical protective suits are made of Viton, butyl rubber and polyvinyl chloride, all of which are available from multiple sources. Advanced chemical protective suits are made from Tyvek® SL, TyChem® TK and BR, which we obtain from DuPont, and our patented fabrics. We have not experienced difficulty obtaining any of these materials.

Competition

Our business is highly competitive. We believe that the barriers to entry in the reusable garments and glove markets are relatively low. We face competition in some of our other product markets from large established companies that have greater financial, managerial, sales and technical resources. Where larger competitors, such as DuPont and Kimberly Clark, offer products that are directly competitive with our

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products, particularly as part of an established line of products, there can be no assurance that we can successfully compete for sales and customers. Larger competitors also may be able to benefit from economies of scale and technological innovation and may introduce new products that compete with our products.

Seasonality

Our operations have historically been seasonal, with higher sales generally occurring in February, March, April and May when scheduled maintenance on nuclear, coal, oil and gas fired utilities, chemical, petrochemical and smelting facilities, and other heavy industrial manufacturing plants occurs, primarily due to cooler temperatures. Sales decline during the warmer summer and vacation months and generally increase from Labor Day through February with slight declines during holidays. As a result of this seasonality in our sales, we have historically experienced a corresponding seasonality in our working capital, specifically inventories, with peak inventories occurring between September and March coinciding with lead times required to accommodate the spring maintenance schedules. We believe that by sustaining higher levels of inventory, we gain a competitive advantage in the marketplace. Certain of our large customers seek sole sourcing to avoid sourcing their requirements from multiple vendors whose prices, delivery times and quality standards differ.

In recent years, due to increased demand by first responders for our chemical suits and fire gear, our historical seasonal pattern has shifted. Governmental disbursements are dependent upon budgetary processes and grant administration processes that do not follow our traditional seasonal sales patterns. Due to the size and timing of these governmental orders, our net sales, results of operations, working capital requirements and cash flows can vary between different reporting periods. As a result, we expect to experience increased variability in net sales, net income, working capital requirements and cash flows on a quarterly basis.

Patents and Trademarks

We own seven patents and have eight patents in the application and approval process with the U.S. Patent and Trademark Office. Additionally, a Patent Corporation Treaty application was filed for our Unilayer Glove Fabrics which involves technology using a robotic knitter that allows us to knit a glove using stronger or weaker yarns in different parts of the glove, as necessary, depending on the expected wear. We license one patent from Lavian Corporation, covering manufacturing processes for certain limited use/ disposable protective clothing products. This license provides for semi-exclusive rights in North American and international markets, subject to royalty payments based on yards sold and annual dollar minimums. Net sales from products manufactured pursuant to this process accounted for less than 2% of our total net sales in fiscal 2004.

Employees

As of May 21, 2004, we had approximately 1,333 full time employees, 1,045, or 78.4%, of whom were employed in our international facilities and 288, or 21.6%, of whom were employed in our domestic facilities. An aggregate of 990 of our employees, representing all of our employees in our Mexico facility and in each of our China facilities, are members of unions. We are not currently a party to any collective bargaining agreements. We believe our employee relations to be excellent.

Properties

We believe that our owned and leased facilities are suitable for the operations we conduct in each of them. Each manufacturing facility is well maintained and capable of supporting higher levels of production. The table below sets forth certain information about our principal facilities.

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| Address | Estimated Square Feet | Annual Rent | Lease Expiration | Principal Activity |
|---|------------------------------|---------------------------|-------------------------|---|
| Weifang Lakeland Safety Products Co., Ltd. Xiao Shi Village AnQui City, Shandong Province PRC 262100 | 65,000 | Owned ⁽¹⁾ | N/A | Manufacturing Administration Engineering |
| Qing Dao MayTung Healthcare Co., Ltd. Yinghai Industrial Park Jiaozhou, Shandong Province PRC 266318 | 90,415 | Owned ⁽¹⁾ | N/A | Manufacturing Administration Warehousing |
| Meiyang Protective Products Co., Ltd. Xiao Shi Village AnQui City, Shandong Province PRC 262100 | 9,360 | \$3,630 | 12/31/04 | Manufacturing |
| Uniland Division 2401 SW Parkway St. Joseph, MO 64503 | 44,000 | \$96,000 | 7/31/06 | Manufacturing Administration Warehousing |
| Lakeland de Mexico S.A. de C.V. Poniente, Mza 8, Lote 11 Ciudad Industrial, S/No. Celaya, Guanajuato 38010 Mexico | 14,057 | \$59,400 | 7/31/07 | Manufacturing Administration Warehousing |
| Lakeland Protective Wear Canada 5109-B7 Harvester Road Burlington, ON L7L5Y9 Canada | 8,250 | \$55,600 | 11/30/07 | Sales Administration Warehousing |
| Lakeland Industries, Inc. Headquarters 711-2 Koehler Avenue Ronkonkoma, NY 11779 | 4,362 | \$43,402 | 6/30/04 | Administration |
| Lakeland Industries, Inc. 751-4 Koehler Avenue Ronkonkoma, NY 11779 | 900 | \$7,800 | 6/30/04 | Studio Warehousing |
| Lakeland Industries, Inc. 202 Pride Lane Decatur, AL 35603 | 91,788 | \$364,900 | 3/31/09 | Manufacturing Administration Engineering Warehousing |
| Lakeland Industries, Inc. 3428 Valley Ave. (201 1/2 Pride Lane) Decatur, AL 35603 | 49,500 | \$199,100 | 3/31/09 | Warehousing Administration |
| Lakeland Industries, Inc. 201 Pride Lane, SW Decatur, AL 35603 | 2,400 | \$18,000 | 3/31/09 | Sales Administration |
| Lakeland Industries Europe Ltd. Wallingfen Park | 2,470 | Approximately \$25,528 | 1/31/08 | Warehouse Sales |

236 Main Road
Newport, East Yorkshire
HU15 2RH U United Kingdom

(varies with
exchange rates)

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- (1) We own the buildings in which we conduct our manufacturing operations and lease the land underlying the buildings from the Chinese government. We have 43 years and 48 years remaining under the leases with respect to the AnQui City and Jiaozhou facilities, respectively.

Our facilities in Decatur, Alabama; Celaya, Mexico; AnQui, China; Jiaozhou, China; and St. Joseph, Missouri contain equipment used for the design, development and manufacture and sale of our products. Our operations in Burlington, Canada and Newport, United Kingdom are primarily sales and warehousing operations receiving goods for resale from our manufacturing facilities around the world. We had \$0.2 million, \$1.4 million, \$1.9 million and \$1.9 million of long-lived assets, net located in China and \$0.1 million, \$0.2 million, \$0.2 million and \$0.2 million of long-lived assets, net located in Mexico as of January 31, 2002, 2003 and 2004 and April 30, 2004, respectively.

Legal Proceedings

From time to time, we are a party to litigation arising in the ordinary course of our business. We are not currently a party to any litigation that we believe could reasonably be expected to have a material adverse effect on our results of operations, financial condition or cash flows.

Environmental Matters

We are subject to various foreign, federal, state and local environmental protection, chemical control, and health and safety laws and regulations, and we incur costs to comply with those laws. We own and lease real property, and certain environmental laws hold current or previous owners or operators of businesses and real property responsible for contamination on or originating from property, even if they did not know of or were not responsible for the contamination. The presence of hazardous substances on any of our properties or the failure to meet environmental regulatory requirements could affect our ability to use or to sell the property or to use the property as collateral for borrowing, and could result in substantial remediation or compliance costs. If hazardous substances are released from or located on any of our properties, we could incur substantial costs and damages.

Although we have not in the past had any material costs or damages associated with environmental claims or compliance and we do not currently anticipate any such costs or damages, we cannot assure you that we will not incur material costs or damages in the future, as a result of the discovery of new facts or conditions, acquisition of new properties, the release of hazardous substances, a change in interpretation of existing environmental laws or the adoption of new environmental laws.

Table of Contents**MANAGEMENT****Directors and Executive Officers**

The following is a list of the names and ages of all of our directors and executive officers, indicating all positions and offices they hold with us as of June 14, 2004. Our directors hold office for a three-year term and until their successors have been elected and qualified.

| Name | Age | Position |
|----------------------|-----|---|
| Raymond J. Smith | 65 | Chairman of the Board of Directors |
| Christopher J. Ryan | 52 | Chief Executive Officer, President, Secretary, General Counsel and Director |
| Harvey Pride, Jr. | 57 | Vice President Manufacturing |
| James M. McCormick | 56 | Chief Financial Officer and Treasurer |
| Paul C. Smith | 37 | Vice President |
| John J. Collins, Jr. | 61 | Director |
| Eric O. Hallman | 61 | Director |
| Walter J. Raleigh | 76 | Director |
| Michael E. Cirenza | 49 | Director |

Raymond J. Smith, one of our co-founders, has been Chairman of our board of directors since our incorporation in 1982 and was President from 1982 to January 31, 2004. Mr. Smith's term as a director will expire at our annual meeting of stockholders in June 2004.

Christopher J. Ryan has served as our Chief Executive Officer since April 2004, President since February 1, 2004, Secretary since April 1991, General Counsel since February 2000 and a director since May 1986. Mr. Ryan was our Executive Vice President Finance from May 1986 until becoming our Chief Executive Officer and President on February 1, 2004. From October 1989 until February 1991, Mr. Ryan was employed by Sands Brothers and Rodman & Renshaw, Inc., both investment banking firms. Prior to that, he was an independent consultant with Laidlaw Holding Co., Inc., an investment banking firm, from January 1989 until September 1989. From February 1987 to January 1989, Mr. Ryan was employed as the Managing Director of Corporate Finance for Brean Murray, Foster Securities, Inc. He was employed from June 1985 to March 1986 as a Senior Vice President with the investment banking firm of Laidlaw Adams Peck, Inc., a predecessor firm to Laidlaw Holdings, Inc. Mr. Ryan has served as one of our directors since 1986 and his term as a director will expire at our annual meeting of stockholders in June 2005.

Harvey Pride, Jr. has been our Vice President of manufacturing since May 1986. He was Vice President of Ryland (our former subsidiary) from May 1982 to June 1986 and President of Ryland until its merger into Lakeland on January 31, 1990.

James M. McCormick was our Vice President and Treasurer from May 1986 to August 2003 and is presently Chief Financial Officer and Treasurer. Mr. McCormick has been our Chief Financial Officer since April 2004. Between January 1986 and May 1986 Mr. McCormick was our Controller.

Paul C. Smith, son of Raymond J. Smith, has served as Vice President since February 1, 2004. Prior to that, Mr. Smith was our Northeast Regional Sales Manager since September 1998. From April 1994 until September 1998, Mr. Smith was a sales representative for the Metropolitan Merchandising and Sales Co.

John J. Collins, Jr. was Executive Vice President of Chapdelaine GSI, a government securities firm, from 1977 to January 1987. He was Senior Vice President of Liberty Brokerage, a government securities firm, between January 1987 and November 1998. Presently, Mr. Collins is self-employed, managing a direct investment portfolio of small business enterprises for his own accounts. Mr. Collins has served as one of our directors since 1986 and his term as a director will expire at our annual meeting of stockholders in June 2006.

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Eric O. Hallman was President of Naess Hallman Inc., a ship brokering firm, from 1974 to 1991. Mr. Hallman was also affiliated between 1991 and 1992 with Finanshuset (U.S.A.), Inc., a ship brokering and international financial services and consulting concern, and was an officer of Sylvan Lawrence, a real estate development company, between 1992 and 1998. Between 1998 and 2000, Mr. Hallman was President of PREMCO, a real estate management company, and currently is Comptroller of the law firm Murphy, Bartol & O'Brien, LLP. Mr. Hallman has served as one of our directors since our incorporation in 1982 and his term as a director will expire at our annual meeting of stockholders in June 2006.

Walter J. Raleigh is a director of CMI Industries, Inc., the successor company to Clinton Mills, Inc., and was President of Clinton Mills Sales, Co. Division, N.Y. from 1974 to 1995. Clinton Mills was a textile manufacturer of woven fabrics. Mr. Raleigh retired from Clinton Mills in 1995 and was a Senior Adviser to CMI Industries, Inc. between 1995 and 2000. Mr. Raleigh has served as one of our directors since 1991 and his term as a director will expire at our annual meeting of stockholders in June 2004.

Michael E. Cirenza has been the Executive Vice President and Chief Financial Officer of Consac Industries, Inc., a manufacturer and distributor of vitamins and nutritional supplements, since September 2002. Mr. Cirenza was the Chief Financial Officer and Chief Operating Officer of Resilien, Inc., an independent distributor of computers, components and peripherals from January 2000 to September 2002. He was an Audit Partner with the international accounting firm of Grant Thornton LLP from August 1993 to January 2000 and an Audit Manager with Grant Thornton LLP from May 1989 to August 1993. Mr. Cirenza was employed by the international accounting firm of Price Waterhouse from July 1980 to May 1989. Mr. Cirenza is a Certified Public Accountant in the State of New York and a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. Mr. Cirenza has served as one of our directors since June 18, 2003 and his term as a director will expire at our annual meeting of stockholders in 2005.

Committees of the Board

Our board of directors has a designated Audit Committee that reviews the scope and results of the audit and other services performed by our independent accountants. The Audit Committee is comprised solely of independent directors and consists of Messrs. Raleigh, Cirenza, Hallman and Collins. The board of directors has also designated a Compensation Committee that establishes objectives for our senior executive officers, sets the compensation of directors, executive officers and our other employees and is charged with the administration of our employee benefit plans. The Compensation Committee is comprised solely of independent directors and consists of Messrs. Collins, Hallman and Raleigh.

Compensation of Directors

Each non-employee director receives a fee of \$3,000 per quarter for attending meetings of our board of directors or committees of our board of directors. Non-employee directors are reimbursed for their reasonable expenses incurred in connection with attendance at or participation in such meetings. In addition, under our 1995 Director Plan, each non-employee director who becomes a director is granted an option to purchase 5,000 shares of our common stock. Messrs. Raleigh, Hallman and Collins were each granted an option to purchase 5,000 shares of our common stock under our previous 1986 Plan at the time of their respective appointments or reelections to the board of directors. Such grants and the terms thereof were renewed on April 18, 1997, May 5, 1996 and May 5, 1996, respectively, in accordance with stockholder approval of the 1995 Director Plan at our 1995 annual meeting of stockholders. Mr. Cirenza received an option to purchase 5,000 shares of our common stock upon his election to our board of directors in June 2003.

Directors who are employees of Lakeland receive no additional compensation for their service as directors. However, such directors are reimbursed for their reasonable expenses incurred in connection with travel to or attendance at or participation in meetings of our board of directors or committees of the board of directors.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Related Party Leases

In the past, because our access to third party financing was insufficient, we entered into arrangements with our directors and executive officers in order to fund the construction or acquisition of our assembly facilities. In such cases, we commissioned independent appraisals in 1999, 2002 and 2004 to ensure that these arrangements approximated arrangements made on an arms length basis. We believe that we currently have sufficient access to financing to fund our current and anticipated facility needs, we do not anticipate entering into additional arrangements with our directors or executive officers in the future and we are examining alternatives for restructuring the ownership and/or the financing of these facilities in a manner that would not involve our directors or executive officers. We intend to conclude our examination of the alternative ownership structures and financing arrangements by July 30, 2004 and to implement any new arrangements by October 30, 2004, if possible. Any such restructuring or financing would involve negotiations with, and require the agreement of, the entities described below and their partners or members, including some of our officers and directors, and we therefore cannot assure you that we will be able to implement any such restructuring or financing. A description of our current arrangements with our directors and executive officers follows.

POMS Holding Co., or POMS, was formed in 1984 to lease both land and a building to us because bank financing was unavailable. POMS is a partnership whose partners include three of our directors, one of our officers and six other individuals who were stockholders of Lakeland at the time of the formation of POMS. Raymond J. Smith, the chairman of our board of directors, Harvey Pride, Jr., our Vice President Manufacturing, and John J. Collins, Jr. and Eric O. Hallman, both of whom are directors, have a 20%, 20%, 8.75% and 5% interest in POMS, respectively. POMS presently leases to us a 91,788 square foot disposable garment manufacturing facility in Decatur, Alabama. Under a lease effective September 1, 1999, we paid an annual rent of \$364,900. This lease was renewed on April 1, 2004 through March 31, 2009 at the same rental rate.

On March 1, 1999, we entered into a one year (renewable for four additional one year terms) lease agreement with Harvey Pride, Jr., our Vice President Manufacturing, for a 2,400 sq. ft. customer service office located next to our existing Decatur, Alabama facility. We paid an annual rent of \$18,000 for this facility under the lease agreement in fiscal 2004. This lease was renewed on March 1, 2004 through March 31, 2009 at the same rental rate.

On June 1, 1999, we entered into a five year lease agreement (expiring May 31, 2004) with River Group Holding Co., L.L.C. for a 49,500 sq. ft. warehouse facility located next to our existing facility in Decatur, Alabama. River Group Holding Co., L.L.C. is a limited liability company, the members of which are Raymond J. Smith, John J. Collins, Jr., Eric O. Hallman, Walter J. Raleigh, Christopher J. Ryan and Harvey Pride, Jr., who all have an equal ownership interest. Mr. Ryan is our Chief Executive Officer, President, Secretary, General Counsel and a director of our company, Messrs. Smith, Collins, Hallman and Raleigh are all directors of our company, and Mr. Pride is our Vice President Manufacturing. We paid an annual rent of \$199,100 for this facility in fiscal 2004. We are the sole occupant of the facility. This lease was renewed on April 1, 2004 through March 31, 2009 at the same rental rate.

Past Related Party Transactions

In 1997, An Qui Holding Co., L.L.C., or An Qui, a limited liability company whose members include Lakeland and Messrs. Smith, Collins, Hallman, Raleigh, Ryan and Pride, provided financing for the construction of a 65,000 square foot building in An Qui City, China and the lease of the real property underlying the building for 50 years from the Chinese government to Weifang Lakeland Safety Product Co., Ltd., or Weifang, one of our subsidiaries. In connection with the financing, Weifang agreed to make annual payments to An Qui and to allocate a portion of the proceeds from any sale of the property to An Qui. In 2002, An Qui relinquished its rights to the annual payments and to its rights to proceeds from the sale of the property in exchange for the amount of \$406,185 (net of expenses). Weifang paid \$222,645,

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\$89,000 and \$94,400 of this amount to An Qui in December 2002, January 2003 and June 2003, respectively. Of the \$406,185 paid to An Qui, Messrs Smith, Collins, Hallman, Ryan and Pride each received \$44,421 and Mr. Raleigh received \$39,792.

In 2001, An Qui also helped to finance the construction of our facility in Jiaozhou, China through a loan to one of our Chinese subsidiaries. The loan bore interest at the rate of 9% per annum until May 30, 2003, when the rate increased to 10% per annum. On June 19, 2003, we repaid this construction loan by paying \$168,100 (plus accrued interest) to An Qui and a foreign investor who contributed to the loan. Messrs. Smith, Collins, Hallman, Ryan and Pride, the members of An Qui who participated in this transaction, were each repaid their \$26,000 investments plus interest of approximately \$3,038.

Table of Contents**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table sets forth information as of June 14, 2004, regarding the beneficial ownership of our common stock before and after this offering (assuming no exercise of the underwriters' over-allotment option) of:

each of our directors;

each of our executive officers;

our executive officers and directors as a group; and

each person or group known to us to beneficially own five percent or more of the outstanding shares of our common stock.

The percentage of shares beneficially owned prior to this offering in the following table is based on 3,280,135 shares of common stock outstanding as of June 14, 2004.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission. These rules deem common stock subject to options currently exercisable, or exercisable within 60 days, to be outstanding for purposes of computing the percentage ownership of the person holding the options or of a group of which the person is a member, but they do not deem such stock to be outstanding for purposes of computing the percentage ownership of any other person or group. To our knowledge, except under applicable community property laws, or as otherwise indicated, each person named in the table has sole voting and sole investment control with regard to all shares beneficially owned by such person.

Except as noted below, the address of each person listed on the table is c/o Lakeland Industries, Inc., 711-2 Koehler Avenue, Ronkonkoma, New York 11779.

| Name of Beneficial Owner | Shares Beneficially Owned Prior to Offering ⁽¹⁾ | | Number of Shares Being Offered | Shares Beneficially Owned After Offering ⁽¹⁾ | |
|---|--|---------|--------------------------------|---|---------|
| | Number | Percent | | Number | Percent |
| Raymond J. Smith ⁽²⁾ | 535,903 | 16.3% | 100,000 | 435,903 | 10.0% |
| Christopher J. Ryan ⁽³⁾ | 292,429 | 8.9% | | 292,429 | 6.7% |
| James M. McCormick | | | | | |
| Harvey Pride, Jr. ⁽⁴⁾ | | | | | |
| Paul Smith | | | | | |
| Eric O. Hallman ⁽⁵⁾ | 51,920 | 1.6% | | 51,920 | 1.2% |
| John J. Collins, Jr. ⁽⁶⁾ | 94,298 | 2.9% | | 94,298 | 2.2% |
| Walter J. Raleigh ⁽⁷⁾ | 9,680 | * | | 9,680 | * |
| Michael E. Cirenza ⁽⁸⁾ | 5,500 | * | 5,000 | 500 | * |
| Luis A. Hernandez, Jacqueline E. Hernandez and Anthony Hernandez ⁽⁹⁾ | 206,000 | 6.3% | | 206,000 | 4.7% |
| All executive officers and directors as a group (9 persons) | 989,730 | 30.2% | 105,000 | 884,730 | 20.2% |

* Represents less than 1% of the outstanding shares.

(1) Includes 6,330 shares of our common stock issuable upon the exercise of options that are exercisable within 60 days of June 14, 2004.

(2) Mr. Smith has been Chairman of our board of directors since our incorporation in 1982.

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- (3) Includes 12,100 shares owned by Mr. Ryan's wife. Mr. Ryan disclaims beneficial ownership of these shares.
- (4) Mr. Pride's address is c/o Lakeland Industries, Inc., 202 Pride Lane SW, Decatur, Alabama 35602.
- (5) Includes 2,310 shares of common stock issuable upon the exercise of options.
- (6) Includes 2,310 shares of common stock issuable upon the exercise of options.

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- (7) Includes 1,210 shares of common stock issuable upon the exercise of options.
- (8) Includes 500 shares of common stock issuable upon the exercise of options. Mr. Cirenza has served as one of our directors since 2003.
- (9) According to Schedule 13G filed with the Securities and Exchange Commission on July 27, 2000, Luis A. Hernandez, Jacqueline E. Hernandez and Anthony Hernandez beneficially owned 169,000 shares of our common stock as of such date and share voting and dispositive power with respect to these shares. However, giving effect to our 10% stock dividends to stockholders of record on July 31, 2002 and July 31, 2003, and based upon additional information given to us by a representative of these stockholders, we believe that these stockholders beneficially owned 206,000 shares of our common stock as of June 14, 2004. According to Schedule 13G filed with the Securities and Exchange Commission on July 27, 2000, the address of each of Luis A. Hernandez, Jacqueline E. Hernandez and Anthony Hernandez is 3069 Misty Harbour, Las Vegas, Nevada 89117.

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DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 10,000,000 shares of common stock, \$0.01 par value per share, and 1,500,000 shares of preferred stock, \$0.01 par value per share. As of June 14, 2004, we had 3,280,135 fully paid and non-assessable shares of common stock and no shares of preferred stock issued and outstanding. In addition, we had outstanding options exercisable for 6,330 shares of common stock under our employee and director stock option plans as of June 14, 2004. The following summary description of our capital stock is qualified by reference to our restated certificate of incorporation and our by-laws, as amended, each of which has previously been filed with the Securities and Exchange Commission.

Common Stock

Holders of common stock are entitled to one vote per share for each share held of record on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Directors are elected by a plurality of the votes of the shares present in person or by proxy at the meeting. The holders of common stock are entitled to receive ratably such lawful dividends as may be declared by our board of directors. See Price Range of Common Stock and Dividend Policy. However, such dividends are subject to preferences that may be applicable to the holders of any outstanding shares of preferred stock. In the event of a liquidation, dissolution or winding up of our affairs, whether voluntarily or involuntarily, the holders of common stock will be entitled to receive pro rata all of our remaining assets available for distribution to our stockholders. Any such pro rata distribution would be subject to the rights of the holders of any outstanding shares of preferred stock. The common stock has no preemptive, redemption, conversion or subscription rights. All outstanding shares of common stock are fully paid and non-assessable. The shares of common stock to be issued by us in this offering, when issued in consideration of payment, will be fully paid and non-assessable. The rights, powers, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

Preferred Stock

No shares of our preferred stock have been issued and there is no present plan to issue any preferred stock. Our board of directors may, without further action by our stockholders, from time to time direct the issuance of preferred stock in series and may, at the time of issuance, determine or fix the number of shares in each series and the designation of the titles thereof and rights, if any, as to dividends, redemption, including sinking funds, liquidation distributions, convertibility and voting. Satisfaction of any dividend preferences of outstanding preferred stock would reduce the amount of funds available for the payment of dividends on common stock. Our board of directors is authorized to issue preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of common stock. Also, holders of preferred stock would normally be entitled to receive a preference payment in the event of liquidation, dissolution or winding-up before any payment is made to the holders of common stock.

Anti-Takeover Provisions

Our restated certificate of incorporation and by-laws and Delaware General Corporation Law contain provisions that could discourage, delay or prevent a change in control of Lakeland or an acquisition of Lakeland at a price which many stockholders may find attractive. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

Restated Certificate of Incorporation and By-Laws

The General Corporation Law of Delaware provides generally that the affirmative vote of a majority of the shares issued and outstanding is required to amend a corporation's certificate of incorporation or by-

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laws, unless a corporation's certificate of incorporation or by-laws, as the case may be, requires a greater percentage. Our restated certificate of incorporation requires:

that certain business combinations involving us and any beneficial owner of 5% or more of our outstanding voting securities be approved by the holders of at least two-thirds of our voting securities, unless two-thirds of the members of our board of directors have approved the transaction; and

the vote of not less than two-thirds of our outstanding voting securities to repeal, alter or amend certain provisions of our restated certificate of incorporation, including the provisions relating to the super majority stockholder vote requirement for certain transactions, the term of our existence, certain aspects of our management, the prohibition against actions for monetary damages by us or our stockholders against directors for certain breaches of the duty of due care, and the indemnification of directors, officers, employees and agents.

Our restated certificate of incorporation provides for the division of our board of directors into three classes with as nearly equal number of directors in each class as possible, and with staggered three-year terms. If the number of directors is increased, the increase will be apportioned among the classes, so as to make all classes as nearly equal in number as possible. The effect of the classification of our board of directors and the provisions of our restated certificate of incorporation described above may be to make more difficult the accomplishment of a merger or other takeover or change in control. To the extent that these provisions have this effect, removal of our incumbent board of directors and management may be rendered more difficult. Further, these provisions may make it more difficult for stockholders to participate in a tender or exchange offer for common stock. This may diminish the market value of our common stock.

Our by-laws provide that newly created directorships resulting from an increase in the authorized number of directors shall be apportioned by our board of directors among the classes of directors, and any vacancies regardless of the cause may be filled only by:

a majority of the directors then in office, even though less than a quorum may then be in office; or

the sole remaining director.

These provisions prevent a stockholder from enlarging our board of directors and filling the new directorships with this stockholder's own nominees without board approval.

Delaware Law

We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the time that such stockholder became an interested stockholder.

Section 203 does not apply if:

prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

at or subsequent to such time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the

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affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

The application of Section 203 may limit the ability of stockholders to approve a transaction that they may deem to be in their best interests. Section 203 defines business combination to include:

any merger or consolidation involving the corporation and the interested stockholder;

any sale, lease, transfer, pledge or other disposition of 10% or more of the assets of the corporation to or with the interested stockholder;

subject to limited exceptions, any transaction which results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation which has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the past three years, and any entity or person associated with, affiliated with or controlling or controlled by such entity or person.

Limitations on Liability and Indemnification of Officers and Directors

Our restated certificate of incorporation provides that none of our directors shall be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except liability for:

any breach of the director's duty of loyalty to us or our stockholders;

acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

the payment of unlawful dividends and certain other actions prohibited by the Delaware General Corporation Law; and

any transaction from which the director derived any improper personal benefit.

The effect of this provision of our restated certificate of incorporation is to eliminate our rights and the rights of our stockholders to recover monetary damages against a director for breach of the fiduciary duty of care as a director, including breaches resulting from negligent or grossly negligent behavior, except in the situations described above. This provision does not limit or eliminate our rights or the rights of any stockholder to seek non-monetary relief, such as an injunction or rescission in the event of a breach of a director's duty of care.

Our restated certificate of incorporation and by-laws provide a right to indemnification to the fullest extent permitted by the Delaware General Corporation Law for expenses, attorney's fees, damages, punitive damages, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by any person whether or not the indemnified liability arises or arose from any threatened, pending or completed proceeding by or in our right by reasons of the fact that he or she is or was our director or officer.

Stock Transfer Agent

The transfer agent for our common stock is the Registrar and Transfer Company, Ten Commerce Drive, Cranford, New Jersey 07106. Its telephone number is (908) 272-8511.

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MATERIAL U.S. TAX CONSIDERATIONS TO NON-U.S. HOLDERS

This is a general summary of the material U.S. federal income tax considerations with respect to your acquisition, ownership and disposition of our common stock if you are a non-U.S. holder that holds our common stock as a capital asset. A non-U.S. holder means a beneficial owner of shares other than:

a citizen or resident of the United States;

a corporation, partnership or other entity created or organized in, or under the laws of, the United States or any political subdivision of the United States;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

This summary does not address all of the U.S. federal income and estate tax considerations that may be relevant to you in light of your particular circumstances or if you are a beneficial owner subject to special treatment under United States income tax laws such as a:

controlled foreign corporation;

passive foreign investment company;

foreign personal holding company;

company that accumulates earnings to avoid U.S. federal income tax;

foreign tax-exempt organization;

financial institution;

partnership or other pass through entity for U.S. federal income tax purposes;

broker or dealer in securities; or

former U.S. citizen or resident.

This summary does not discuss any aspect of state, local or foreign taxation. This summary is based on current provisions of the Internal Revenue Code, Treasury regulations, judicial opinions, published positions of the U.S. Internal Revenue Service (the IRS) and all other applicable authorities, all of which are subject to change, possibly with retroactive effect. This summary is not intended as tax advice.

We urge prospective non-U.S. holders to consult their tax advisors regarding the United States federal, state, local and foreign income and other tax considerations of acquiring, holding and disposing of shares of our common stock.

Dividends

In general, and subject to the discussion in the next paragraph, any distributions we make to you with respect to your shares of our common stock that constitute dividends for U.S. federal income tax purposes (excluding certain pro rata distributions of common stock to all of our stockholders) will be subject to U.S. withholding tax at a 30.0% rate or such lower rate as may be specified by an applicable income tax treaty. A distribution will constitute a dividend for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits as determined under the Internal Revenue Code. Any distribution not constituting a dividend will be treated first as reducing your basis in your shares of our common stock and, to the extent it exceeds your basis, as gain from the disposition of your shares of our common stock.

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Dividends we pay to you that are effectively connected with your conduct of a trade or business within the United States and, if certain income tax treaties apply, are attributable to a U.S. permanent establishment maintained by you, generally will not be subject to U.S. withholding tax if you comply with applicable certification and disclosure requirements. Instead, such dividends generally will be subject to U.S. federal income tax on a net income basis at the same rates applicable to U.S. persons. If you are a corporation, effectively connected income may also be subject to a branch profits tax at a rate of 30.0%, or a lower rate specified by an applicable income tax treaty.

A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) for dividends, will be required to (a) complete Internal Revenue Service Form W-8BEN (or successor form) and certify under penalty of perjury, that such holder is not a U.S. person or (b) if the common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are pass-through entities.

A non-U.S. holder of our common stock eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Sale or Other Disposition of Our Common Stock

You generally will not be subject to U.S. federal income tax on any gain realized upon the sale or other disposition of your share of our common stock unless:

the gain is effectively connected with your conduct of a trade or business within the United States and, under certain income tax treaties, is attributable to a U.S. permanent establishment you maintain;

you are an individual, you hold your shares of our common stock as capital assets, you are present in the United States for 183 days or more in the taxable year of disposition and you meet other conditions; or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes (which we believe we are not and have never been, and do not anticipate we will become) and you hold or have held, directly or indirectly, at any time within the shorter of the five-year period preceding disposition or your holding period for your shares of our common stock, more than 5.0% of our common stock.

Information Reporting and Backup Withholding

We must report annually to the IRS and to each non-U.S. holder the amount of dividends or other distributions we pay to you on your shares of our common stock and the amount of tax we withhold on these distributions regardless of whether withholding is required. The IRS may make copies of the information returns reporting those dividends and amounts withheld available to the tax authorities in the country in which you reside pursuant to the provisions of an applicable income tax treaty or exchange of information treaty. In addition, dividends paid to a non-U.S. holder generally will be subject to backup withholding unless applicable certification requirements are met.

Information reporting and backup withholding generally are not required with respect to the amount of any proceeds from the sale of your share of our common stock outside the United States through a foreign office of a foreign broker that does not have certain specified connections to the United States. However, if you sell your shares of our common stock within the United States or through certain U.S.-related financial intermediaries, the broker will be required to report to the IRS the amount of proceeds paid to you and also backup withhold on such proceeds unless you provide appropriate certification (usually on an IRS Form W-8BEN) to the broker of your status as a non-U.S. person (and the broker does not have actual knowledge, or reason to know, that you are a U.S. person or that other

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requirements for exemption are not satisfied) or you are a corporation or one of several types of entities and organizations that qualify for exemption.

Any amounts withheld with respect to your shares of our common stock under the backup withholding rules will be refunded to you or credited against your U.S. federal income tax liability, if any, by the IRS if the required information is furnished in a timely manner.

Estate Tax

Shares of our common stock owned or treated as owned by a non-U.S. individual at the time of his or her death will be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

Table of Contents**UNDERWRITING**

The underwriters named below are acting through their representative, Friedman, Billings, Ramsey & Co., Inc. Subject to the terms and conditions contained in the underwriting agreement, we and the selling stockholders have agreed to sell to the underwriters, and each underwriter has agreed to purchase, the number of shares set forth opposite its name below. The underwriting agreement provides that the obligation of the underwriters to pay for and accept delivery of our common stock is subject to certain conditions. The underwriters are obligated to take and pay for all shares of our common stock offered (other than those covered by the over-allotment option described below) if any of the shares are taken.

| Underwriters | Number of Shares |
|--|---------------------|
| Friedman, Billings, Ramsey & Co., Inc. | 1,105,000 |
| C.E. Unterberg, Towbin | 100,000 |
| Total | 1,205,000 |

We have granted the underwriters an option exercisable for 30 days after the date of this prospectus to purchase up to 180,750 additional shares of common stock to cover over-allotments, if any, at the public offering price less the estimated underwriting discounts and commissions set forth on the cover page of this prospectus.

The following table shows the per share and total estimated underwriting discounts and commissions we and the selling stockholders will pay to the underwriters. The amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 180,750 additional shares of our common stock to cover over-allotments.

| | Lakeland | | Selling Stockholders | |
|-----------|--------------|---------------|----------------------|---------------|
| | No Exercise | Full Exercise | No Exercise | Full Exercise |
| Per share | \$ 1.4175 | \$ 1.4175 | \$ 1.4175 | \$ 1.4175 |
| Total | \$ 1,559,250 | \$ 1,815,463 | \$ 148,838 | \$ 148,838 |

The underwriters propose to offer our common stock directly to the public at \$21.00 per share and to certain dealers at this price less a concession not in excess of \$0.85 per share. The underwriters may allow, and the dealers may realow, a concession not in excess of \$0.10 per share to certain dealers.

We expect to incur expenses, excluding underwriting fees, of approximately \$550,000 in connection with this offering, including fees and expenses of counsel to the underwriters which we have agreed to pay up to a maximum of \$125,000. We have agreed to reimburse Friedman, Billings, Ramsey & Co., Inc. for its other out-of-pocket expenses, including road show expenses, in connection with this offering.

Our common stock is listed on The Nasdaq National Market under the symbol LAKE.

In connection with this offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position.

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In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may

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close out any covered short position by exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering.

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect thereof.

We have agreed that upon the consummation of this offering, Friedman, Billings, Ramsey & Co., Inc. will have the right to perform certain investment banking services for us for one year from the closing of this offering at specified or otherwise customary fees and under conditions that are customary for such services. This right is valued by the NASD at 1% of the gross proceeds from the offering.

Our executive officers and directors (including the selling stockholders) have agreed with the underwriters not to, directly or indirectly, offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock or any securities convertible into or exchangeable for shares of common stock (or to engage in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a disposition of any such securities, even if such securities would be disposed of by someone other than one of our executive officers and directors), for a period continuing through the 90th day after the date of this prospectus, except with the prior written consent of Friedman, Billings, Ramsey & Co., Inc. These transfer restrictions do not apply to bona fide gifts, provided the donees agree in writing to be bound by the terms of these transfer restrictions, or sales or purchases of common stock acquired in the open market.

In addition, we have agreed, for a period continuing through the 90th day after the date of this prospectus, not to, except with the prior written consent of Friedman, Billings, Ramsey & Co., Inc., directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option for the sale of, or otherwise dispose of or transfer (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any share of common stock or any securities convertible into or exercisable or exchangeable for common stock, or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequences of

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ownership of the common stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of common stock or such other securities, in cash or otherwise. These restrictions do not apply to the shares to be sold in this offering, any shares issued by us upon the exercise of outstanding options or warrants or pursuant to any of our stock plans or any shares issued by us as consideration for the acquisition of another business or entity.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission, or the SEC, allows us to incorporate by reference in this prospectus the information that we file with the SEC. This permits us to disclose important information to you by referring to those documents rather than repeating them in full in this prospectus. The information incorporated by reference in this prospectus contains important business and financial information.

The documents which we incorporate by reference consist of the documents listed below that we have previously filed with the SEC:

Our Annual Report on Form 10-K for the year ended January 31, 2004;

Our Quarterly Report on Form 10-Q for the quarter ended April 30, 2004; and

Our Current Reports on Form 8-K filed on February 11, 2004, February 17, 2004 (excluding any information furnished pursuant to Item 12 thereof), April 29, 2004 (excluding any information furnished pursuant to Item 12 thereof), May 20, 2004, May 27, 2004 and June 14, 2004 (excluding any information furnished pursuant to Item 12 thereof).

You may also request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, by writing or calling us at the following address:

Lakeland Industries, Inc.
711-2 Koehler Avenue
Ronkonkoma, New York 11779
Tel: (631) 981-9700
Attention: Corporate Secretary

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us and the selling stockholders by Gilmartin, Poster & Shafto LLP, New York, New York. Certain legal matters will be passed upon for the underwriters by King & Spalding LLP, Washington, D.C.

EXPERTS

The consolidated financial statements as of January 31, 2004 and 2003 and for each of the two years in the period ended January 31, 2004 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

The consolidated financial statements for the year ended January 31, 2002 included in this prospectus have been so included in reliance on the report of Grant Thornton LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-2, including exhibits and schedules, under the Securities Act of 1933 with respect to the common stock to be sold in the offering. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement, or other exhibits and schedules that are part of the registration statement. Any statements made in this prospectus as to the contents of any contract, agreement or other document are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the registration statement, we refer you to the exhibit for a more complete description of the matter involved, and each statement in this prospectus shall be deemed qualified in its entirety by this reference. We file annual, quarterly and special reports, proxy statements and other material with the SEC. You may read and copy the registration statement for this offering and any other document we have filed with the SEC at the SEC's public reference room, 450 Fifth Street, N.W., Washington, D.C. 20549. Our SEC filings are also available to the public from the SEC's Internet web site at <http://www.sec.gov>. Information regarding the operation of the public reference section can be obtained by calling 1-800-SEC-0330.

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Table of Contents**LAKELAND INDUSTRIES, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

| | April 30, 2004 | January 31, 2004 |
|--|---------------------|---------------------|
| (Unaudited) | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,773,608 | \$ 2,445,271 |
| Accounts receivable, net of allowance for doubtful accounts of \$323,000 at April 30, 2004 and at January 31, 2004 | 14,026,362 | 12,570,320 |
| Inventories | 27,488,454 | 26,265,807 |
| Deferred income taxes | 790,272 | 790,272 |
| Other current assets | 1,094,870 | 1,213,104 |
| | <u>46,173,566</u> | <u>43,284,774</u> |
| Total current assets | | |
| Property and equipment, net of accumulated depreciation of \$4,636,000 at April 30, 2004 and \$4,511,000 January 31, 2003 | 5,038,296 | 3,921,308 |
| Other assets | 135,683 | 97,745 |
| | <u>51,347,545</u> | <u>47,303,827</u> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,979,830 | \$ 3,461,353 |
| Current portion of long-term liabilities | | 16,784,781 |
| Accrued expenses and other current liabilities | 1,958,213 | 1,263,044 |
| | <u>5,938,043</u> | <u>21,509,178</u> |
| Total current liabilities | | |
| Borrowing under revolving credit facility | 16,910,211 | |
| Other long-term liabilities | 529,647 | 517,147 |
| Deferred income taxes | 250,532 | 250,532 |
| Minority interest in Variable Interest Entities | 1,266,807 | |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, \$.01 par; authorized 1,500,000 shares (none issued) | | |
| Common stock, \$.01 par; authorized 10,000,000 shares; issued and outstanding 3,273,925 shares at April 30, 2004 and at January 31, 2004 | 32,739 | 32,739 |
| Additional paid-in capital | 11,862,461 | 11,862,461 |
| Retained earnings | 14,557,105 | 13,131,770 |
| | <u>26,452,305</u> | <u>25,026,970</u> |
| Total stockholders' equity | | |
| | <u>\$51,347,545</u> | <u>\$47,303,827</u> |

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

Table of Contents**LAKELAND INDUSTRIES, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

| | Three Months Ended April 30, | |
|---|-------------------------------------|--------------|
| | 2004 | 2003 |
| Net Sales | \$26,838,023 | \$23,824,886 |
| Cost of goods sold | 20,858,591 | 19,729,070 |
| Gross profit | 5,979,432 | 4,095,816 |
| Operating expenses | 3,586,720 | 2,623,162 |
| Operating profit | 2,392,712 | 1,472,654 |
| Other income, net | 9,460 | 15,442 |
| Interest expense | (137,141) | (137,796) |
| Income before income taxes | 2,265,031 | 1,350,300 |
| Provision for income taxes | 721,000 | 486,000 |
| Income before minority interest | 1,544,031 | 864,300 |
| Minority interest in Net income of Variable Interest Entities | 118,696 | |
| Net Income | \$ 1,425,335 | \$ 864,300 |
| Net income per common share* | | |
| Basic | \$ 0.44 | \$ 0.26 |
| Diluted | \$ 0.43 | \$ 0.26 |
| Weighted average common shares outstanding* | | |
| Basic | 3,273,925 | 3,266,997 |
| Diluted | 3,278,803 | 3,274,757 |

* Adjusted for the 10% stock dividend to shareholders of record on July 31, 2003.

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

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LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

**(Unaudited)
Three Months Ended April 30, 2004**

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Total |
|---------------------------|--------------|-----------|----------------------------------|----------------------|---------------|
| | Shares | Amount | | | |
| Balance, January 31, 2004 | 3,273,925 | \$ 32,739 | \$ 11,862,461 | \$ 13,131,770 | \$ 25,026,970 |
| Net income | | | | 1,425,335 | 1,425,335 |
| Balance, April 30, 2004 | 3,273,925 | \$ 32,739 | \$ 11,862,461 | \$ 14,557,105 | \$ 26,452,305 |

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

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LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Three Months Ended April 30, | |
|--|------------------------------|---------------------|
| | 2004 | 2003 |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 1,425,335 | \$ 864,300 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for bad debts | | (74,000) |
| Depreciation and amortization | 231,455 | 207,777 |
| Minority interest in Net income of Variable Interest Entities | 118,696 | |
| Decrease in accounts receivable | (1,456,042) | (2,855,924) |
| (Increase) decrease in inventories | (1,222,647) | 3,097,595 |
| (Increase) decrease in other current assets | 176,552 | (204,717) |
| (Increase) in other assets | (37,798) | (88,105) |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | 1,139,514 | 961,258 |
| Net cash provided by operating activities | <u>375,065</u> | <u>1,908,184</u> |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (153,417) | (585,446) |
| Net cash used in investing activities | <u>(153,417)</u> | <u>(585,446)</u> |
| Cash Flows from Financing Activities: | | |
| Proceeds from exercise of stock options | | 9,750 |
| Net borrowings (payments) under loan agreements | 106,689 | (1,422,413) |
| Net cash provided by (used in) financing activities | <u>106,689</u> | <u>(1,412,663)</u> |
| Net increase (decrease) in cash | 328,337 | (89,925) |
| Cash and cash equivalents at beginning of period | <u>2,445,271</u> | <u>1,474,135</u> |
| Cash and cash equivalents at end of period | <u>\$ 2,773,608</u> | <u>\$ 1,384,210</u> |

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

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LAKELAND INDUSTRIES, INC.

AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

Lakeland Industries, Inc. and Subsidiaries (the Company), a Delaware corporation, organized in April 1982, manufactures and sells a comprehensive line of safety garments accessories for the industrial protective clothing market. The principal market for the Company's products is the United States. No customer accounted for more than 10% of net sales during the three month periods ended April 30, 2004 and 2003, respectively.

2. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which are, in the opinion of management, necessary to present fairly the consolidated financial information required therein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. While the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended January 31, 2004.

The results of operations for the three-month periods ended April 30, 2004 and 2003, respectively, are not necessarily indicative of the results to be expected for the full year.

3. Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Laidlaw, Adams & Peck, Inc., and Subsidiary (MeiYang Protective Products Co. Ltd., a Chinese Corporation), Lakeland Protective Wear, Inc. (a Canadian corporation), Weifang Lakeland Safety Products, Co., Ltd. (a Chinese corporation), Qing Dao Maytung Healthcare Co., Ltd. (a Chinese corporation), Lakeland Industries Europe Ltd. (a British Corporation) and Lakeland de Mexico S.A. de C.V. (a Mexican corporation). All significant inter-company accounts and transactions have been eliminated.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation provides guidance with respect to the consolidation of certain entities, referred to as variable interest entities, in which an investor is subject to a majority of the risk of loss from the variable interest entity's activities, or is entitled to receive a majority of the variable interest entity's residual returns. This interpretation also provides guidance with respect to the disclosure of variable interest entities in which an investor maintains an interest but is not required to consolidate. The provisions of the interpretation are effective immediately for all variable interest entities created after January 31, 2003, or in which we obtain an interest after that date. In October 2003, the FASB issued a revision to this pronouncement, FIN 46R, which clarified certain provisions and modified the effective date from July 1, 2003 to March 15, 2004 for variable interest entities created before February 1, 2003.

Effective February 1, 2004 the Company adopted this pronouncement. As a result, certain entities which leased property to the Company and are owned by related parties were determined to be Variable Interest Entities and have been consolidated in the Company's April 30, 2004 quarterly financial statements. This consolidation had no impact on the Company's net income and resulted in increases in

Table of Contents**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

cash of \$0.2 million, property and equipment, net of \$1.2 million, other liabilities of \$0.1 million and minority interest of \$1.3 million. Creditors, or beneficial interest holders, of the consolidated variable interest entities have no recourse to the general credit of the Company.

4. Inventories

Inventories consist of the following:

| | April 30, 2004 | January 31, 2004 |
|-----------------|---------------------------|-----------------------------|
| Raw materials | \$ 10,657,102 | \$ 10,868,816 |
| Work-in-process | 3,229,617 | 2,279,444 |
| Finished Goods | 13,601,735 | 13,117,547 |
| | \$ 27,488,454 | \$ 26,265,807 |

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.

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 and common stock equivalents. The diluted earnings per share calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the 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 at April 30, adjusted, retroactively, for the 10% Stock dividends to Shareholders on July 31, 2003 and 2002, respectively:

| | 2004 | 2003 |
|--|--------------|-------------|
| Numerator | | |
| Net income | \$ 1,425,335 | \$ 864,300 |
| Denominator | | |
| Denominator for basic earnings per share (Weighted-average shares) | 3,273,925 | 3,266,997 |
| Effect of dilutive securities: | | |
| Stock options | 4,878 | 7,760 |
| Denominator for diluted earnings per share (adjusted weighted-average shares) and assumed conversions | 3,278,803 | 3,274,757 |
| Basic earnings per share | \$ 0.44 | \$ 0.26 |

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| | | |
|----------------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| Diluted earnings per share | \$ 0.43 | \$ 0.26 |
| | <u> </u> | <u> </u> |

Options to purchase 1,210 shares of the Company's common stock have been excluded for the three months ended April 30, 2003, as their inclusion would be antidilutive.

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**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Revolving Credit Facility

At April 30, 2004, the balance outstanding under the Company's \$18 million revolving credit facility amounted to \$16,910,000. This credit facility, which is subject to borrowings based on a percentage of eligible accounts receivable and inventory, as defined, was set to expire on July 31, 2004, however, in May 2004 it was extended through July 31, 2005. Borrowings under the facility bear interest at a rate per annum equal to LIBOR plus 2%. In January 2004, the Company entered into a new 3-year \$3 million revolving credit facility which expires on January 31, 2007. Availability under this facility decreases from \$3 million by \$83,333 each month over the 3-year term and is also subject to the borrowing base limitation discussed above in connection with the \$18 million revolving credit facility. Borrowings under this revolving credit facility bear interest at LIBOR plus 2.5%. There were no borrowings outstanding under this facility at April 30, 2004. The credit facilities are collateralized by substantially all of the assets of the Company. The credit facilities contain financial covenants, including, but not limited to, minimum levels of earnings and maintenance of minimum tangible net worth and certain other ratios at all times, with respect to which the Company was in compliance at April 30, 2004.

7. Major Supplier

The Company purchased approximately 77.2% of its raw materials from one supplier under licensing agreements during the three-month period ended April 30, 2004. The Company expects this relationship to continue for the foreseeable future. If required, similar raw materials could be purchased from other sources; although, the Company's competitive position in the marketplace could be adversely affected.

8. Stock Based Compensation

The Company has adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). In compliance with SFAS 123, the Company applies APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its plans and does not recognize compensation expense for its employee stock-based compensation plans. The Company has also adopted the disclosure provisions of SFAS No. 148, Accounting for Stock-Base Compensation Transition and Disclosure. This pronouncement requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reporting results. If the Company had elected to recognize compensation expense based upon the fair value at the date of grant for awards under these plans, consistent with the methodology prescribed by SFAS 123, the effect on the Company's net income and earnings per share as

Table of Contents**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reported would be reduced for the quarters ended April 30, 2004 and 2003 to the pro forma amounts indicated below:

| | Three Months Ended April 30, | |
|---|---------------------------------|-------------------|
| | 2004 | 2003 |
| Net income | | |
| As reported | \$ 1,425,335 | \$ 864,300 |
| Less: | | |
| Option expense based on fair value method | 43,554 | 18,924 |
| Pro forma | <u>\$ 1,381,781</u> | <u>\$ 845,376</u> |
| Basic earnings per common share | | |
| As reported | \$ 0.44 | \$ 0.26 |
| Pro forma | <u>\$ 0.42</u> | <u>\$ 0.26</u> |
| Diluted earnings per common share | | |
| As reported | \$ 0.43 | \$ 0.26 |
| Pro forma | <u>\$ 0.42</u> | <u>\$ 0.26</u> |

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions for the quarters ended April 30, 2004 and 2003: expected volatility of 72% and 64%, respectively; risk-free interest rate of 3.6% and 2.93%, respectively; expected dividend yield of 0.0%; and expected life of six years. All stock-based awards were fully vested at April 30, 2004 and 2003. Earnings per share have been adjusted to reflect the 10% stock dividends to stockholders of record as of July 31, 2003.

9. Revenue Recognition and Manufacturing Segment Data

The Company derives its sales primarily from its limited use/ disposable protective clothing and secondarily from its sales of high-end chemical protective suits, fire fighting 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 passes 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. Domestic and international sales are as follows:

| | 2004 | | | |
|---------------|------------------------------|-------|---------------|-------|
| | Three Months Ended April 30, | | | |
| | 2004 | | 2003 | |
| Domestic | \$ 24,074,000 | 89.7% | \$ 21,234,000 | 89.1% |
| International | 2,764,000 | 10.3% | 2,591,000 | 10.9% |

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| | | | | |
|-------|--------------|------|--------------|------|
| Total | \$26,838,000 | 100% | \$23,825,000 | 100% |
|-------|--------------|------|--------------|------|

The Company manages its operations by evaluating its geographic locations. The Company's North American operations include its facilities in Decatur, Alabama (primarily disposables, chemical suit and glove production), Celaya, Mexico (primarily disposable chemical suit and glove production) and St. Joseph, Missouri (primarily woven products). The Company also maintains contract manufacturing facilities in China (primarily disposable and chemical suit production). The Company's China facilities and the Decatur, Alabama facility produce the majority of the Company's products. The accounting

Table of Contents**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

policies of these operating entities are the same as those described in Note 1 to the Company's Annual Report on Form 10-K for the year ended January 31, 2004. The Company evaluates the performance of these entities based on operating profit which is defined as income before income taxes, interest expense and other income and expenses. The Company has a small sales force in Canada and Europe who distribute products shipped from the United States. The table below represents information about reported manufacturing segments for the three months noted therein:

| | <u>2004</u> | <u>2003</u> |
|---|-----------------------------|-----------------------------|
| Net Sales: | | |
| North America | \$26,591,769 | \$24,203,704 |
| China | 2,348,449 | 856,359 |
| Less intersegment sales | (2,102,195) | (1,235,177) |
| | <u> </u> | <u> </u> |
| Consolidated sales | \$26,838,023 | \$23,824,886 |
| | <u> </u> | <u> </u> |
| Operating Profit: | | |
| North America | \$ 2,208,528 | \$ 1,479,220 |
| China | 239,184 | (33,066) |
| Less intersegment profit (loss) | (55,000) | 26,500 |
| | <u> </u> | <u> </u> |
| Consolidated profit | \$ 2,392,712 | \$ 1,472,654 |
| | <u> </u> | <u> </u> |
| Identifiable Assets: | | |
| North America | \$43,415,373 | \$35,172,402 |
| China | 7,932,172 | 7,650,332 |
| | <u> </u> | <u> </u> |
| Consolidated assets | \$51,347,545 | \$42,822,734 |
| | <u> </u> | <u> </u> |
| Depreciation and Amortization Expense: | | |
| North America | \$ 160,827 | \$ 130,741 |
| China | 70,628 | 77,036 |
| | <u> </u> | <u> </u> |
| Consolidated depreciation expense | \$ 231,455 | \$ 207,777 |
| | <u> </u> | <u> </u> |

10. Effects of Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 requires that certain financial instruments that were accounted for as equity under previous guidance, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have any impact on our consolidated financial statements for the three months ended April 30, 2004.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others-an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation

No. 34. This interpretation expands on the existing accounting guidance and disclosure requirements for most guarantees, including indemnifications. It requires that at the time a company issues a guarantee, the

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**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

company must recognize an initial liability for the fair value of the obligations it assumes under that guarantee if that amount is reasonably estimable, and must disclose that information in its interim and annual financial statements. The provisions for initial recognition and measurement of the liability are to be applied on a prospective basis to guarantees issued or modified on or after January 1, 2003. Our initial adoption of this statement on January 1, 2003 did not have an impact on its results of operations, financial position, or cash flows.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation provides guidance with respect to the consolidation of certain entities, referred to as variable interest entities (VIE), in which an investor is subject to a majority of the risk of loss from the VIE s activities, or is entitled to receive a majority of the VIE s residual returns. This interpretation also provides guidance with respect to the disclosure of VIEs in which an investor maintains an interest but is not required to consolidate. The provisions of the interpretation are effective immediately for all VIEs created after January 31, 2003, or in which we obtain an interest after that date. In October 2003, the FASB issued a revision to this pronouncement, FIN 46R, which clarified certain provisions and modified the effective date from July 1, 2003 to March 15, 2004 for variable interest entities created before February 1, 2003. The Company has adopted this pronouncement as of February 1, 2004.

In December 2003, the FASB issued a revised SFAS No. 132, Employers Disclosures about Pensions and Other Postretirement Benefits, to improve financial statement disclosures for defined benefit plans. The company has adopted SFAS No. 132 and disclosure requirements as described in Note 7 to the Company s Annual Report on Form 10-K for the year ended January 31, 2004. Interim disclosure of net pension costs are not material.

11. Subsequent Events

On May 5, 2004 the Company filed with the Securities and Exchange Commission a registration statement on Form S-2 regarding the sale of 1,205,000 shares of the Company s common stock, including 105,000 shares to be sold by two directors of the Company. Amendments to this Form S-2 were filed with the SEC on May 25, 2004, May 28, 2004 and June 14, 2004.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Of Lakeland Industries, Inc. and Subsidiaries:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Lakeland Industries, Inc. and its subsidiaries at January 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the years ended January 31, 2004 and 2003 listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial information. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Company changed the manner in which it accounts for goodwill and other intangible assets upon adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", on February 1, 2002.

/s/ PRICEWATERHOUSECOOPERS LLP

Melville, New York

April 2, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Lakeland Industries, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of income, stockholders' equity and cash flows of Lakeland Industries, Inc. and Subsidiaries (the Company) for the year ended January 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of the Company for the year ended January 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II Valuation and Qualifying Accounts for the year ended January 31, 2002. In our opinion, this schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be set forth therein.

/s/ GRANT THORNTON LLP

Melville, New York

April 15, 2002

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LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | January 31, | |
|---|--------------|--------------|
| | 2004 | 2003 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,445,271 | \$ 1,474,135 |
| Accounts receivable, net of allowance for doubtful accounts of \$323,000 and \$343,000 at January 31, 2004 and 2003 respectively | 12,570,320 | 10,364,188 |
| Inventories | 26,265,807 | 25,470,044 |
| Deferred income taxes | 790,272 | 1,001,133 |
| Other current assets | 1,213,104 | 549,564 |
| | 43,284,774 | 38,859,064 |
| Property and equipment, net | 3,921,308 | 3,356,835 |
| Other assets, net | 97,745 | 358,001 |
| Goodwill | | 248,834 |
| | \$47,303,827 | \$42,822,734 |
| | \$47,303,827 | \$42,822,734 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,461,353 | \$ 3,014,038 |
| Accrued compensation and benefits | 796,285 | 586,795 |
| Other accrued expenses | 466,759 | 675,380 |
| Borrowings under revolving credit facility | 16,784,781 | 16,657,882 |
| | 21,509,178 | 20,934,095 |
| Pension liability | 517,147 | 514,572 |
| Deferred income taxes | 250,532 | 14,643 |
| | 22,276,857 | 21,463,310 |
| | 22,276,857 | 21,463,310 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par; 1,500,000 shares authorized; none issued | | |
| Common stock, \$.01 par; 10,000,000 shares authorized; 3,273,925 and 2,969,107 shares issued and outstanding at January 31, 2004 and 2003, respectively | 32,739 | 29,691 |
| Additional paid-in capital | 11,862,461 | 8,762,673 |
| Retained earnings | 13,131,770 | 12,567,060 |
| | 25,026,970 | 21,359,424 |
| | 25,026,970 | 21,359,424 |

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| | | |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$47,303,827 | \$42,822,734 |
|--|--------------|--------------|

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

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Table of Contents**LAKELAND INDUSTRIES, INC.****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

| | Fiscal Years Ended January 31, | | |
|---|--------------------------------|--------------|--------------|
| | 2004 | 2003 | 2002 |
| Net sales | \$89,717,162 | \$77,825,717 | \$76,431,245 |
| Cost of goods sold | 71,740,876 | 62,866,550 | 63,293,922 |
| Gross profit | 17,976,286 | 14,959,167 | 13,137,323 |
| Operating expenses: | | | |
| Selling and shipping | 7,342,017 | 6,337,726 | 5,414,400 |
| General and administrative | 4,596,437 | 4,262,707 | 4,133,790 |
| Impairment of goodwill | 248,834 | | |
| Total operating expenses | 12,187,288 | 10,600,433 | 9,548,190 |
| Operating profit | 5,788,998 | 4,358,734 | 3,589,133 |
| Other income (expense): | | | |
| Interest expense | (534,540) | (642,595) | (881,948) |
| Interest income | 18,976 | 20,245 | 17,311 |
| Other income net | 24,064 | 39,555 | 91,040 |
| Total other expense | (491,500) | (582,795) | (773,597) |
| Income before income taxes | 5,297,498 | 3,775,939 | 2,815,536 |
| Income tax expense | 1,659,064 | 1,171,881 | 846,000 |
| Net income | \$ 3,638,434 | \$ 2,604,058 | \$ 1,969,536 |
| Net income per common share | | | |
| Basic | \$ 1.11 | \$ 0.80 | \$ 0.61 |
| Diluted | \$ 1.11 | \$ 0.80 | \$ 0.61 |
| Weighted average common shares outstanding: | | | |
| Basic | 3,268,551 | 3,261,116 | 3,222,956 |
| Diluted | 3,275,501 | 3,269,039 | 3,247,290 |

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

Table of Contents**LAKELAND INDUSTRIES, INC.****AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****Fiscal Years Ended January 31, 2004, 2003 and 2002**

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Total |
|---------------------------------|---------------------|---------------|---|------------------------------|---------------|
| | Shares | Amount | | | |
| Balance, January 31, 2001 | 2,646,000 | \$26,460 | \$ 6,140,221 | \$ 10,369,831 | \$ 16,536,512 |
| Net income | | | | 1,969,536 | 1,969,536 |
| Exercise of stock options | 38,600 | 386 | 125,864 | | 126,250 |
| Stock option income tax benefit | | | 94,656 | | 94,656 |
| Balance, January 31, 2002 | 2,684,600 | 26,846 | 6,360,741 | 12,339,367 | 18,726,954 |
| Net income | | | | 2,604,058 | 2,604,058 |
| Exercise of stock options | 10,100 | 101 | 28,311 | | 28,412 |
| 10% stock dividend | 274,407 | 2,744 | 2,373,621 | (2,376,365) | |
| Balance, January 31, 2003 | 2,969,107 | 29,691 | 8,762,673 | 12,567,060 | 21,359,424 |
| Net income | | | | 3,638,434 | 3,638,434 |
| Exercise of stock options | 10,400 | 104 | 29,008 | | 29,112 |
| 10% stock dividend | 294,418 | 2,944 | 3,070,780 | (3,073,724) | |
| Balance, January 31, 2004 | 3,273,925 | \$32,739 | \$11,862,461 | \$13,131,770 | \$25,026,970 |

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

Table of Contents**LAKELAND INDUSTRIES, INC.****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|---------------------|---------------------|
| | 2004 | 2003 | 2002 |
| Cash flows from operating activities: | | | |
| Net income | \$ 3,638,434 | \$ 2,604,058 | \$ 1,969,536 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Deferred income taxes | 446,750 | (401,490) | (19,000) |
| Depreciation and amortization | 803,234 | 595,384 | 689,969 |
| Impairment of goodwill | 248,834 | | |
| Stock option income tax benefit | | | 94,656 |
| (Increase) decrease in operating assets: | | | |
| Accounts receivable | (2,206,132) | (763,450) | 1,257,550 |
| Inventories | (795,763) | 1,059,106 | (3,819,067) |
| Prepaid income taxes and other current assets | (663,540) | 216,739 | 355,587 |
| Other assets | 260,256 | 47,365 | (80,832) |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable | 447,315 | (1,913,434) | (1,731,074) |
| Accrued expenses and other liabilities | 3,444 | 355,724 | 312,638 |
| Net cash provided by (used in) operating activities | <u>2,182,832</u> | <u>1,800,002</u> | <u>(970,037)</u> |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (1,367,707) | (1,733,759) | (831,919) |
| Net cash used in investing activities | <u>(1,367,707)</u> | <u>(1,733,759)</u> | <u>(831,919)</u> |
| Cash flows from financing activities: | | | |
| Borrowings from related party to finance construction of a building | | 168,099 | |
| Net borrowings (payments) under credit agreements | 126,899 | (549,254) | 2,772,513 |
| Proceeds from exercise of stock options | 29,112 | 28,412 | 126,250 |
| Payment of deferred financing costs | | | (120,750) |
| Net cash provided by (used in) financing activities | <u>156,011</u> | <u>(352,743)</u> | <u>2,778,013</u> |
| Net increase (decrease) in cash and cash equivalents | 971,136 | (286,500) | 976,057 |
| Cash and cash equivalents at beginning of year | 1,474,135 | 1,760,635 | 784,578 |
| Cash and cash equivalents at end of year | <u>\$ 2,445,271</u> | <u>\$ 1,474,135</u> | <u>\$ 1,760,635</u> |

See notes for Supplemental Cash Flow information.

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

Table of Contents**LAKELAND INDUSTRIES, INC.****AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****January 31, 2004, 2003 and 2002****1. Business and Significant Accounting Policies****Business**

Lakeland Industries, Inc. and Subsidiaries (the Company), a Delaware corporation, organized in April 1982, 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 fiscal years ended January 31, 2004, 2003 and 2002.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Laidlaw, Adams & Peck, Inc. and Subsidiary (MeiYang Protective Products Co. Ltd., a Chinese corporation), Lakeland Protective Wear, Inc. (a Canadian corporation), Weifang Lakeland Safety Products Co., Ltd. (a Chinese corporation), Qing Dao Maytung Healthcare Co., Ltd. (a Chinese corporation, formed), Lakeland Industries Europe Ltd. (a British corporation) and Lakeland de Mexico S.A. de C.V. (a Mexican corporation). 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, fire fighting 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 passes 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. Domestic and international sales are as follows:

| | Fiscal Years Ended January 31, | | | | | |
|---------------|--------------------------------|-------|--------------|-------|--------------|-------|
| | 2004 | | 2003 | | 2002 | |
| Domestic | \$81,763,000 | 91.1% | \$72,126,000 | 92.7% | \$71,962,000 | 94.2% |
| International | 7,954,000 | 8.9% | 5,700,000 | 7.3% | 4,469,000 | 5.8% |
| Total | \$89,717,000 | 100% | \$77,826,000 | 100% | \$76,431,000 | 100% |

Inventories

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

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, on a straight-line basis. Leasehold improvements and leasehold costs are amortized over the term of the lease or service lives of the improvements, whichever is shorter. The costs of additions and improvements which

substantially extend the useful life of a particular asset are capitalized. Repair and maintenance costs are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated

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**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

depreciation are removed from the account and the gain or loss on disposition is reflected in operating income.

Goodwill

On February 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which provides that goodwill and other intangible assets will no longer be amortized, but are assessed for impairment annually and upon occurrence of an event that indicates impairment may have occurred. Goodwill impairment is evaluated, utilizing a two-step process as required by SFAS No. 142. Factors that the Company considers important that could identify a potential impairment include: significant under performance relative to expected historical or projected future operating results; significant changes in the overall business strategy; and significant negative industry or economic trends. When the Company determines that the carrying value of intangibles and goodwill may not be recoverable based upon one or more of these indicators of impairment, the Company measures any potential impairment based 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.

In fiscal 2004, as a result of the Company's decision to move a portion of our reusable woven garment assembly from the United States to China, the Company reviewed this portion of its business for impairment. The impairment was calculated based on estimating the fair value utilizing a discounted cash flow analysis, resulting in an impairment of \$0.2 million in fiscal 2004. The Company has no remaining goodwill recorded at January 31, 2004.

In fiscal 2003, the Company ceased amortization of goodwill. Had this pronouncement been retroactively applied net income would have increased approximately \$12,000 net of tax in 2002 and diluted earnings per share would have increased by less than one cent per share in 2002.

Stock-Based Compensation

The Company has adopted the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). In compliance with SFAS 123, the Company applies APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its plans and does not recognize compensation expense for its employee stock-based compensation plans. The Company has also adopted the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This pronouncement requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reporting results. If the Company had elected to recognize compensation expense based upon the fair value at the date of grant for awards under these plans, consistent with the methodology prescribed by SFAS 123, the effect on the Company's net income and earnings per share as

Table of Contents**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reported would be reduced for the years ended January 31, 2004, 2003 and 2002 to the pro forma amounts indicated below:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---|-------------------|-------------------|-------------------|
| Net income | | | |
| As reported | \$ 3,638,434 | \$ 2,604,058 | \$ 1,969,536 |
| Less: | | | |
| Option expense based on fair value method | 28,344 | | 3,930 |
| Pro forma | \$ 3,610,090 | \$ 2,604,058 | \$ 1,965,606 |
| | <u> </u> | <u> </u> | <u> </u> |
| Basic earnings per common share | | | |
| As reported | \$ 1.11 | \$ 0.80 | \$ 0.61 |
| | <u> </u> | <u> </u> | <u> </u> |
| Pro forma | \$ 1.10 | \$ 0.80 | \$ 0.61 |
| | <u> </u> | <u> </u> | <u> </u> |
| Diluted earnings per common share | | | |
| As reported | \$ 1.11 | \$ 0.80 | \$ 0.60 |
| | <u> </u> | <u> </u> | <u> </u> |
| Pro forma | \$ 1.10 | \$ 0.80 | \$ 0.60 |
| | <u> </u> | <u> </u> | <u> </u> |

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions for the years ended January 31, 2004 and 2002: expected volatility of 57% and 57%, respectively; risk-free interest rate of 3.25% and 5%, respectively; expected dividend yield of 0.0%; and expected life of six years. All stock-based awards were fully vested at January 31, 2004 and 2003 and 7,000 new option grants were made during the year ended January 31, 2004. No options were granted in 2003. Earnings per share have been adjusted to reflect the 10% stock dividends to stockholders of record as of July 31, 2003 and 2002.

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts to provide for accounts receivable that may not be collectible. In establishing the allowance for doubtful accounts, the Company analyzes the collectibility of individual large or past due accounts customer-by-customer. The Company establishes reserves for accounts that it determines to be doubtful of collection.

Shipping and Handling Costs

The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with outbound freight are included in selling and shipping expenses and aggregated approximately \$2,394,000, \$1,835,000 and \$1,532,000 in the fiscal years ended January 31, 2004, 2003 and 2002, respectively.

Research and Development Costs

Research and development costs are expensed as incurred and included in general and administrative expenses. Research and development expenses aggregated approximately \$82,000, \$164,000, and \$378,000 in the fiscal years ended January 31, 2004, 2003 and 2002, respectively, paid to contractors for development of new raw materials.

Income Taxes

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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

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Table of Contents**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of common stock equivalents. Diluted earnings per share are based on the weighted average number of common and common stock equivalents. The common stock equivalents for the years ended January 31, 2004, 2003 and 2002 were 6,950, 7,923, and 24,334 respectively, representing the dilutive effect of stock options. The diluted earnings per share calculation takes into account the shares that may be issued upon exercise of stock options, reduced by shares that may be repurchased with the funds received from the exercise, based on the average price during the fiscal year (as adjusted for the 10% stock dividend to holders of record July 31, 2003 and 2002). Options to purchase 1,100, and 1,000, shares of the Company's common stock have been excluded from the computation of diluted earnings per share in 2003 and 2002, respectively, as their inclusion would have been anti-dilutive.

Advertising Costs

Advertising costs are expensed as incurred.

Statement of Cash Flows

The Company considers highly liquid temporary cash investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market funds. The market value of the cash equivalents approximates cost. Foreign denominated cash and cash equivalents were approximately \$2,012,000 and \$1,011,000 at January 31, 2004 and 2003, respectively.

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

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------------------|-------------|-------------|-------------|
| Interest paid | \$ 534,540 | \$642,595 | \$881,934 |
| Income taxes paid | 1,303,513 | 895,401 | 606,700 |

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of trade receivables. Concentration of credit risk with respect to these receivables is generally diversified due to the large number of entities comprising the Company's customer base and their dispersion across geographic areas principally within the United States. The Company routinely addresses the financial strength of its customers and, as a consequence, believes that its receivable credit risk exposure is limited.

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**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Operations and Foreign Currency Translation

The Company maintains manufacturing operations and uses independent contractors in Mexico and the People's Republic of China. It also maintains a sales and distribution entity located in Canada and the U.K. The Company is vulnerable to currency risks in these countries. The functional currency of foreign subsidiaries is the U.S. dollar.

The monetary assets and liabilities of the Company's foreign operations are translated into U.S. dollars at current exchange rates, while non-monetary items are translated at historical rates. Revenues and expenses are generally translated at average exchange rates for the year. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred and aggregated approximately \$29,000, \$95,000, and \$129,000 for the fiscal years ended January 31, 2004, 2003 and 2002, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include the allowance for doubtful accounts and inventory reserves. It is reasonably possible that events could occur during the upcoming year that could change such estimates.

Fair Value of Financial Instruments

The Company's principal financial instrument consists of its outstanding revolving credit facility and term loan. The Company believes that the carrying amount of such debt approximates the fair value as the variable interest rates approximate the current prevailing interest rate.

Effects of Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 requires that certain financial instruments that were accounted for as equity under previous guidance, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 in July 1, 2003 did not have any impact on our consolidated financial statements for the year ended and at January 31, 2004.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others-an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. This interpretation expands on the existing accounting guidance and disclosure requirements for most guarantees, including indemnifications. It requires that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligations it assumes under that guarantee if that amount is reasonably estimable, and must disclose that information in its interim and annual financial statements. The provisions for initial recognition and measurement of the liability are to be applied on a prospective basis to guarantees issued or modified on or after January 1, 2003. Our initial

Table of Contents**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

adoption of this statement on January 1, 2003 did not have an impact on its results of operations, financial position, or cash flows.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation provides guidance with respect to the consolidation of certain entities, referred to as variable interest entities (VIE), in which an investor is subject to a majority of the risk of loss from the VIE s activities, or is entitled to receive a majority of the VIE s residual returns. This interpretation also provides guidance with respect to the disclosure of VIEs in which an investor maintains an interest but is not required to consolidate. The provisions of the interpretation are effective immediately for all VIEs created after January 31, 2003, or in which we obtain an interest after that date. In December 2003, the FASB issued a revision to this pronouncement, FIN 46R, which, among other things, clarified certain provisions and modified the effective date for certain variable interests. Application is required for interests in special purpose entities in the period ending after December 15, 2003 and application is required for all other types of variable interest entities in the period ending after March 15, 2004. We are currently evaluating the impact this pronouncement will have on our financial position and results of operations upon adoption in the first quarter of fiscal 2005.

In December 2003, the FASB issued a revised FAS No. 132, Employers Disclosures about Pensions and Other Postretirement benefits, to improve financial statement disclosures for defined benefit plans. The company has adopted FAS No. 132, which includes new disclosure requirements, which have been included in note 7, Benefit Plans.

2. Inventories

Inventories consist of the following at January 31:

| | <u>2004</u> | <u>2003</u> |
|-----------------|----------------------|----------------------|
| Raw materials | \$ 10,868,816 | \$ 7,839,144 |
| Work-in-process | 2,279,444 | 1,656,942 |
| Finished goods | 13,117,547 | 15,973,958 |
| | <u>\$ 26,265,807</u> | <u>\$ 25,470,044</u> |

3. Property, Plant and Equipment

Property and equipment consist of the following at January 31:

| | <u>Useful Life in Years</u> | <u>2004</u> | <u>2003</u> |
|--|---------------------------------|---------------------|---------------------|
| Machinery and equipment | 3 10 | \$ 5,819,322 | \$ 4,815,225 |
| Furniture and fixtures | 3 10 | 205,216 | 176,073 |
| Leasehold improvements | Lease term | 802,318 | 778,514 |
| Building (in China) | 20 | 1,605,737 | 1,295,074 |
| | | <u>8,432,593</u> | <u>7,064,886</u> |
| Less accumulated depreciation and amortization | | <u>(4,511,285)</u> | <u>(3,708,051)</u> |
| | | <u>\$ 3,921,308</u> | <u>\$ 3,356,835</u> |

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Depreciation expense incurred in fiscal 2004, 2003 and 2002 amounted to \$803,234, \$595,384, and \$689,969, respectively. Net fixed assets in China were approximately \$1.9 million, \$1.4 million and

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$0.2 million as of January 31, 2004, 2003 and 2002, respectively. Net fixed assets in Mexico were approximately \$168,000, \$208,000 and \$121,000 at January 31, 2004, 2003 and 2002, respectively.

4. Long-Term Debt

Long-term debt consists of the following at January 31:

| | <u>2004</u> | <u>2003</u> |
|---------------------------|-------------------|-------------------|
| Revolving credit facility | \$ 16,784,781 | \$ 16,478,781 |
| Term loan | | 179,101 |
| | <u>16,784,781</u> | <u>16,657,882</u> |
| Less current portion | <u>16,784,781</u> | <u>16,657,882</u> |
| Long-term debt | <u>\$</u> | <u>\$</u> |

Revolving Credit Facility

The Company's agreement with its lending institution, as amended, provides the Company with a revolving credit facility of \$18 million. This credit facility, which is subject to a borrowing base based on a percentage of eligible accounts receivable and inventory as defined, bears interest at LIBOR plus 2% (3.10% at January 31, 2004) and pursuant to an amendment dated July 19, 2003 expires on July 31, 2004. The agreement was amended on March 9, 2001 to (i) extend the maturity date to October 31, 2001, (ii) modify the interest rate, and (iii) modify certain financial covenants. The agreement was amended on July 12, 2001 to (i) extend the maturity date to July 31, 2002, (ii) increase the amount available under the revolving line of credit from \$14 million to a percentage of eligible accounts receivable and inventory as defined, up to a maximum of \$18 million, (iii) modify the interest rate, and (iv) modify a certain financial covenant. The maximum amounts borrowed under the credit facility during the fiscal years ended January 31, 2004, 2003 and 2002 were \$18,000,000, \$18,000,000, and \$17,702,000 respectively, and the average interest rates during the periods were 3.20%, 3.73% and 5.93%, respectively. At January 31, 2004, the Company had approximately \$1,215,000 in availability under the agreement.

In January 2004, the Company entered into a new 3-year \$3 million revolving credit facility which expires on January 21, 2007. Availability under this facility decreases from \$3 million by \$83,333 each month over the 3-year term and is also subject to the borrowing base limitation discussed above in connection with the \$18 million revolving credit facility. Borrowings under this revolving credit facility bear interest at LIBOR plus 2.5%. The Company did not have any borrowings outstanding under this facility at January 31, 2004.

Term Loan

In November 1999, the Company entered into a \$3,000,000, five-year term loan which was paid in full in March 2003.

The credit facility is and the term loan was collateralized by substantially all of the assets of the Company. The credit facility and term loan contain financial covenants, including, but not limited to, minimum levels of earnings and maintenance of minimum tangible net worth and other certain ratios at all times. The fees incurred by the Company related to the credit facility amounted to \$63,000, \$63,000, and \$107,000 during fiscal 2004, 2003 and 2002, respectively.

Table of Contents**LAKELAND INDUSTRIES, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Stockholders' Equity and Stock Options**

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

The Company's 1986 Incentive and Non-statutory Stock Option Plan (the Plan) provides for the granting of incentive stock options and non-statutory options. The Plan provides for the grant of options to key employees to purchase up to 400,000 shares of the Company's common stock, upon terms and conditions determined by a committee of the Board of Directors, which administers the plan. Options are granted at not less than fair market value (110 percent of fair market value as to incentive stock options granted to ten percent stockholders) and are exercisable over a period not to exceed ten years (five years as to incentive stock options granted to ten percent stockholders).

Additional information with respect to the Company's plans for the fiscal years ended January 31, 2004, 2003 and 2002 is summarized as follows:

| | 2004 | | | |
|---|---------------------|---|---------------------|---|
| | Directors' Plan | | Plan | |
| | Number of Shares | Weighted- Average Exercise Price | Number of Shares | Weighted- Average Exercise Price |
| Shares under option | | | | |
| Outstanding at beginning of year | 9,900 | \$4.71 | 4,455 | \$ 1.86 |
| 10% stock dividend | 1,140 | | 445 | |
| Granted | 7,000 | 8.74 | | |
| Exercised | (5,500) | | (4,900) | |
| Outstanding and exercisable at end of year | 12,540 | 7.70 | | |
| Weighted-average remaining contractual life of options outstanding | | | | |
| | 4.25 | | | |
| Weighted-average fair value per shares of options granted during 2004 | | | | |
| | | \$7.70 | | |

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AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | 2003 | | | |
|--|------------------|---------------------------------|------------------|---------------------------------|
| | Directors Plan | | Plan | |
| | Number of Shares | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Exercise Price |
| Shares under option | | | | |
| Outstanding at beginning of year | 9,000 | \$5.48 | 13,900 | \$2.70 |
| 10% stock dividend | 900 | | 655 | |
| Exercised | | | (10,100) | |
| Outstanding and exercisable at end of year | 9,900 | 4.71 | 4,455 | 1.86 |
| Weighted-average remaining contractual life of options outstanding | 1.5 years | | 1 year | |

(1)

For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act, pursuant to which a person or group of persons is deemed to have beneficial ownership of any shares of Common Stock that such person has the right to acquire within 60 days of the date of

determination.
In light of the nature of vested RSUs, we have also included in this table shares of Class A Common Stock underlying vested RSUs. For purposes of computing the percentage of outstanding shares of Common Stock held by each person or group of persons named above, shares of Common Stock underlying vested RSUs are deemed to be outstanding for the purpose of computing the Percent of Class of such person or group but are not deemed to be outstanding for the purpose of computing the Percent of Class of any other person or group. Shares underlying vested RSUs are not deemed to be outstanding for the purpose of computing the

C o m b i n e d
V o t i n g P o w e r
o f A l l C l a s s e s
o f S t o c k
B e n e f i c i a l l y
O w n e d .
B e n e f i c i a l
o w n e r s h i p o f
C l a s s A
C o m m o n
S t o c k i s
e x c l u s i v e o f
t h e s h a r e s o f
C l a s s A
C o m m o n
S t o c k t h a t a r e
i s s u a b l e u p o n
c o n v e r s i o n o f
s h a r e s o f C l a s s
B C o m m o n
S t o c k .

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Please see footnote 6 below for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.

- (2) Shares of Class B Common Stock are convertible into shares of Class A Common Stock at the option of the holder on a share for share basis. The holder of one share of Class A Common Stock has one vote per share at a meeting of our stockholders and the holder of one share of Class B Common Stock has 10 votes per share at a meeting of our stockholders, except in the separate elections of directors. Holders of Class A Common Stock have the right to elect 25% of the Board of Directors rounded up to the nearest whole director and the holders of Class B Common Stock have the right to elect the remaining members of the Board of Directors.
- (3) Members of the Dolan family have formed a group for purposes of Section 13(d) of the Securities Exchange Act of 1934. The members of this group (the Group Members) are: Charles F. Dolan, individually and as Trustee of the Charles F. Dolan 2009 Revocable Trust (CFD 2009 Trust); Helen A. Dolan, individually and as Trustee of the Helen A. Dolan 2009 Revocable Trust (HAD 2009 Trust); James L. Dolan; Thomas C. Dolan; Patrick F. Dolan; Kathleen M. Dolan, individually and as a Trustee of the Charles F. Dolan Children Trust FBO Kathleen M. Dolan, the Charles F. Dolan Children Trust FBO Deborah Dolan-Sweeney, the Charles F. Dolan Children Trust FBO Marianne Dolan Weber, the Charles F. Dolan Children Trust FBO Patrick F. Dolan, the Charles F. Dolan Children Trust FBO Thomas C. Dolan and the Charles F. Dolan Children Trust FBO James L. Dolan (hereinafter collectively referred to as the Dolan Children Trusts, and individually, a Dolan Children Trust) and as sole Trustee of the Ryan Dolan 1989 Trust and the Tara Dolan 1989 Trust; Marianne Dolan Weber; Deborah A. Dolan-Sweeney, individually and as Trustee of the Marianne E. Dolan Weber 2012 Descendants Trust and Patrick F. Dolan 2012 Descendants Trust; David M. Dolan, as a Trustee of the Charles F. Dolan 2009 Family Trust FBO Patrick F. Dolan, the Charles F. Dolan 2009 Family Trust FBO Thomas C. Dolan, the Charles F. Dolan 2009 Family Trust FBO James L. Dolan, the Charles F. Dolan 2009 Family Trust FBO Marianne Dolan Weber, the Charles F. Dolan 2009 Family Trust FBO Kathleen M. Dolan and the Charles F. Dolan 2009 Family Trust FBO Deborah A. Dolan-Sweeney (collectively, the 2009 Family Trusts and individually, a 2009 Family Trust), as a Trustee of the Charles F. Dolan 2010 Grandchildren Trust FBO Descendants of Deborah A. Dolan-Sweeney, Charles F. Dolan 2010 Grandchildren Trust FBO Descendants of Kathleen M. Dolan, Charles F. Dolan 2010 Grandchildren Trust FBO Descendants of Marianne E. Dolan Weber, Charles F. Dolan 2010 Grandchildren Trust FBO Descendants of Patrick F. Dolan and Charles F. Dolan 2010 Grandchildren Trust FBO Descendants of James L. Dolan (hereinafter collectively referred to as the CFD 2010 Grandchildren Trusts, and individually, a CFD 2010 Grandchildren Trust) and as a Trustee of the Charles F. Dolan 2012 Descendants Trust; Paul J. Dolan, as a Trustee of the Dolan Children Trusts FBO Kathleen M. Dolan and James L. Dolan and as a Trustee of the Kathleen M. Dolan 2012 Descendants Trust; Matthew J. Dolan, as a Trustee of the Dolan Children Trusts FBO Marianne Dolan Weber and Thomas C. Dolan; Mary S. Dolan, as a Trustee of the Dolan Children Trusts FBO Deborah Dolan-Sweeney and Patrick F. Dolan, the Kathleen M. Dolan 2012 Descendants Trust, each of the 2009 Family Trusts, each of the CFD 2010 Grandchildren Trusts and as a Trustee of the Charles F. Dolan 2012 Descendants Trust; Brian G. Sweeney, as a Trustee of the Deborah A. Dolan-Sweeney 2012 Descendants Trust; Dolan Children Trust FBO Kathleen M. Dolan; Dolan Children Trust FBO Marianne Dolan Weber; Dolan Children Trust FBO Deborah Dolan-Sweeney; Dolan Children Trust FBO James L. Dolan; Dolan Children Trust FBO Thomas C. Dolan; Dolan Children Trust FBO Patrick F. Dolan; 2009 Family Trust FBO James L. Dolan; 2009 Family Trust FBO Thomas C. Dolan; 2009 Family Trust FBO Patrick F. Dolan; 2009 Family Trust FBO Kathleen M. Dolan; 2009 Family Trust FBO Marianne Dolan Weber; 2009 Family Trust FBO Deborah A. Dolan-Sweeney; Ryan Dolan 1989 Trust; Tara Dolan 1989 Trust; CFD 2010 Grandchildren Trust FBO Descendants of Deborah A. Dolan-Sweeney; CFD 2010 Grandchildren Trust FBO Descendants of Kathleen M. Dolan; CFD 2010 Grandchildren Trust FBO Descendants of Marianne E. Dolan Weber; CFD 2010 Grandchildren Trust FBO Descendants of Patrick F. Dolan;

CFD 2010 Grandchildren Trust FBO Descendants of James L. Dolan; Charles F. Dolan 2012 Descendants Trust; Deborah A. Dolan-Sweeney 2012 Descendants Trust; Kathleen M. Dolan 2012 Descendants Trust; Marianne E. Dolan Weber 2012 Descendants Trust and Patrick F. Dolan 2012 Descendants Trust. The Group Members may be deemed to beneficially own an aggregate of 12,600,657 shares of Class A Common Stock as a result of their beneficial ownership of (i) 1,116,249 shares of Class A Common Stock and (ii) 11,484,408 shares of shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof. Individuals who are Group Members solely in their capacity as trustees of trusts that are Group Members beneficially own an additional 429,611 shares of Class A Common Stock. Includes 69,222 shares of Class A Common Stock underlying vested RSUs. See footnotes (4) through (25), (28) and (29).

- (4) Charles F. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 97,576 shares of Class A Common Stock (including 45,333 shares of Class A Common Stock owned personally and 52,243 shares of Class A Common Stock owned by the CFD 2009 Trust); and 637,557 shares of Class B Common Stock and the equal number of shares of Class A common stock issuable upon conversion thereof owned by the

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CFD 2009 Trust; and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 576,610 shares of Class A common stock owned by the Dolan Family Foundation; 126,250 shares of Class B common stock and the equal number of shares of Class A common stock issuable upon conversion thereof owned by the HAD 2009 Trust; 2,842,880 shares of Class B common stock and the equal number of shares of Class A common stock issuable upon conversion thereof owned by the 2009 Family Trusts; and 1,501,208 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Charles F. Dolan 2012 Descendants Trust. Includes 2,842,880 shares of Class B Common Stock owned by the 2009 Family Trusts; 1,501,208 shares of Class B Common Stock owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Charles F. Dolan 2012 Descendants Trust, which Charles F. Dolan may be deemed to have the right to acquire because he has the right to substitute assets with the trust, subject to the trustees' reasonable satisfaction that the substitute assets received by the trust are of equal value to the trust property exchanged therefore. He disclaims beneficial ownership of 576,610 shares of Class A Common Stock owned by the Dolan Family Foundation; 126,250 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the HAD 2009 Trust; 2,842,880 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the 2009 Family Trusts; and 1,501,208 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Charles F. Dolan 2012 Descendants Trust. See footnotes (5), (19), (28) and (29).

- (5) Helen A. Dolan may be deemed to have (i) the sole power to vote or direct the vote of 126,250 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the HAD 2009 Trust and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 576,610 shares of Class A Common Stock owned by the Dolan Family Foundation; an aggregate of 97,576 shares of Class A Common Stock (including 45,333 shares of Class A Common Stock owned personally by her spouse, Charles F. Dolan, and 52,243 shares of Class A Common Stock owned by the CFD 2009 Trust); 637,557 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2009 Trust; 2,842,880 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the 2009 Family Trusts; 1,501,208 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Charles F. Dolan 2012 Descendants Trust. Includes 2,842,880 shares of Class B Common Stock owned by the 2009 Family Trusts; 1,501,208 shares of Class B Common Stock owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Charles F. Dolan 2012 Descendants Trust, which Helen A. Dolan's spouse, Charles F. Dolan, may be deemed to have the right to acquire because he has the right to substitute assets with the trust, subject to the trustees' reasonable satisfaction that the substitute assets received by the trust are of equal value to the trust property exchanged therefor. She disclaims beneficial ownership of 576,610 shares of Class A Common Stock owned of the Dolan Family Foundation, an aggregate of 97,576 shares of Class A Common Stock (including 45,333 shares of Class A Common Stock owned personally by her spouse and 52,243 shares of Class A Common Stock owned by the CFD 2009 Trust); 637,557 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2009 Trust; 2,842,880

shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the 2009 Family Trusts; and 1,501,208 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Charles F. Dolan 2012 Descendants Trust. See footnotes (4), (19), (28) and (29).

- (6) The shares of Class A Common Stock underlying vested RSUs granted under the Company's 2011 Stock Plan for Non-Employee Directors, which represent a right to receive one share of Class A Common Stock 90 days after the director ceases to serve as a member of the board, included in the table above are as follows: James L. Dolan, 11,537; Kristin A. Dolan, 11,537; Thomas C. Dolan, 11,537; Brian G. Sweeney, 11,537; Patrick F. Dolan, 11,537; Marianne Dolan Weber, 11,537; William J. Bell, 11,537; Neil M. Ashe, 0; Alan D. Schwartz, 11,537; Leonard Tow, 11,537; Robert C. Wright,

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11,537; David E. Van Zandt, 1,743; Carl E. Vogel, 5,233; and Jonathan F. Miller, 5,209; and all officers and directors as a group, 127,555. Mr. James L. Dolan's, Ms. Kristin Dolan's and Ms. Deborah Dolan-Sweeney's beneficial ownership in the table above also includes the 11,537 RSUs held directly by each of Ms. Kristin Dolan, Mr. James L. Dolan and Mr. Brian G. Sweeney, respectively.

- (7) Includes 1000 shares of Class A Common Stock issuable upon the exercise of options granted pursuant to the Company's 2011 Stock Plan for Non-Employee Directors, which on March 15, 2016, were unexercised but were exercisable within a period of 60 days.
- (8) James L. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 66,719,719 shares of Class A Common Stock owned personally; 162,529 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned personally; and an aggregate of 1,925 shares of Class A Common Stock held as custodian for one or more of his children and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 6,621 shares of Class A Common Stock (including 6,221 shares of Class A Common Stock, and 400 shares of Class A Common Stock held in the Cablevision 401(k) Savings Plan's Cablevision Stock Fund) owned personally by his spouse, Kristin A. Dolan; 1,250 shares of Class A Common Stock owned jointly with his spouse; 3,450 shares of Class A Common Stock owned by members of his household; 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for his benefit and an aggregate of 34,060 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion owned of record by the CFD 2010 Grandchildren Trusts FBO Aidan and Quentin Dolan for which his spouse serves as trustee. He disclaims beneficial ownership of an aggregate of 1,925 shares of Class A Common Stock held as custodian for one or more of his children; 3,450 shares of Class A Common Stock owned by members of his household; 6,621 shares of Class A Common Stock (including 6,221 shares of Class A Common Stock, and 400 shares of Class A Common Stock held in the Cablevision 401(k) Savings Plan's Cablevision Stock Fund) owned personally by his spouse; and 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for his benefit, and an aggregate of 34,060 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion owned of record by the CFD 2010 Grandchildren Trusts FBO Aidan and Quentin Dolan for which his spouse serves as trustee. Please see footnote 6 for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.
- (9) Kathleen M. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 2,220 shares of Class A Common Stock owned personally; 4,481 shares of Class B common stock and the equal number of shares of Class A common stock issuable upon conversion thereof owned personally; an aggregate of 2,300 shares of Class A common stock held as custodian for one or more minor children; and an aggregate of 30,312 shares of Class B common stock and the equal number of shares of Class A common stock issuable upon conversion thereof owned by the Ryan Dolan 1989 Trust and the Tara Dolan 1989 Trust for which she serves as trustee and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of an aggregate of 223,364 shares of Class A common stock owned by the Dolan Children Trusts (of which 47,864 shares are held for her benefit) and an aggregate of 5,468,695 shares of Class B common stock and the equal number of shares of Class A common stock issuable upon conversion thereof owned by the Dolan Children Trusts (of which 918,981

shares are held for her benefit) and for which she serves as co-trustee; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Kathleen M. Dolan 2012 Descendants Trust. She disclaims beneficial ownership of an aggregate of 2,300 shares of Class A Common Stock held as custodian for one or more minor children, an aggregate of 30,312 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Ryan Dolan 1989 Trust and the Tara Dolan 1989 Trust for which she serves as trustee; an aggregate of 223,364 shares of Class A Common Stock owned by the Dolan Children Trusts (of which 47,864 shares are held for her benefit) and an aggregate of 5,468,695 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trusts of which 918,981 shares are held for her benefit; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Kathleen M. Dolan 2012 Descendants Trust.

(10) Kristin A. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 6,621 shares of Class A Common Stock (including 6,221 shares of Class A Common Stock, and 400 shares of Class A Common Stock held in the Cablevision 401(k) Savings Plan's Cablevision Stock Fund) owned personally, and an aggregate of 34,060 shares of Class B Common Stock and the equal number of shares of Class A

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Common Stock issuable upon conversion owned of record by the CFD 2010 Grandchildren Trusts FBO Aidan and Quentin Dolan for which she serves as trustee and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of an aggregate of 66,719 shares of Class A Common Stock owned personally by her spouse, James L. Dolan; 162,529 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned personally by her spouse; 1,250 shares of Class A Common Stock owned jointly with her spouse; an aggregate of 1,925 shares of Class A Common Stock held by her spouse as custodian for one or more of his children; 3,450 shares of Class A Common Stock owned by members of her household; 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for the benefit of her spouse. She disclaims beneficial ownership of an aggregate 1,925 shares of Class A Common Stock held by her spouse as custodian for one or more of his children; 3,450 shares of Class A Common Stock owned by members of her household; 176,719 shares of Class A Common Stock (including 65,719 shares of Class A Common Stock, and 111,000 shares of Class A Common Stock issuable upon exercise of options which on March 15, 2015 were unexercised but were exercisable within a period of 60 days) owned personally by her spouse; 162,529 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by her spouse; and 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for the benefit of her spouse, and an aggregate of 34,060 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion owned of record by the CFD 2010 Grandchildren Trusts FBO Aidan and Quentin Dolan for which she serves as trustee. Please see footnote 6 for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.

- (11) Patrick F. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 4,067 shares of Class A Common Stock owned personally; and 24,444 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned personally; and (ii) the shared power to vote or direct the vote of and to dispose of or to direct the disposition of 4,256 shares of Class A Common Stock owned jointly with his spouse; 525 shares of Class A Common Stock owned personally by his spouse; 587 shares owned by the Daniel P. Mucci Trust (the Mucci Trust) for which he serves as co-trustee; 886,015 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for his benefit and 102,032 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Patrick F. Dolan 2012 Descendants Trust. He disclaims beneficial ownership of 525 shares of Class A Common Stock owned personally by his spouse; 587 shares of Class A Common Stock held by the Mucci Trust; 886,015 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for his benefit; and 102,032 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Patrick F. Dolan 2012 Descendants Trust. Please see footnote 6 for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.
- (12) Thomas C. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 17,228 shares of Class A Common Stock owned personally; 29,071 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned personally and (ii) the shared power to vote or direct the vote of and to dispose of or to direct the disposition of 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the

equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for his benefit. He disclaims beneficial ownership of 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for his benefit. Please see footnote 6 for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.

- (13) Brian G. Sweeney may be deemed to have (i) the sole power to vote or direct the vote of and dispose or direct the disposition of 27,794 shares of Class A Common Stock owned personally; an aggregate of 7,675 shares Class A Common Stock held in trusts for his children for which he serves as co-trustee; and 197,645 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Deborah A. Dolan-Sweeney 2012 Descendants Trust, for which he serves as trustee and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 5,643 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by his spouse, Deborah A. Dolan-Sweeney; 47,864 shares of Class A Common Stock and 918,981 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for the benefit

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of his spouse; and an aggregate of 201,992 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Marianne E. Dolan Weber 2012 Descendants Trust and the Patrick F. Dolan 2012 Descendants Trust, for which his spouse serves as trustee. He disclaims beneficial ownership of the 5,643 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by his spouse; an aggregate of 7,675 shares of Class A Common Stock held in trusts for his children for which he serves as co-trustee; 47,864 shares of Class A Common Stock and 918,981 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for the benefit of his spouse; 197,645 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Deborah A. Dolan-Sweeney 2012 Descendants Trust; and an aggregate of 201,992 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Marianne E. Dolan Weber 2012 Descendants Trust and the Patrick F. Dolan 2012 Descendants Trust. Please see footnote 6 for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.

(14) Deborah A. Dolan-Sweeney may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 5,643 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned personally; and an aggregate of 201,992 shares of Class A Common Stock issuable upon conversion of an equal number of shares of Class B Common Stock owned of record by the Marianne E. Dolan Weber 2012 Descendants Trust and the Patrick F. Dolan 2012 Descendants Trust, for which she serves as trustee and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 27,794 shares of Class A Common Stock owned personally by her spouse, Brian G. Sweeney; an aggregate of 7,675 shares of Class A Common Stock held in trusts for her children for which her spouse serves as co-trustee; 47,864 shares of Class A Common Stock and 918,981 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for her benefit; and 197,645 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Deborah A. Dolan-Sweeney 2012 Descendants Trust, for which her spouse serves as trustee. She disclaims beneficial ownership of 27,794 shares of Class A Common Stock owned personally by her spouse; an aggregate of 7,675 shares of Class A Common Stock held in trusts for her children for which her spouse serves as co-trustee; 47,864 shares of Class A Common Stock and 918,981 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for her benefit; 197,645 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Deborah A. Dolan-Sweeney 2012 Descendants Trust; and an aggregate of 201,992 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Marianne E. Dolan Weber 2012 Descendants Trust and the Patrick F. Dolan 2012 Descendants Trust. Please see footnote 6 for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.

(15) Marianne Dolan Weber may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 810 shares of Class A Common Stock owned personally; 8,359 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned personally and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 900 shares of Class A Common Stock owned personally by her spouse, 1,150 shares of Class A Common Stock owned by a member of her household, and 47,864 shares of Class A Common Stock and 890,802 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion

thereof owned by the Dolan Children Trust for her benefit; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Marianne E. Dolan Weber 2012 Descendants Trust. She disclaims beneficial ownership of 900 shares of Class A Common Stock owned personally by her spouse, 1,150 shares of Class A Common Stock owned by a member of her household; and 47,864 shares of Class A Common Stock and 890,802 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trust for her benefit; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Marianne E. Dolan Weber 2012 Descendants Trust. Please see footnote 6 for the number of shares of Class A Common Stock underlying vested RSUs which have been included in the table above.

- (16) Paul J. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 96,550 shares of Class A Common Stock (including 5,108 shares of Class A Common Stock held as custodian for one or more minor children and 91,442 shares of Class A Common Stock owned by the CFD Trust No. 10) and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 5,907 shares of

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Class A Common Stock owned jointly with his spouse; an aggregate of 87,750 shares of Class A Common Stock and 1,845,939 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trusts for the benefit of Kathleen M. Dolan and James L. Dolan; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Kathleen M. Dolan 2012 Descendants Trust. He disclaims beneficial ownership of an aggregate of 5,108 shares of Class A Common Stock held as custodian for one or more minor children; 91,442 shares of Class A Common Stock owned by the CFD Trust No. 10; an aggregate of 87,750 shares of Class A Common Stock and 1,845,939 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trusts for the benefit of Kathleen M. Dolan and James L. Dolan; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Kathleen M. Dolan 2012 Descendants Trust.

(17) Mary S. Dolan may be deemed to have (i) the sole power to vote or direct the vote and to dispose of or direct the disposition of 6,810 shares of Class A Common Stock held as custodian for one or more minor children and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 8,259 shares of Class A Common Stock owned jointly with her spouse; an aggregate of 47,864 shares of Class A Common Stock and 1,804,996 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trusts for the benefit of Deborah Dolan-Sweeney and Patrick F. Dolan; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Kathleen M. Dolan 2012 Descendants Trust, an aggregate of 2,842,880 shares of Class A Common Stock issuable upon conversion of an equal number of shares of Class B Common Stock owned of record by the 2009 Family Trusts, an aggregate of 1,501,208 shares of Class A Common Stock issuable upon conversion of an equal number of shares of Class B Common Stock owned of record by the CFD 2010 Grandchildren Trusts, and 109,322 shares of Class A Common Stock issuable upon conversion of an equal number of shares of Class B Common Stock owned of record by the Charles F. Dolan 2012 Descendants Trust. She disclaims beneficial ownership of 6,810 shares of Class A Common Stock held as custodian for one or more minor children; an aggregate of 47,864 shares of Class A Common Stock and 1,804,996 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trusts for the benefit of Deborah Dolan-Sweeney and Patrick F. Dolan; and 99,960 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Kathleen M. Dolan 2012 Descendants Trust, an aggregate of 2,842,880 shares of Class A Common Stock issuable upon conversion of an equal number of shares of Class B Common Stock owned of record by the 2009 Family Trusts, an aggregate of 1,501,208 shares of Class A Common Stock issuable upon conversion of an equal number of shares of Class B Common Stock owned of record by the CFD 2010 Grandchildren Trusts, and 109,322 shares of Class A Common Stock issuable upon conversion of an equal number of shares of Class B Common Stock owned of record by the Charles F. Dolan 2012 Descendants Trust.

(18) Matthew J. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 1,750 shares of Class A Common Stock owned personally and 1,387 shares of Class A Common Stock held as custodian for his child and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of an aggregate of 87,750 shares of Class A Common Stock and 1,817,760 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trusts for the benefit of Marianne Dolan Weber and Thomas C. Dolan. He disclaims beneficial ownership of 1,387 shares of Class A Common Stock held as custodian for his

child and an aggregate of 87,750 shares of Class A Common Stock and 1,817,760 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Dolan Children Trusts for the benefit of Marianne Dolan Weber and Thomas C. Dolan.

(19) David M. Dolan may be deemed to have (i) the sole power to vote or direct the vote of and to dispose of or to direct the disposition of 300,636 shares of Class A Common Stock (including 1,431 shares of Class A Common Stock owned by the David M. Dolan Revocable Trust and 299,205 shares of Class A Common Stock owned by the Charles F. Dolan Charitable Remainder Trust) and (ii) the shared power to vote or direct the vote of and to dispose of or direct the disposition of 8,312 shares of Class A Common Stock (including 2,300 shares of Class A Common Stock owned jointly with his spouse; 5,250 shares of Class A Common Stock owned by the Ann H. Dolan Revocable Trust, 762 shares of Class A Common Stock held by his spouse as custodian for a minor child); and an aggregate of 2,842,880 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the 2009 Family Trusts; an aggregate of 1,501,208 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion

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thereof owned by Charles F. Dolan 2012 Descendants Trust. He disclaims beneficial ownership of 299,205 shares of Class A Common Stock owned by the Charles F. Dolan Charitable Remainder Trust; 5,250 shares of Class A Common Stock owned by the Ann H. Dolan Revocable Trust; 762 shares of Class A Common Stock held by his spouse as custodian for a minor child; an aggregate of 2,842,880 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the 2009 Family Trusts, an aggregate of 1,501,208 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the CFD 2010 Grandchildren Trusts; and 109,322 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by Charles F. Dolan 2012 Descendants Trust.

(20) Kathleen M. Dolan and Paul J. Dolan serve as co-trustees and have the shared power to vote and dispose of the 47,864 shares of Class A Common Stock and 918,981 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan Children Trust FBO Kathleen M. Dolan.

(21) Kathleen M. Dolan and Mary S. Dolan serve as co-trustees and have the shared power to vote and dispose of the 47,864 shares of Class A Common Stock and 918,981 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan Children Trust FBO Deborah A. Dolan-Sweeney.

(22) Kathleen M. Dolan and Matthew J. Dolan serve as co-trustees and have the shared power to vote and dispose of the 47,864 shares of Class A Common Stock and 890,802 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan Children Trust FBO Marianne Dolan Weber.

(23) Kathleen M. Dolan and Mary S. Dolan serve as co-trustees and have the shared power to vote and dispose of the 886,015 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan Children Trust FBO Patrick F. Dolan.

(24) Kathleen M. Dolan and Matthew J. Dolan serve as co-trustees and have the shared power to vote and dispose of the 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan Children Trust FBO Thomas C. Dolan.

(25) Kathleen M. Dolan and Paul J. Dolan serve as co-trustees and have the shared power to vote and dispose of the 39,886 shares of Class A Common Stock and 926,958 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan Children Trust FBO James L. Dolan.

(26) Includes 1,337 shares for Mr. Carroll held indirectly through a 401(k); and 400 shares for Kristin A. Dolan held indirectly through a 401(k).

- (27) Does not include restricted stock units and performance restricted stock units granted under the Company's 2011 Employee Stock Plan, which represent a right to receive one share of Class A Common Stock or the cash equivalent thereof. The excluded number of restricted stock units and performance restricted stock units for the following individuals are: Joshua W. Sapan 700,393; Edward A. Carroll 92,377; Sean S. Sullivan 62,279; Charles F. Dolan 25,330; and James G. Gallagher 32,616.
- (28) Mary S. Dolan and David M. Dolan serve as co-trustees and have the shared power to vote and dispose of the 921,125 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan 2009 Family Trust FBO Thomas C. Dolan. Charles F. Dolan may be deemed to share power to direct the disposition of the shares held by the trust because he has the right to substitute assets with the trust, subject to the trustees' reasonable satisfaction that the substitute assets received by the trust are of equal value to the trust property exchanged therefor.
- (29) Mary S. Dolan and David M. Dolan serve as co-trustees and have the shared power to vote and dispose of the 828,245 shares of Class B Common Stock and the equal number of shares of Class A Common Stock issuable upon conversion thereof owned by the Charles F. Dolan 2009 Family Trust FBO James L. Dolan. Charles F. Dolan may be deemed to share power to direct the disposition of the shares held by the trust because he has the right to substitute assets with the trust, subject to the trustees' reasonable satisfaction that the substitute assets received by the trust are of equal value to the trust property exchanged therefor.

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(30)Based upon the most recent Schedule 13G filed with the SEC on February 16, 2016, Clearbridge Investments, LLC, an investment adviser, has sole voting power over 8,519,966 shares of Class A Common Stock and sole dispositive power over 8,689,352 shares of Class A Common Stock.

(31)Based upon the most recent Schedule 13G filed with the SEC on January 12, 2016, Manning & Napier Advisors, LLC, an investment adviser, has sole voting power over 4,794,171 shares of Class A Common Stock and sole dispositive power over 5,486,031 shares of Class A Common Stock.

(32)Based upon the most recent Schedule 13G filed with the SEC on February 10, 2016, The Vanguard Group, an investment adviser, has sole voting power over 44,613 shares of Class A Common Stock and sole dispositive power over 4,098,021 shares of Class A Common Stock.

(33)Based upon the most recent Schedule 13G filed with the SEC on February 10, 2016, BlackRock Inc., a parent holding company, has sole voting power over 3,892,010 shares of Class A Common Stock and sole dispositive power over 4,092,200 shares of Class A Common Stock.

(34)Based upon the most recent Schedule 13G filed with the SEC on February 12, 2016, FMR LLC, a parent holding company, has shared voting power over 0 shares of Class A Common Stock and shared dispositive power over 0 shares of Class A Common Stock.

(35)Based upon the most recent Schedule 13G filed with the SEC on February 16, 2016, AlianceBernstein L.P., an investment management and research firm, has sole voting power over 2,838,389 shares of Class A Common Stock and sole dispositive power over 3,080,351 shares of Class A Common Stock.

Charles F. Dolan, members of his family and related family entities, by virtue of their ownership of Class B Common Stock, are able collectively to control stockholder decisions on matters in which holders of Class A Common Stock and Class B Common Stock vote together as a class, and to elect up to 75% of the Company's Board. In addition, Charles F. Dolan, members of the Dolan family and related family entities have entered into a Class B Stockholders Agreement which has the effect of causing the voting power of these Class B stockholders to be cast as a block on all matters to be voted on by holders of Class B Common Stock.

Charles F. Dolan, all other holders of Class B Common Stock (other than the Charles F. Dolan Children Trusts), the Dolan Children's Foundation, the Dolan Family Foundation and the Company have entered into a registration rights agreement (the Dolan Registration Rights Agreement). Under this agreement, the Company will provide to the parties to the Dolan Registration Rights Agreement (the Dolan Parties) (and, in certain cases, transferees and pledgees of shares of Class B Common Stock owned by these parties) with certain demand and piggy-back registration rights with respect to their shares of Class A Common Stock (including those issued upon conversion of shares of Class B Common Stock). As of March 15, 2016, the Dolan Parties owned approximately 6.0 million shares of Class B Common Stock (the Dolan Shares), which represented approximately 52.4% of our Class B Common Stock, as well as approximately 0.8 million shares of Class A Common Stock, which represented approximately 1.3% of our Class A Common Stock. Such shares of Class B Common Stock and Class A Common Stock, collectively, represented approximately 9.4% of our Common Stock and approximately 34.6% of the aggregate voting power of our Common Stock.

The Charles F. Dolan Children Trusts (the "Children Trusts") and the Company have entered into a registration rights agreement (the "Children Trusts Registration Rights Agreement"). Under this agreement, the Company will provide the Children Trusts (and, in certain cases, transferees and pledgees of shares of Class B Common Stock owned by these parties) with certain demand and piggy-back registration rights with respect to their shares of Class A Common Stock (including those issued upon conversion of shares of Class B Common Stock). As of March 15, 2016, the Children Trusts owned approximately 5.5 million shares of Class B Common Stock (the "Children Trust Shares"), which represented approximately 47.6% of our Class B Common Stock, as well as approximately 0.2 million shares of Class A Common Stock, which represented less than 1% of our Class A Common Stock. Such shares of Class B Common Stock and Class A Common Stock, collectively, represented approximately 7.8% of our Common Stock and approximately 31.2% of the aggregate voting power of our Common Stock.

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In the Children Trusts Registration Rights Agreement, each Children Trust has agreed that in the case of any sale or disposition of its shares of Class B Common Stock (other than to Charles F. Dolan or other Dolan family interests) by such Children Trust, or of any of the Children Trust Shares by any other Dolan family interest to which such shares of Class B Common Stock are transferred, such stock will be converted to Class A Common Stock. The Dolan Registration Rights Agreement does not include a comparable conversion obligation, and the conversion obligation in the Children Trusts Registration Rights Agreement does not apply to the Dolan Shares.

The Dolan Registration Rights Agreement and the Children Trusts Registration Rights Agreement have been included as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2011, and the foregoing discussion of those agreements is qualified in its entirety by reference to those agreements so filed.

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GENERAL INFORMATION

Who may vote at the Annual Meeting?

Holders of our Class A Common Stock and holders of our Class B Common Stock, as recorded in our stock register on April 12, 2016 (the Record Date), may vote at the meeting. On April 12, 2016, there were 61,190,329 shares of Class A Common Stock and 11,484,408 shares of Class B Common Stock outstanding. Each share of Class A Common Stock has one vote per share and holders will be voting for the election of five candidates to the Board of Directors of AMC Networks. Each share of Class B Common Stock has ten votes per share and holders will be voting for the election of eight candidates to the Board. As a result of their ownership of Class B Common Stock, Charles F. Dolan, certain members of his family and certain related family entities, have the power to elect all of the directors to be elected by the holders of Class B Common Stock and to approve Proposals 2, 3 and 4 regardless of how other shares are voted.

Why did I receive a Notice of Internet Availability for Proxy Materials instead of a full set of proxy materials?

Pursuant to rules adopted by the SEC, the Company has elected to provide access to its proxy materials over the Internet. Accordingly, we have sent a Notice of Internet Availability for Proxy Materials (the Notice) to our stockholders. All stockholders have the ability to access the proxy materials on the website referred to in the Notice or request a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive future proxy materials in printed form by mail or electronically by email. The Company encourages stockholders to take advantage of the availability of the proxy materials on the Internet to help reduce the cost and the environmental impact of the annual meeting.

What is householding and how does it affect me?

We have adopted a procedure, approved by the SEC, called householding. Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of this Notice of Annual Meeting and Proxy Statement and the Annual Report on Form 10-K for the year ended December 31, 2015, unless we are notified that one or more of these stockholders wishes to receive individual copies. This procedure will reduce our printing costs and postage fees.

Stockholders who participate in householding will continue to receive separate proxy cards. If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of this Notice of Annual Meeting and Proxy Statement and any accompanying documents, or if you hold AMC Networks stock in more than one account, and in either case you wish to receive only a single copy of each of these documents for your household, please contact our transfer agent, Wells Fargo Shareowner Services, 1110 Centre Pointe Curve, Suite 101, MAC N9173-010, Mendota Heights, MN 55120 or by telephone at 800-468-9716.

If you participate in householding and wish to receive a separate copy of this Notice of Annual Meeting and Proxy Statement and any accompanying documents, or if you do not wish to continue to participate in householding and prefer to receive separate copies of these documents in the future, please contact Wells Fargo Shareowner Services as indicated above.

If you are a beneficial owner, you can request information about householding from your broker, bank or other holder of record.

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How can I get electronic access to the proxy materials?

The Notice provides you with instructions on how to:

View the Company's proxy materials for the annual meeting on the Internet; and

Instruct the Company to send future proxy materials to you electronically by email. The Company's proxy materials are also available at <http://www.proxyvote.com>.

Choosing to receive future proxy materials by email will save the Company the cost of printing and mailing documents to you and will reduce the impact of the Company's annual meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by email will remain in effect until you revoke it.

What is the difference between a stockholder of record and a beneficial owner of shares held in street name?

Stockholder of Record. If your shares are registered directly in your name with the Company's transfer agent, Wells Fargo Shareowner Services, you are considered a stockholder of record with respect to those shares, and the Notice was sent directly to you by the Company. If you request printed copies of the proxy materials by mail, you will receive a proxy card.

Beneficial Owner of Shares Held in Street Name. If your shares are held in an account at a brokerage firm, bank, broker-dealer or other similar organization, then you are a beneficial owner of shares held in street name, and the Notice was forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to instruct that organization how to vote the shares held in your account. If you request printed copies of the proxy materials by mail, you will receive a voting instruction form from that organization.

How do I vote?

You may vote in advance of the annual meeting by telephone, over the Internet or by a proxy. You may also vote in person at the meeting. If you choose to vote by mail, please sign and return the proxy card in the envelope provided. We recommend you vote by proxy even if you plan to attend the meeting. You can always change your vote at the meeting.

What votes need to be present to hold the Annual Meeting?

In order to carry on the business of the Annual Meeting, we need a majority of the votes represented by the shares of the Company's Class A Common Stock and Class B Common Stock outstanding on April 12, 2016 to be present, in person or by proxy. If voting on a particular action is by class, a majority of the votes represented by the outstanding shares of such class is required for such action.

Can my broker vote my shares without instructions from me?

If you are a beneficial owner whose shares are held of record by a broker, you must instruct your broker how to vote your shares. If you do not provide voting instructions, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a broker non-vote. In these cases, the broker can register your shares as being present at the annual meeting but will not be able to vote on those matters for which specific authorization is required under applicable rules.

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If you are a beneficial owner whose shares are held of record by a broker, your broker has discretionary voting authority under applicable rules to vote your shares on the ratification of KPMG as the Company's independent registered public accounting firm, even if the broker does not receive voting instructions from you. However, your broker does not have discretionary authority to vote on the election of directors, or Proposals 3 or 4 without instructions from you, in which case a broker non-vote will occur and your shares will not be voted on these matters.

What is the voting requirement to approve each of the proposals?

Election of directors by the holders of Class A Common Stock requires the affirmative vote of the plurality of votes cast by holders of Class A Common Stock. Election of directors by the holders of Class B Common Stock requires the affirmative vote of the plurality of votes cast by holders of Class B Common Stock. Approval of Proposals 2, 3 and 4 requires the favorable vote of a majority of the votes cast by the holders of Class A Common Stock and holders of Class B Common Stock, voting together as a single class. Abstentions and broker non-votes will not affect the outcome of Proposal 1 because abstentions and broker non-votes are not considered votes cast. As a result of their ownership of Class B Common Stock, Charles F. Dolan, members of his family and certain related family entities, have the power to elect all of the directors to be elected by the holders of Class B Common Stock, and to approve Proposals 2, 3 and 4 regardless of how other shares are voted.

Can I change my vote after I have voted?

You may revoke your proxy and change your vote at any time before the final vote at the annual meeting. You may re-vote via the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the annual meeting will be counted), by signing and returning a new proxy card or voting instruction form with a later date, or by attending the annual meeting and voting in person. However, your attendance at the annual meeting will not automatically revoke your proxy unless you vote again at the annual meeting or specifically request that your prior proxy be revoked by delivering a written notice of revocation prior to the annual meeting to AMC Networks Inc., 11 Penn Plaza, New York, NY 10001, Attention: Corporate Secretary.

How will my shares be voted at the Annual Meeting?

The Company representatives appointed by the Board (the persons named in the proxy card, or, if applicable, their substitutes) will vote your shares as you instruct. If you sign your proxy card and return it without indicating how you would like to vote your shares, your shares will be voted as the Board recommends, which is:

| Item | Matter to be Voted on | Board Recommendation |
|-------------|---|-----------------------------|
| Proposal 1 | Election of Directors (as applicable based on whether you are a holder of Class A Common Stock or Class B Common Stock) | FOR |
| Proposal 2 | Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2016 | FOR |
| Proposal 3 | Approval of the Company's 2016 Employee Stock Plan | FOR |
| Proposal 4 | Approval of the Company's 2016 Executive Cash Incentive Plan | FOR |

Who pays for this solicitation?

This solicitation is being made by the Company, and the Company will bear the expense of preparing, printing and mailing this proxy statement and the accompanying material. Solicitation of individual stockholders may be made by

mail, personal interviews, telephone, facsimile, electronic delivery or other telecommunications

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by our officers and regular employees who will receive no additional compensation for such activities. In addition, we have retained D.F. King & Co., Inc. to solicit proxies at a cost of \$15,000 plus reimbursement for out-of-pocket expenses. We will reimburse brokers and other nominees for their expenses in forwarding solicitation material to beneficial owners.

How do I attend the Annual Meeting in person? What do I need to bring?

An admission ticket will be required if you desire to attend the annual meeting in person. To be admitted to the 2016 annual meeting, you must have been a stockholder at the close of business on the Record Date or be the legal proxy holder or qualified representative of a stockholder, and bring with you your admission ticket and a valid government-issued photo identification card (federal, state or local), such as a driver's license or passport. Persons without an admission ticket or proper identification may be denied admission to the annual meeting.

To obtain an admission ticket, go to www.proxyvote.com or call 844-318-0137. You will need to enter your 16-digit control number, which can be found on your Notice of Internet Availability of Proxy Materials, voter instruction form and proxy card. The deadline to obtain an admission ticket is 5:00 p.m. Eastern Daylight Time, on May 31, 2016. For questions about admission to the annual meeting, please call 844-318-0137.

Please note that you will need your ticket to be admitted to the meeting whether you vote before or at the meeting, and regardless of whether you are a registered or beneficial stockholder. If you are attending the meeting as a proxy or qualified representative for a stockholder, you will need to bring your legal proxy or authorization letter, in addition to your admission ticket and government-issued photo identification card.

Stockholders must provide advance written notice to the Company if they intend to have a legal proxy (other than the persons appointed as proxies on the Company's proxy card) or qualified representative attend the annual meeting on their behalf. The notice must include the name and address of the legal proxy or qualified representative and must be received by 5:00 p.m. Eastern Daylight Time, on May 31, 2016 in order to allow enough time for the issuance of an admission ticket to such person. For further details, see Other Matters, Advance Notice of Proxy Holders and Qualified Representatives.

Please note that cameras, video and audio recording equipment and other similar electronic devices, as well as large bags (including large handbags and briefcases) and packages will need to be checked at the door. Additionally, the Company may impose additional restrictions on items that must be checked at the door as well as the conduct of the meeting. To ensure the safety of all persons, attendees may also be subject to security inspections.

Requests for admission tickets will be processed in the order received. Please note that seating is limited, and requests for tickets will be handled on a first-come, first-served basis.

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OTHER MATTERS

Matters To Be Raised At The 2016 Annual Meeting Not Included In This Proxy Statement

We do not know of any matters to be acted upon at the meeting other than those discussed in this proxy statement. If any other matter is properly presented, proxy holders will vote on the matter in their discretion.

Advance Notice of Proxy Holders and Qualified Representatives

Stockholders must provide advance written notice to the Company if they intend to have a legal proxy (other than the persons appointed as proxies on the Company's proxy card) or qualified representative attend the annual meeting on their behalf. The notice must include the name and address of the legal proxy or qualified representative and must be received by 5:00 p.m. on May 31, 2016 in order to allow enough time for the issuance of an admission ticket to such person. Notices should be directed to AMC Networks Inc., Corporate Secretary, 11 Penn Plaza, New York, New York 10001.

Stockholder Proposals for 2017 Annual Meeting

Stockholders who, in accordance with Rule 14a-8 of the Exchange Act, wish to present proposals at our 2017 annual meeting and wish to have those proposals included in the proxy materials to be distributed by us in connection with our 2017 annual meeting must submit their proposals to AMC Networks Inc., 11 Penn Plaza, New York, NY 10001; Attention: Corporate Secretary on or before December 29, 2016. Any such proposal must meet the requirements set forth in the rules and regulations of the SEC, including Rule 14a-8, in order for such proposal to be eligible for inclusion in our 2017 proxy statement.

In accordance with our Amended By-Laws, in order for proposals to be properly brought before the 2017 annual meeting, notice of any proposal to be presented by any stockholder must be delivered to AMC Networks Inc., 11 Penn Plaza, New York, NY 10001; Attention: Corporate Secretary, not less than 60 nor more than 90 days prior to the date of the annual meeting. If, however, the date of the meeting is publicly announced or disclosed less than 70 days prior to the date of the meeting, such notice must be given not more than ten days after such date is first announced or disclosed. Any stockholder who gives notice of any such proposal shall deliver the text of the proposal to be presented and a brief written statement of the reasons why such stockholder favors the proposal and set forth the stockholder's name and address, the number and class of all shares of each class of stock of the Company beneficially owned by the stockholder and any material interest of such stockholder in the proposal (other than as a stockholder). Any stockholder desiring to nominate any person for election as a director of the Company shall deliver with such notice a statement in writing setting forth the name of the person to be nominated, the number and class of all shares of each class of stock of the Company beneficially owned by such person, the information regarding such person required by Item 401 of Regulation S-K adopted by the SEC (or the corresponding provisions of any regulation subsequently adopted by the SEC applicable to the Company), such person's signed consent to serve as a director of the Company if elected, such stockholder's name and address and the number and class of all shares of each class of stock of the Company beneficially owned by the stockholder.

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Annual Report on Form 10-K

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, will be sent to any stockholder, without charge, by regular mail or by e-mail upon written request addressed to AMC Networks Inc., 11 Penn Plaza, New York, NY 10001; Attention: Corporate Secretary. You also may obtain our Annual Report on Form 10-K over the Internet at the Securities and Exchange Commission's website, www.sec.gov, or at www.amcnetworks.com by clicking on Investors, then Financial Information and follow the link from our SEC Filings page.

Anne G. Kelly
Senior Vice President and Secretary

New York, New York

April 28, 2016

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APPENDIX A

AMC Networks Inc. 2016 Employee Stock Plan

1. **Purpose.** The purpose of the AMC Networks Inc. 2016 Employee Stock Plan is to compensate employees of the Company and its Affiliates who are and have been largely responsible for the management and growth of the business of the Company and its Affiliates and to advance the interests of the Company by encouraging and enabling the acquisition of a personal proprietary interest in the Company by employees upon whose judgment and keen interest the Company and its Affiliates are largely dependent for the successful conduct of their operations. It is anticipated that such compensation and the acquisition of such proprietary interest in the Company will stimulate the efforts of such employees on behalf of the Company and its Affiliates, and strengthen their desire to remain with the Company and its Affiliates. It is also expected that such compensation and the opportunity to acquire such a proprietary interest will enable the Company and its Affiliates to attract and retain desirable personnel.

This Plan replaces the AMC Networks, Inc. Amended and Restated 2011 Employee Stock Plan (as amended to the Effective Date, the Prior Plan) for Awards granted on or after the effective date set forth in Section 23 (the Effective Date). Awards may not be granted under the Prior Plan beginning on the Effective Date, but this Plan will not affect the terms or conditions of any option, stock appreciation right, restricted share or restricted stock unit or other award made under the Prior Plan before the Effective Date except as provided in Section 5.

2. **Definitions.** When used in this Plan, unless the context otherwise requires:

(a) **Affiliate** shall mean (i) any Entity controlling, controlled by, or under common control with the Company or any other Affiliate and (ii) any Entity in which the Company owns at least five percent of the outstanding equity interests of such Entity.

(b) **Award** shall mean an Option, Right, Restricted Share or Restricted Stock Unit or other equity based award which is granted or made under the Plan.

(c) **Award Agreement** shall mean an agreement which may be entered into by a Participant under the Plan and the Company, setting forth the terms and provisions applicable to Awards granted to such Participant.

(d) **Board of Directors** shall mean the Board of Directors of the Company, as constituted at any time.

(e) **Committee** shall mean the Compensation Committee of the Board of Directors, as described in Section 3.

(f) **Company** shall mean AMC Networks Inc., a Delaware corporation.

(g) **Consent** shall mean (i) any listing, registration or qualification requirement in respect of an Award or Share with respect to any securities exchange or under any federal, state or local law, rule or regulation, (ii) any and all written agreements and representations by the Participant with respect to the disposition of Shares, or with respect to any other matter, which the Committee may deem necessary or desirable to comply with the terms of any such listing, registration or qualification requirement or to obtain an exemption therefrom, (iii) any and all other consents, clearances and approvals in respect of an action under the Plan by any governmental or other regulatory body or any stock exchange or self-regulatory agency, (iv) any and all consents by the Participant to (A) the Company's supplying to any third party recordkeeper of the Plan such personal information as the Committee deems advisable to administer the Plan and (B) the Company's imposing sales and transfer procedures and restrictions on Shares delivered under the Plan and (v) any and all other consents or authorizations required to comply with, or required to be obtained under

law.

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- (h) Entity shall mean any business, corporation, partnership, limited liability company or other entity.
- (i) Fair Market Value on a specified date shall mean the closing price for a Share on the stock exchange, if any, on which such Shares are primarily traded, but if no Shares were traded on such date, the average of the bid and asked closing prices at which one Share is traded on the over-the-counter market, as reported on the NASDAQ Stock Market or any other stock exchange on which the Shares may be traded, or, if none of the above is applicable, the value of a Share as established by the Committee for such date using any reasonable method of valuation. Notwithstanding the generality of the foregoing, if the Company has established an electronic exercise program with a broker for the exercise of Options or Rights and the Shares underlying the Options are publicly traded, the Fair Market Value of a Share for purposes of net cashless exercise and withholding taxes shall be the price of a Share on such stock exchange at the time of exercise.
- (j) GAAP shall mean accounting principles generally accepted in the United States of America.
- (k) Internal Revenue Code shall mean the Internal Revenue Code of 1986, as amended.
- (l) Options shall mean the stock options granted pursuant to Section 6 hereof.
- (m) Participant shall mean any employee or former employee of the Company or any Affiliate who holds an outstanding Award granted under the Plan.
- (n) Performance Criteria shall mean a goal or goals established by the Committee and measured over a period or periods selected by the Committee, such goal(s) to constitute a requirement that must be met in connection with the vesting, exercise and/or payment of an Award under the Plan as specified by the Committee. To the extent that an Award of Restricted Shares or Restricted Stock Units or another stock based award (other than Options and Rights) is intended to satisfy the requirements for deductibility under Section 162(m) of the Internal Revenue Code, the payment of the Award will be conditioned on the satisfaction of one or more of the performance criteria listed below over a period or periods selected by the Compensation Committee. The performance criteria may be determined by reference to the performance of the Company, an Affiliate or a business unit, product, production, network or service thereof or any combination of the foregoing. Such criteria may also be measured on a per customer, subscriber, viewer (or available viewer), basic or diluted share basis or any combination of the foregoing and may reflect absolute performance, incremental performance or comparative performance to other companies (or their products or services) determined on a gross, net, GAAP or non-GAAP basis, with respect to one or more of the following: (i) net or operating income or other measures of profit; (ii) measures of revenue; (iii) earnings before interest, taxes, depreciation and amortization (EBITDA); (iv) cash flow, free cash flow, adjusted operating cash flow (AOCF), unlevered free cash flow, cash flow from operations and similar measures; (v) return on equity, investment, assets or capital; (vi) gross or operating margins or savings; (vii) performance relative to budget, forecast or market expectations; (viii) market share or penetration, subscriber or customer acquisition or retention, ratings or viewership; (ix) operating metrics relating to sales, subscriptions or customer service or satisfaction; (x) capital spending management or product or service deployments; (xi) achievement of strategic business objectives such as acquisitions, dispositions or investments; (xii) a specified increase in the fair market value of the Shares; (xiii) a specified increase in the private market value of the Company; (xiv) the Share price; (xv) earnings per share; and/or (xvi) total shareholder return.
- (o) Plan shall mean this AMC Networks Inc. 2016 Employee Stock Plan, as amended from time to time.
- (p) Restricted Period shall mean the period of time during which Restrictions shall apply to a Restricted Share, as determined by the Committee pursuant to Section 9 hereof.

(q) Restricted Shares shall mean the Shares awarded pursuant to Section 9 hereof that are subject to restrictions upon their sale, assignment, transfer, pledge or other disposal or encumbrance as determined by the Committee.

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(r) Restricted Stock Units shall mean awards made pursuant to Section 10 hereof, each such unit representing an unfunded and unsecured promise to deliver a Share (or cash or other property equal in value to the Share).

(s) Restrictions shall mean the restrictions upon sale, assignment, transfer, pledge or other disposal or encumbrance on a Restricted Share as determined by the Committee in respect of an Award of a Restricted Share pursuant to Section 9 hereof.

(t) Rights shall mean stock appreciation rights granted pursuant to Section 7 hereof.

(u) Share shall mean a share of AMC Networks Inc. Class A Common Stock, par value \$0.01 per share.

(v) Subsidiary shall mean any subsidiary corporation, as defined in Section 424(f) of the Internal Revenue Code.

3. Administration. (a) The Plan shall be administered by the Committee, which shall consist of at least the minimum number of members of the Board of Directors required by Section 162(m) of the Internal Revenue Code. Such members shall be appointed by, and shall serve at the pleasure of, the Board of Directors. Except as otherwise determined by the Board of Directors, the members of the Committee shall be non-employee directors as defined in Rule 16b-3 of the Securities Exchange Act of 1934 (the Exchange Act), and outside directors to the extent required by Section 162(m) of the Internal Revenue Code; provided, however, that the failure of the Committee to be so comprised shall not cause any Award to be invalid. The Committee may delegate any of its powers under the Plan to a subcommittee of the Committee (which hereinafter shall also be referred to as the Committee). The Committee may also delegate (i) to any person who is not a member of the Committee or (ii) to any administrative group within the Company, any of its powers, responsibilities or duties. In delegating its authority, the Committee shall consider the extent to which any delegation may cause Awards to fail to be deductible under Section 162(m) of the Internal Revenue Code or to fail to meet the requirements of Rule 16(b)-3(c)(1) or Rule 16b-3(d) under the Exchange Act.

(b) The Committee shall have full authority, subject to the terms of the Plan (including Section 19), to (a) exercise all of the powers granted to it under the Plan, (b) construe, interpret and implement the Plan and all Awards and Award Agreements, (c) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing its own operations, (d) make all determinations necessary or advisable in administering the Plan, (e) correct any defect, supply any omission and reconcile any inconsistency in the Plan, (f) amend the Plan, (g) grant Awards and determine who shall receive Awards and the terms and conditions of such Awards, including, but not limited to, conditioning the exercise, vesting, payout or other term or condition of an Award on the achievement of Performance Criteria, (h) amend any outstanding Award in any respect, including, without limitation, to (1) accelerate the time or times at which the Award becomes vested or unrestricted or may be exercised or at which Shares are delivered under the Award (and, without limitation on the Committee's rights, in connection with such acceleration, the Committee may provide that any Shares delivered pursuant to such Award shall be Restricted Shares, which are subject to vesting, transfer, forfeiture or repayment provisions similar to those in the Participant's underlying Award) or (2) waive or amend any goals, restrictions, conditions or Performance Criteria (subject to the requirements of Section 162(m) of the Internal Revenue Code, if applicable to the Award) applicable to such Award, or impose new goals or restrictions and (i) determine at any time whether, to what extent and under what circumstances and method or methods (1) Awards may be (A) settled in cash, Shares, other securities, other Awards or other property, (B) exercised or (C) canceled, forfeited or suspended or (2) Shares, other securities, cash, other Awards or other property and other amounts payable with respect to an Award may be deferred either automatically or at the election of the participant or of the Committee. Subject to the requirements of Section 162(m) of the Internal Revenue Code, if applicable to the Award, the enumeration of the foregoing powers is not intended and should not be construed to limit in any way the authority of the Committee under the Plan which is intended, to the fullest extent permitted by law, to be

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plenary. The Plan, and all such rules, regulations, determinations and interpretations, shall be binding and conclusive upon the Company, its stockholders and all Participants, and upon their respective legal representatives, heirs, beneficiaries, successors and assigns and upon all other persons claiming under or through any of them.

(c) No member of the Board of Directors or the Committee or any employee of the Company or any of its Affiliates (each such person a Covered Person) shall have any liability to any person (including, without limitation, any Participant) for any action taken or omitted to be taken or any determination made in good faith with respect to the Plan or any Award. Each Covered Person shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense (including attorneys' fees) that may be imposed upon or incurred by such Covered Person in connection with or resulting from any action, suit or proceeding to which such Covered Person may be a party or in which such Covered Person may be involved by reason of any action taken or omitted to be taken under the Plan and against and from any and all amounts paid by such Covered Person, with the Company's approval, in settlement thereof, or paid by such Covered Person in satisfaction of any judgment in any such action, suit or proceeding against such Covered Person; provided that, the Company shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once the Company gives notice of its intent to assume the defense, the Company shall have sole control over such defense with counsel of the Company's choice. The foregoing right of indemnification shall not be available to a Covered Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Covered Person giving rise to the indemnification claim resulted from such Covered Person's bad faith, fraud or willful criminal act or omission. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Covered Persons may be entitled under the Company's Certificate of Incorporation or By-laws, as a matter of law, by agreement or otherwise, or any other power that the Company may have to indemnify such persons or hold them harmless.

4. **Participants.** Except as hereinafter provided, all employees of the Company and its Affiliates shall be eligible to receive Awards under the Plan, except that Options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code shall be granted only to employees of the Company or a Subsidiary. Nothing herein contained shall be construed to prevent the making of one or more Awards at the same or different times to the same employee.

5. **Share Limitations.** (a) The Committee may make Awards under this Plan for up to an aggregate number of 7,000,000 Shares, which may be either treasury Shares or authorized but unissued Shares. To the extent that (i) an Award shall be paid, settled or exchanged or shall expire, lapse, terminate or be cancelled for any reason, in whole or in part, without the issuance of Shares, (ii) any Shares under an Award are not issued because of payment or withholding obligations or (iii) Restricted Shares shall revert back to the Company prior to the lapse of the Restrictions or be applied by the Company for purposes of tax withholding obligations, then the Committee may also grant Awards with respect to such Shares or Restricted Shares. To the extent that the number of performance-vested restricted stock units that vest under awards that the Company granted under the Prior Plan in 2016 result in the delivery by the Company of Shares exceeding the number of Shares that may be issued under the Prior Plan (the Prior Plan Limit), then the number of Shares that exceed the Prior Plan Limit shall be counted against the Share limit under this Plan. Awards payable only in cash or property other than Shares shall not reduce the aggregate remaining number of Shares with respect to which Awards may be made under the Plan and Shares relating to any other Awards that are settled in cash or property other than Shares, when settled, shall be added back to the aggregate remaining number of Shares with respect to which Awards may be made under the Plan. The maximum number of Shares that may be issued under the Plan shall be adjusted by the Committee as appropriate to account for the events provided for in Section 12 hereof. Any Shares with respect to which the Company becomes obligated to make Awards through the assumption of, or in substitution for, outstanding awards previously granted by an acquired entity, shall not count against the Shares available to be delivered pursuant to Awards under this Plan.

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(b) In no event shall any Participant be granted Awards during any one (1) calendar year for, or that relate to, an aggregate number of Shares exceeding 2,000,000. The maximum number of Shares underlying Awards that may be granted to an individual in any one (1) calendar year under the Plan shall be adjusted by the Committee as appropriate to account for the events provided for in Section 12 hereof.

(c) If, after the Effective Date, the Company creates a new class of capital stock (a new class), then the Committee may grant Awards for shares of the new class. Each share of the new class granted pursuant to an Award shall count against the Share limitation in Section 5(a) as one Share (or such other number as equitably determined by the Committee). Effective as of the date on which any new class is created by an amendment to the Company's Amended and Restated Certificate of Incorporation, Share shall mean a share of AMC Networks Inc. Class A Common Stock, par value \$0.01 per share, or a share of such new class, as applicable.

6. **Options.** Options granted under the Plan shall be either incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, or non-qualified options, as determined by the Committee in its sole discretion.

(a) **Terms and Conditions.** The form, terms and conditions of each Option shall be determined by the Committee and shall be set forth in an Award Agreement. Such terms and conditions may include, without limitation, provisions relating to the vesting and exercisability of such Options as well as the conditions or circumstances upon which such Options may be accelerated, extended, forfeited or otherwise modified. The Committee may, in its sole discretion, establish one or more conditions to the vesting or exercise of an Option including, without limitation, conditions the satisfaction of which are measured by Performance Criteria; provided that, if such Option is designated as an incentive stock option, then such condition or conditions shall not be inconsistent with Section 422 of the Internal Revenue Code. Unless the Award Agreement specifies that the Option is an incentive stock option, it shall be a non-qualified stock option. All or any part of any Options granted to any Participant may be made exercisable upon the occurrence of such special circumstances or events as determined in the sole discretion of the Committee.

(b) **Exercise Price for Options.** The exercise price per Share of the Shares to be purchased pursuant to any Option shall be fixed by the Committee at the time an Option is granted, but in no event shall it be less than the Fair Market Value of a Share on the day on which the Option is granted. Such exercise price shall thereafter be subject to adjustment as required by the Award Agreement relating to each Option or Section 12 hereof.

(c) **Duration of Options.** The duration of any Option granted under this Plan shall be for a period fixed by the Committee but shall, except as described in the next sentence, in no event be more than ten (10) years. Notwithstanding the foregoing, an Award Agreement may provide that, in the event the Participant dies while the Option is outstanding, the Option will remain outstanding until the first anniversary of the Participant's date of death, and whether or not such first anniversary occurs prior to or following the expiration of ten (10) years from the date the Option was granted.

(d) **Incentive Stock Options Granted to Ten Percent Stockholders.** To the extent required by Section 422 of the Internal Revenue Code, no Option which is intended to qualify as an incentive stock option shall be granted under this Plan to any employee who, at the time the Option is granted, owns, or is considered owning, within the meaning of Section 422 of the Internal Revenue Code, shares possessing more than ten percent (10%) of the total combined voting power or value of all classes of stock of the Company or any Subsidiary, unless the exercise price under such Option is at least one hundred and ten percent (110%) of the Fair Market Value of a Share on the date such Option is granted and the duration of such option is no more than five (5) years.

(e) **Initial Exercisability Limitation.** The aggregate Fair Market Value (determined at the time that an Option is granted) of the Shares with respect to incentive stock options granted in any calendar year under all stock option plans

of the Company or any corporation which (at the time of the granting of such incentive stock

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option) was a parent or Subsidiary of the Company, or of any predecessor corporation of any such corporation, which are exercisable for the first time by a Participant during any calendar year shall not exceed \$100,000, or, if different, the maximum allowed under Section 422 of the Internal Revenue Code.

(f) **Settlement of an Option.** When an Option is exercised pursuant to Section 8 hereof, the Committee, in its sole discretion, may elect, in lieu of issuing Shares pursuant to the terms of the Option, to settle the Option by paying the Participant an amount equal to the product obtained by multiplying (i) the excess of the Fair Market Value of one Share on the date the Option is exercised over the exercise price of the Option (the Option Spread) by (ii) the number of Shares with respect to which the Option is exercised. The amount payable to the Participant in these circumstances shall be paid by the Company either in cash or in Shares having a Fair Market Value equal to the Option Spread, or a combination thereof, as the Committee shall determine at the time the Option is exercised or at the time the Option is granted.

7. **Rights.** The Committee may grant to employees the right to receive such number of Rights, as determined by the Committee in its sole discretion.

(a) **Terms and Conditions.** The form, terms and conditions of each Right shall be determined by the Committee and shall be set forth in an Award Agreement. Such terms and conditions may include, without limitation, provisions relating to the vesting and exercisability of such Rights as well as the conditions or circumstances upon which such Rights may be accelerated, extended, forfeited or otherwise modified. The Committee may, in its sole discretion, establish one or more conditions to the vesting or exercise of a Right including, without limitation, conditions the satisfaction of which are measured by Performance Criteria. All or any part of any outstanding Rights granted to any Participant may be made exercisable upon the occurrence of such special circumstances or events as determined in the sole discretion of the Committee.

(b) **Exercise Price for Rights.** The exercise price of each Right shall be fixed by the Committee at the time a Right is granted, but in no event shall it be less than the Fair Market Value of a Share on the day on which the Right is granted. Such exercise price shall thereafter be subject to adjustment as required by the Award Agreement relating to each Right or Section 12 hereof.

(c) **Duration of Rights.** The duration of any Right granted under this Plan shall be for a period fixed by the Committee but shall, except as described in the next sentence, in no event be more than ten (10) years. Notwithstanding the foregoing, an Award Agreement may provide that, in the event the Participant dies while the Right is outstanding, the Right will remain outstanding until the first anniversary of the Participant's date of death, and whether or not such first anniversary occurs prior to or following the expiration of ten (10) years from the date the Right was granted.

(d) **Settlement of Rights.** Upon the exercise of any Rights, the Participant shall be entitled to receive from the Company an amount equal to the product obtained by multiplying (i) the excess of the Fair Market Value of one Share on the date the Rights are exercised over the exercise price of the related Right by (ii) the number of Shares to which such Rights are related. Such amount shall be paid in cash, in Shares having a Fair Market Value equal to such amount, or a combination of cash and Shares, as the Committee shall determine at the time the Right is exercised or at the time the Right is granted.

8. **Exercise of Options and Rights.** (a) An Option or Right shall be exercised by the delivery to any person who has been designated by the Company for the purpose of receiving the same, of a written notice duly signed by the Participant (or the representative of the estate or the heirs of a deceased Participant) to such effect (or electronic notice in a manner, if any, previously approved by the Company). Unless the Company chooses to settle an Option in cash, Shares or a combination thereof pursuant to Section 6(f) hereof, the Participant shall be required to deliver to the

Company, within five (5) days of the delivery of the notice described above, either cash, a check payable to the order of the Company, Shares duly endorsed over to the Company (which Shares shall be valued at their Fair Market Value as of the date preceding the day of such exercise) or any combination of such

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methods of payment, which together amount to the full exercise price of the Shares purchased pursuant to the exercise of the Option. Notwithstanding the preceding sentence, the Company may establish an electronic exercise program with a broker and the Company and the Participant may agree upon any other reasonable manner of providing for payment of the exercise price of the Option.

(b) Except to the extent the Committee chooses to settle any Option or Right in cash pursuant to Section 6(f) or 7(d) hereof, within a reasonable time after exercise of an Option or Right the Company shall either issue to the Participant a certificate representing the Shares purchased pursuant to the exercise of the Option or Right or credit the number of such Shares to a book-entry account. To the extent the Committee chooses to settle any Option or Right in cash pursuant to Section 6(f) or 7(d), within a reasonable time after exercise of an Option or Right the Company shall cause to be delivered to the person entitled thereto a payment for the amount payable pursuant to the exercise of the Option or Right.

9. ***Restricted Shares***. The Committee may grant to employees the right to receive such number of Restricted Shares, as determined by the Committee in its sole discretion.

(a) ***Issuance; Terms and Conditions***. The form, terms and conditions of each Restricted Share shall be determined by the Committee and shall be set forth in an Award Agreement. Such terms and conditions may include, without limitation, the Restrictions upon such Restricted Shares, the dates as of which Restrictions upon such Restricted Shares will cease, and the conditions or circumstances upon which such Restricted Shares will be forfeited or otherwise modified. The Committee may, in its sole discretion, establish one or more Restrictions to the vesting of a Restricted Share that relate to the satisfaction of Performance Criteria.

(b) ***Payment of Par Value***. To the extent a Participant is required by law to pay to the Company the par value of a Restricted Share, such Participant shall have forty-five (45) business days from the date of such grant to pay to the Company, in cash or by check, an amount equal to the par value of a Share multiplied by the number of Shares or Restricted Shares which have been granted to the employee by the Committee. In such instances, if the Participant fails to make payment to the Company for such Shares or Restricted Shares within forty-five (45) business days of the grant thereof, the Company shall withhold, or shall cause to be withheld, the amount of such payment from compensation otherwise due the employee from the Company or any Affiliate. Unless the Committee determines otherwise, a Participant's prior service with the Company or any of its Affiliates shall be deemed sufficient consideration for such Restricted Shares and no payment therefore (including, without limitation, for the par value of the Restricted Shares) shall be due from the Participant. Subject to the provisions of Section 15 hereof, the Committee, in its sole discretion, shall either issue to the employee a certificate representing such Restricted Shares or credit the number of such Restricted Shares to a book-entry account upon the payment due, if any, pursuant to this paragraph.

(c) ***Restriction on Shares***. In no event shall a Restricted Share be sold, assigned, transferred, pledged or otherwise disposed of or encumbered until the expiration of the Restricted Period which relates to such Restricted Share. All or any part of any outstanding Restricted Shares granted to any Participant may be vested in full and the Restrictions thereon shall lapse upon the occurrence of such special circumstances or events as determined in the sole discretion of the Committee.

(d) ***Forfeiture of Restricted Shares***. If Restricted Shares are forfeited pursuant to the terms of the Plan or an Award Agreement, such Restricted Shares shall revert back and belong to the Company. In the event that any Restricted Shares should be forfeited by the Participant, revert back and belong to the Company, any stock certificate or certificates representing such Restricted Shares shall be cancelled and the Restricted Shares shall be returned to the treasury of the Company. Upon the reversion of such Restricted Shares, the Company shall repay to the employee or (in the case of death) to the representative of the employee's estate, the full cash amount paid, if any, to the Company

by the employee for such Restricted Shares pursuant to Section 9(b) hereof.

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(e) ***Right to Vote and Receive Dividends on Restricted Shares.*** Each Participant shall, during the Restricted Period, be the beneficial and record owner of such Restricted Shares and shall have full voting rights with respect thereto. Unless the Committee determines otherwise, during the Restricted Period, all ordinary cash dividends (as determined by the Committee in its sole discretion) paid upon any Restricted Share shall be retained by the Company for the account of the relevant Participant. Such dividends shall revert back to the Company if for any reason the Restricted Share upon which such dividends were paid reverts back to the Company. Upon the expiration of the Restricted Period, all such dividends made on such Restricted Share and retained by the Company will be paid to the relevant Participant.

10. ***Restricted Stock Units.*** The Committee may grant employees such number of Restricted Stock Units as it may determine in its sole discretion.

(a) ***Terms and Conditions.*** The form, terms and conditions of each Restricted Stock Unit shall be determined by the Committee and shall be set forth in an Award Agreement. Such terms and conditions may include, without limitation, the conditions or circumstances upon which such Restricted Stock Unit will be paid, forfeited or otherwise modified, and the date or dates upon which any Shares, cash or other property shall be delivered to the Participant in respect of the Restricted Stock Units. The Committee may, in its sole discretion, establish one or more conditions to the vesting of a Restricted Stock Unit including, without limitation, conditions the satisfaction of which are measured by Performance Criteria. All or any part of any outstanding Restricted Stock Unit granted to any Participant may be vested in full or paid upon the occurrence of such special circumstances or events as determined in the sole discretion of the Committee.

(b) ***Settlement of Restricted Stock Units.*** The Committee, in its sole discretion, may instruct the Company to pay on the date when Shares would otherwise be issued pursuant to a Restricted Stock Unit, in lieu of such Shares, a cash amount equal to the number of such Shares multiplied by the Fair Market Value of a Share on the date when Shares would otherwise have been issued. If a Participant is entitled to receive other stock, securities or other property as a result of an adjustment, pursuant to Section 12 hereof, the Committee, in its sole discretion, may instruct the Company to pay, in lieu of such other stock, securities or other property, cash equal to the fair market value thereof as determined in good faith by the Committee. Until the delivery of such Shares, cash, securities or other property, the rights of a Participant with respect to a Restricted Stock Unit shall be only those of a general unsecured creditor of the Company.

(c) ***Right to Receive Dividends on Restricted Stock Units.*** Unless the Committee determines otherwise, during the period prior to payment of the Restricted Stock Unit, all ordinary cash dividends (as determined by the Committee in its sole discretion) that would have been paid upon any Share underlying a Restricted Stock Unit had such Shares been issued shall be paid only at the time and to the extent such Restricted Stock Unit is vested.

11. ***Grant of Other Stock-Based Awards.*** The Committee may grant other types of equity-based or equity-related Awards (including unrestricted Shares) in such amounts and subject to such terms and conditions as the Committee shall determine. Such Awards may entail the transfer of actual Shares, or payment in cash or otherwise of amounts based on the value of Shares.

12. ***Certain Adjustments.*** (a) In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, forward or reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects Shares such that the failure to make an adjustment to an Award would not fairly protect the rights represented by the Award in accordance with the essential intent and principles thereof (each such event, an Adjustment Event), then the Committee shall, in such manner as it may determine to be equitable in its sole discretion,

adjust any or all of the terms of an outstanding Award (including, without limitation, the number of Shares covered by such outstanding Award, the type of property to which the Award is subject and the exercise price of such Award). In determining adjustments to be made under this Section 12(a), the Committee may take into account such factors as it determines to be appropriate, including without limitation

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(i) the provisions of applicable law and (ii) the potential tax or accounting consequences of an adjustment (or not making an adjustment) and, in light of such factors or others, may make adjustments that are not uniform or proportionate among outstanding Awards.

(b) ***Fractional Shares or Securities.*** Any fractional shares or securities payable upon the exercise of an Award as a result of an adjustment pursuant to this Section 12 shall, at the election of the Committee, be payable in cash, Shares, or a combination thereof, on such bases as the Committee may determine in its sole discretion.

13. ***No Rights of a Stockholder.*** A Participant shall not be deemed to be the holder of, or have any of the rights of a stockholder with respect to, any Shares subject to Options, Rights or Restricted Stock Units unless and until the Company shall have issued and delivered Shares to the Participant and said Participant's name shall have been entered as a stockholder of record on the books of the Company. Thereupon, such Participant shall have full voting, dividend and other ownership rights with respect to such Shares. The Company will not be obligated to issue or deliver any Shares unless and until all legal matters in connection with the issuance and delivery of Shares have been approved by the Company's counsel and the Company's counsel determines that all applicable federal, state and other laws and regulations have been complied with and all listing requirements for relevant stock exchanges have been met.

14. ***No Right to Continued Employment.*** Nothing in the Plan or in any Award Agreement shall confer upon any Participant the right to continued employment by the Company or any Affiliate or affect any right which the Company or any Affiliate may have to terminate such employment.

15. ***Issuance of Shares and Consents.*** If the Committee shall at any time determine that any Consent is necessary or desirable as a condition of, or in connection with, the granting of any Award, the delivery of Shares or the delivery of any cash, securities or other property under the Plan, or the taking of any other action, then such action shall not be taken, in whole or in part, unless and until such Consent shall have been effected or obtained to the full satisfaction of the Committee. Any stock certificate representing Restricted Shares shall contain an appropriate legend referring to the Plan and the Restrictions upon such Restricted Shares. Simultaneously with delivery of any stock certificate for Restricted Shares, the Company may cause a stop transfer order with respect to such certificate to be placed with the transfer agent of the Shares.

16. ***Withholding.*** If the Company or an Affiliate shall be required to withhold any amounts by reason of a federal, state or local tax laws, rules or regulations in respect of any Award, the Company or an Affiliate shall be entitled to deduct or withhold such amounts from any payments (including, without limitation Shares which would otherwise be issued to the Participant pursuant to the Award; provided that, to the extent desired for GAAP purposes, such withholding shall not exceed the statutory minimum amount required to be withheld) to be made to the Participant. In any event, the Participant shall make available to the Company or Affiliate, promptly when requested by the Company or such Affiliate, sufficient funds or Shares to meet the requirements of such withholding and the Company or Affiliate shall be entitled to take and authorize such steps as it may deem advisable in order to have such funds made available to the Company or Affiliate out of any funds or property due to the Participant.

17. ***Right of Offset.*** The Company shall have the right to offset against its obligation to deliver Shares, cash or other property under any Award that does not constitute non-qualified deferred compensation pursuant to Section 409A of the Internal Revenue Code any outstanding amounts of whatever nature that the Participant then owes to the Company or any of its Affiliates.

18. ***Non-Transferability of Awards.*** Unless the Committee shall permit (on such terms and conditions as it shall establish) an Award to be transferred to a member of the Participant's immediate family or to a trust or similar vehicle for the benefit of members of the Participant's immediate family (collectively, the Permitted Transferees), no Award

shall be assignable or transferable except by will or by the laws of descent and distribution, and except to the extent required by law, no right or interest of any Participant shall be subject to

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any lien, obligation or liability of the Participant. All rights with respect to Awards granted to a Participant under the Plan shall be exercisable during the Participant's lifetime only by such Participant or, if applicable, the Permitted Transferees.

19. **Administration and Amendment of the Plan.** The Board of Directors or the Committee may discontinue the Plan at any time and from time to time may amend or revise the terms of the Plan or any Award Agreement, as permitted by applicable law, except that it may not (a) make any amendment or revision in a manner unfavorable to a Participant (other than if immaterial), without the consent of the Participant or (b) make any amendment or revision without the approval of the stockholders of the Company if such approval is required by the rules of an exchange on which Shares are traded. Consent of the Participant shall not be required solely pursuant to the previous sentence in respect of any adjustment made pursuant to Section 12(a) except to the extent the terms of an Award Agreement expressly refer to an Adjustment Event, in which case such terms shall not be amended in a manner unfavorable to a Participant (other than if immaterial) without such Participant's consent.

20. **Clawback.** Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement, or any clawback policy adopted by the Company.

21. **No Repricing & Reloads.** Unless otherwise approved by the stockholders of the Company, Options and Rights will not be repriced (other than in accordance with the adjustment provisions of Section 12), be repurchased for cash on a date when the exercise price of such Option or Right is equal to or exceeds the Fair Market Value of a Share or be subject to automatic reload provisions.

22. **Section 409A.** It is the Company's intent that Awards under this Plan be exempt from, or comply with, the requirements of Section 409A of the Internal Revenue Code, and that this Plan be administered and interpreted accordingly. If and to the extent that any Award made under this Plan is determined by the Company to constitute non-qualified deferred compensation subject to Section 409A of the Internal Revenue Code and is payable to a Participant by reason of the Participant's termination of employment, then (a) such payment or benefit shall be made or provided to the Participant only upon a separation from service as defined for purposes of Section 409A of the Internal Revenue Code under applicable regulations and (b) if the Participant is a specified employee (within the meaning of Section 409A of the Internal Revenue Code and as determined by the Company), such payment or benefit shall not be made or provided before the date that is six months after the date of the Participant's separation from service (or the Participant's earlier death).

23. **Effective Date.** The Plan shall become effective upon approval by the stockholders of the Company on June 8, 2016.

24. **Severability.** If any of the provisions of this Plan or any Award Agreement is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby; provided that, if any of such provisions is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder.

25. **Plan Headings.** The headings in this Plan are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

26. ***Non-Uniform Treatment.*** The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be

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entitled, among other things, to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award Agreements, as to the persons to receive Awards under the Plan, and the terms and provisions of Awards under the Plan.

27. ***Governing Law***. The Plan and any Award Agreements shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

28. ***Successors and Assigns***. The terms of this Plan shall be binding upon and inure to the benefit of the Company and its successors and assigns.

29. ***Duration***. This Plan shall remain in effect until June 8, 2026 unless sooner terminated by the Committee or the Board of Directors. Awards theretofore granted may extend beyond that date in accordance with the provisions of the Plan.

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APPENDIX B

AMC Networks Inc. 2016 Executive Cash Incentive Plan

1. **Purpose.** The purposes of the AMC Networks Inc. 2016 Executive Cash Incentive Plan are (a) to advance the interests of the Company and its shareholders by providing a means to motivate the employees of the Company and its Affiliates, upon whose judgment, initiative and efforts the continued success, growth and development of the Company is dependent; (b) to link the rewards of the employees of the Company and its Affiliates to the achievement of specific performance objectives and goals when so desired; (c) to assist the Company and its Affiliates in maintaining a competitive total compensation program that serves to attract and retain the most highly qualified individuals; and (d) to permit the grant and payment of awards that are deductible to the Company pursuant to Section 162(m) of the Internal Revenue Code when so desired.

This Plan replaces the AMC Networks, Inc. Amended and Restated 2011 Executive Cash Incentive Plan (as amended to the Effective Date, the Prior Plan) for Awards granted on or after the effective date set forth in 12 (the Effective Date). Awards may not be granted under the Prior Plan beginning on the Effective Date, but this Plan will not affect the terms or conditions of any cash award made under the Prior Plan before the Effective Date.

2. **Definitions.** When used in this Plan, unless the context otherwise requires:

(a) **Affiliate** shall mean (i) any Entity controlling, controlled by, or under common control with the Company or any other Affiliate and (ii) any Entity in which the Company owns at least five percent of the outstanding equity interests of such Entity.

(b) **Annual Incentive Award** shall mean an annual incentive award to be earned (and therefore payable) in respect of a Participant's performance over one Plan Year, granted pursuant to Section 6.

(c) **Award** shall mean a cash award which is granted or made under the Plan including an Annual Incentive Award and a Long-Term Incentive Award.

(d) **Board of Directors** shall mean the Board of Directors of the Company, as constituted at any time.

(e) **Committee** shall mean the Compensation Committee of the Board of Directors, as described in Section 3.

(f) **Company** shall mean AMC Networks Inc., a Delaware corporation.

(g) **Covered Employee** shall mean any employee of the Company or its subsidiaries who, in the discretion of the Committee, is likely to be a covered employee under Section 162(m) of the Internal Revenue Code for the year in which an Award is payable and any employee of the Company or an Affiliate designated by the Committee as such, in its discretion, for purposes of an Award.

(h) **Entity** shall mean any business, corporation, partnership, limited liability company or other entity.

(i) **GAAP** shall mean accounting principles generally accepted in the United States of America.

(j) **Internal Revenue Code** shall mean the Internal Revenue Code of 1986, as amended.

(k) Long-Term Incentive Award shall mean a long-term incentive award to be earned over a period extending beyond one Plan Year, granted pursuant to Section 5.

(l) Participant shall mean an employee of the Company or an Affiliate who is granted an Award by the Committee under the Plan.

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(m) Performance Criteria shall mean a goal or goals established by the Committee and measured over a period or periods selected by the Committee, such goal(s) to constitute a requirement that must be met in connection with the vesting, exercise and/or payment of an Award under the Plan as specified by the Committee. To the extent that an Award is intended to satisfy the requirements for deductibility under Section 162(m) of the Internal Revenue Code, the payment of the Award will be conditioned on the satisfaction of one or more of the performance criteria listed below over a period or periods selected by the Compensation Committee. The performance criteria may be determined by reference to the performance of the Company, an Affiliate or a business unit, product, production, network or service thereof or any combination of the foregoing. Such criteria may also be measured on a per customer, subscriber, viewer (or available viewer), basic or diluted share basis or any combination of the foregoing and may reflect absolute performance, incremental performance or comparative performance to other companies (or their products or services) determined on a gross, net, GAAP or non-GAAP basis, with respect to one or more of the following: (i) net or operating income or other measures of profit; (ii) measures of revenue; (iii) earnings before interest, taxes, depreciation and amortization (EBITDA); (iv) cash flow, free cash flow, adjusted operating cash flow (AOCF), unlevered free cash flow, cash flow from operations and similar measures; (v) return on equity, investment, assets or capital; (vi) gross or operating margins or savings; (vii) performance relative to budget, forecast or market expectations; (viii) market share or penetration, subscriber or customer acquisition or retention, ratings or viewership; (ix) operating metrics relating to sales, subscriptions or customer service or satisfaction; (x) capital spending management or product or service deployments; (xi) achievement of strategic business objectives such as acquisitions, dispositions or investments; (xii) a specified increase in the fair market value of the Company's common stock; (xiii) a specified increase in the private market value of the Company; (xiv) the price of the Company's common stock; (xv) earnings per share; and/or (xvi) total shareholder return.

(n) Permitted Transferees shall have the meaning set forth in Section 9 hereof.

(o) Plan shall mean the AMC Networks Inc. 2016 Executive Cash Incentive Plan, as it may be amended from time to time.

(p) Plan Year shall mean the Company's fiscal year.

3. Administration.

(a) The Plan shall be administered by the Committee, which shall consist of at least the minimum number of members of the Board of Directors required by Section 162(m) of the Internal Revenue Code. Such members shall be appointed by, and shall serve at the pleasure of, the Board of Directors. Except as otherwise determined by the Board of Directors, the members of the Committee shall be non-employee directors as defined in Rule 16b-3 of the Securities Exchange Act of 1934 (the Exchange Act) and outside directors to the extent required by Section 162(m) of the Internal Revenue Code; provided, however, that the failure of the Committee to be so comprised shall not cause any Award to be invalid. The Committee may delegate any of its powers under the Plan to a subcommittee of the Committee (which hereinafter shall also be referred to as the Committee). The Committee may also delegate (i) to any person who is not a member of the Committee or (ii) to any administrative group within the Company, any of its powers, responsibilities or duties. In delegating its authority, the Committee shall consider the extent to which any delegation may cause Awards to fail to be deductible under Section 162(m) of the Internal Revenue Code or to fail to meet the requirements of Rule 16(b)-3(d)(1) or Rule 16(b)-3(e) under the Exchange Act.

(b) The Committee, acting in its sole discretion, shall have full authority, subject to the terms of the Plan (including Section 10), to (a) exercise all of the powers granted to it under the Plan, (b) construe, interpret and implement the Plan, grant terms and grant notices, and all Awards and Award certificates or agreements, (c) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing its own operations, (d) make all

determinations necessary or advisable in administering the Plan, (e) correct any defect, supply any omission and reconcile any inconsistency in the Plan, (f) amend the Plan, (g) grant Awards and

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determine who shall receive Awards and the terms and conditions of such Awards, including, but not limited to, conditioning the payout or other term or condition of an Award on the achievement of Performance Criteria, if so desired, (h) amend any outstanding Award in any respect including, without limitation, to (1) accelerate the time or times at which an Award is paid or (2) waive or amend any goals, restrictions, conditions or Performance Criteria (subject to the requirements of Section 162(m) of the Internal Revenue Code, if applicable to the Award) applicable to such Award, or impose new goals or restrictions and (i) determine at any time whether, to what extent and under what circumstances and method or methods (1) Awards may be paid, canceled, forfeited or suspended or (2) amounts payable with respect to an Award may be deferred either automatically or at the election of the participant or of the Committee. Subject to the requirements of Section 162(m) of the Internal Revenue Code, if applicable to the Award, the enumeration of the foregoing powers is not intended and should not be construed to limit in any way the authority of the Committee under the Plan which is intended, to the fullest extent permitted by law, to be plenary. The Plan, and all such rules, regulations, determinations and interpretations, shall be binding and conclusive upon the Company, its stockholders and all Participants, and upon their respective legal representatives, heirs, beneficiaries, successors and assigns and upon all other persons claiming under or through any of them.

(c) No member of the Board of Directors or the Committee or any employee of the Company or any of its Affiliates (each such person a *Affected Person*) shall have any liability to any person (including, without limitation, any Participant) for any action taken or omitted to be taken or any determination made in good faith with respect to the Plan or any Award. Each Affected Person shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense (including attorneys' fees) that may be imposed upon or incurred by such Affected Person in connection with or resulting from any action, suit or proceeding to which such Affected Person may be a party or in which such Affected Person may be involved by reason of any action taken or omitted to be taken under the Plan and against and from any and all amounts paid by such Affected Person, with the Company's approval, in settlement thereof, or paid by such Affected Person in satisfaction of any judgment in any such action, suit or proceeding against such Affected Person; provided that, the Company shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once the Company gives notice of its intent to assume the defense, the Company shall have sole control over such defense with counsel of the Company's choice. The foregoing right of indemnification shall not be available to an Affected Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Affected Person giving rise to the indemnification claim resulted from such Affected Person's bad faith, fraud or willful criminal act or omission. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Affected Persons may be entitled under the Company's Certificate of Incorporation or by-laws, as a matter of law, by agreement or otherwise, or any other power that the Company may have to indemnify such persons or hold them harmless.

4. ***Participants.*** All employees of the Company or an Affiliate shall be eligible to receive Awards under the Plan. Nothing herein contained shall be construed to prevent the making of one or more Awards at the same or different times to the same employee.

5. ***Long Term Incentive Awards.***

(a) **Terms and Conditions.** The amount, form, terms and conditions of each Long-Term Incentive Award shall be determined by the Committee in its sole discretion and may be set forth in an Award certificate or agreement. Such terms and conditions may include, without limitation, the date or dates and the conditions or circumstances upon which such Award shall be paid to the Participant, forfeited or otherwise modified. The Committee may, in its sole discretion, establish one or more conditions to the entitlement of a Long-Term Incentive Award including, without limitation, conditions the satisfaction of which are measured by the achievement of Performance Criteria.

(b) Duration of Awards. The duration of any Long-Term Incentive Award granted under this Plan shall be for a period fixed by the Committee but shall in no event be more than ten years.

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(c) Dollar Limitation. At the time a Long-Term Incentive Award is granted, the Committee shall determine whether it is intended to satisfy the requirements of Section 162(m) of the Internal Revenue Code. In no event shall any Covered Employee be granted, in any one Plan Year, Long-Term Incentive Awards intended to satisfy such requirements that provide for the maximum payment of an aggregate amount exceeding \$10 million.

(d) Committee Certification. If the Company establishes conditions to the entitlement of a Long-Term Incentive Award relating to the achievement of Performance Criteria pursuant to Section 5(a), the Committee shall determine (in a writing consistent with the requirements of Section 162(m) of the Internal Revenue Code with respect to any Covered Employee) whether the Performance Criteria have been met with respect to any affected Participant and, if they have, so certify and ascertain the amount of the applicable Long-Term Incentive Award. No such Long-Term Incentive Award will be paid until such certification is made by the Committee.

(e) Payment of Long-Term Incentive Awards. Except as otherwise provided herein, Long-Term Incentive Awards shall be payable as soon as practicable following the certification by the Committee described in Section 5(d). All or any part of any outstanding Long-Term Incentive Awards granted to any Participant shall be payable upon the occurrence of such special circumstances or events as determined in the sole discretion of the Committee.

6. *Annual Incentive Awards.*

(a) Terms and Conditions. The amount, form, terms and conditions of each Annual Incentive Award shall be determined by the Committee in its sole discretion and may be set forth in an Award certificate or agreement. Such terms and conditions may include, without limitation, the date or dates and the conditions upon which such Award shall be paid to the Participant or forfeited. The Committee may, in its sole discretion, establish one or more conditions to the entitlement of an Annual Incentive Award including, without limitation, conditions the satisfaction of which are measured by the achievement of Performance Criteria.

(b) Dollar Limitation. At the time an Annual Incentive Award is granted, the Committee shall determine whether it is intended to satisfy the requirements of Section 162(m) of the Internal Revenue Code. In no event shall any Covered Employee be granted, in respect of performance in any one Plan Year, Annual Incentive Awards intended to satisfy such requirements in a maximum amount exceeding in the aggregate \$10 million.

(c) Committee Certification. If the Company establishes conditions to the entitlement of an Annual Incentive Award relating to the achievement of Performance Criteria pursuant to Section 6(a), the Committee shall determine (in a writing consistent with the requirements of Section 162(m) of the Internal Revenue Code with respect to any Covered Employee) whether the Performance Criteria have been met with respect to any affected Participant and, if they have, so certify and ascertain the amount of the applicable Annual Incentive Award. No Annual Incentive Award will be paid until such certification is made by the Committee.

(d) Payment of Annual Incentive Awards. Except as otherwise set forth herein, Annual Incentive Awards shall be payable as soon as practicable following the certification by the Committee described in Section 6(c). All or any part of any outstanding Annual Incentive Awards granted to any Participant shall be payable upon the occurrence of such special circumstances or events as determined in the sole discretion of the Committee.

7. *No Right to Continued Employment.* Nothing in the Plan or in any Award certificate or agreement shall confer upon any Participant the right to continued employment by the Company or any Affiliate or affect any right which the Company or any Affiliate may have to terminate such employment.

8. ***Withholding.*** If the Company or an Affiliate shall be required to withhold any amounts by reason of federal, state or local tax laws, rules or regulations in respect of the payment of an Award to the Participant, the

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Company or an Affiliate shall be entitled to deduct or withhold such amounts from any cash payments made to the Participant. In any event, the Participant shall make available to the Company or Affiliate, promptly when requested by the Company or such Affiliate, sufficient funds to meet the requirements of such withholding and the Company or Affiliate shall be entitled to take and authorize such steps as it may deem advisable in order to have such funds made available to the Company or Affiliate out of any funds or property due to the Participant.

9. *Non-Transferability of Awards.* Unless the Committee shall permit (on such terms and conditions as it shall establish) an Award to be transferred to a member of the Participant's immediate family or to a trust or similar vehicle for the benefit of members of the Participant's immediate family (collectively, the Permitted Transferees), no Award shall be assignable or transferable by a Participant except by will or by the laws of descent and distribution, and except to the extent required by law, no right or interest of any Participant shall be subject to any lien, obligation or liability of the Participant.

10. *Administration and Amendment of the Plan.* The Board of Directors or the Committee may discontinue the Plan at any time and from time to time may amend or revise the terms of the Plan, as permitted by applicable law, except that it may not amend or revise, in any manner unfavorable to a recipient (other than if immaterial), any Long-Term Incentive Award, without the consent of the recipient of that Long-Term Incentive Award.

11. *Right of Offset.* The Company shall have the right to offset against its obligation to deliver amounts under any Award that does not constitute non-qualified deferred compensation pursuant to Section 409A of the Internal Revenue Code any outstanding amounts of whatever nature that the Participant then owes to the Company or any of its Affiliates.

12. *Effective Date.* The Plan shall become effective upon approval by the stockholders of the Company on June 8, 2016.

13. *Severability.* If any of the provisions of this Plan is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby; provided, that, if any of such provisions is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder.

14. *Plan Headings.* The headings in this Plan are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

15. *Non-Uniform Treatment.* The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award certificates or agreements, as to the persons who receive Awards under the Plan, and the terms and provisions of Awards under the Plan.

16. *Clawback.* Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement, or any clawback policy adopted by the Company.

17. **Section 409A.** It is the Company's intent that Awards under this Plan be exempt from, or comply with, the requirements of Section 409A of the Internal Revenue Code, and that this Plan be administered and

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interpreted accordingly. If and to the extent that any Award made under this Plan is determined by the Company to constitute non-qualified deferred compensation subject to Section 409A of the Internal Revenue Code and is payable to a Participant by reason of the Participant's termination of employment, then (a) such payment or benefit shall be made or provided to the Participant only upon a separation from service as defined for purposes of Section 409A of the Internal Revenue Code under applicable regulations and (b) if the Participant is a specified employee (within the meaning of Section 409A of the Internal Revenue Code and as determined by the Company), such payment or benefit shall not be made or provided before the date that is six months after the date of the Participant's separation from service (or the Participant's earlier death).

18. ***Governing Law.*** All rights and obligations under the Plan shall be construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflict of laws.

19. ***Successors and Assigns.*** The terms of this Plan shall be binding upon and inure to the benefit of the Company and its successors and assigns.

20. ***Final Issuance Date.*** No Awards shall be made under this Plan after June 8, 2021.

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AMC NETWORKS INC.

11 PENN PLAZA

NEW YORK, NY 10001

**Vote by Internet or Telephone or Mail
24 Hours a Day, 7 Days a Week**
**Your Internet or telephone vote authorizes the
named proxies to vote the shares in the same
manner as if you marked, signed and returned
your proxy card.**

**Notice of Internet availability of Proxy
Materials:**

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m., Eastern Daylight Time, on June 7, 2016 (June 3, 2016 for participants in the AMC Networks 401(k) Savings Plan, Cablevision 401(k) Savings Plan or The Madison Square Garden Company 401(k) Savings Plan). Have your proxy card in hand when you access the website and then follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions until 11:59 p.m., Eastern Daylight Time, on June 7, 2016 (June 3, 2016 for participants in the AMC Networks 401(k) Savings Plan, Cablevision 401(k) Savings Plan or The Madison Square Garden Company 401(k) Savings Plan). Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to AMC Networks Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. Your proxy card must be received by June 7, 2016.

**If you vote by Internet or by telephone you do
NOT need to mail back your proxy card.**

ELECTRONIC DELIVERY OF FUTURE STOCKHOLDER COMMUNICATIONS

If you would like to reduce the costs incurred by AMC Networks Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and Form 10-Ks electronically via email or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years.

TO ATTEND THE ANNUAL MEETING YOU MUST OBTAIN AN ADMISSION

TICKET AT WWW.PROXYVOTE.COM
Questions? Please contact us at 1-844-318-0137

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E10907-Z67618-Z67617 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY
THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

| CLASS A STOCKHOLDERS | For | Withhold | For All | To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below. |
|--|------------|-----------------|----------------|--|
| AMC NETWORKS INC. | All | All | Except | |
| Unless otherwise specified in the spaces provided, the undersigned's vote is cast FOR the election of the Director nominees listed in Proposal (1) and FOR Proposals (2), (3) and (4), as more fully described in the accompanying Proxy Statement. | .. | .. | .. | |

The Board of Directors recommends you vote FOR the following Director nominees:

1. Election of the following nominees as Directors:

- | | |
|-------------------------|-----------------------|
| (01) Jonathan F. Miller | (04) Carl E. Vogel |
| (02) Leonard Tow | (05) Robert C. Wright |
| (03) David E. Van Zandt | |

| The Board of Directors recommends you vote FOR Proposals 2, 3 and 4: | For | Against | Abstain |
|---|------------|----------------|----------------|
| 2. Ratification of the appointment of KPMG LLP as independent registered public accounting firm of the Company for fiscal year 2016 | .. | .. | .. |
| 3. Approval of the Company's 2016 Employee Stock Plan | .. | .. | .. |
| 4. Approval of the Company's 2016 Executive Cash Incentive Plan | .. | .. | .. |

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting. Your signature should appear the same as your name appears. If signing as attorney, executor, trustee or guardian, please indicate the capacity in which signing. When signing as joint tenants, all parties to the joint tenancy must sign. When a corporation gives the proxy, it should be signed by an authorized officer and the corporate seal affixed.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owner) Date

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How do I attend the Annual Meeting in person? What do I need to bring?

An admission ticket will be required if you desire to attend the Annual Meeting in person. To be admitted to the 2016 Annual Meeting, you must have been a stockholder at the close of business on the record date of April 12, 2016 or be the legal proxy holder or qualified representative of a stockholder, and bring with you your admission ticket and a valid government-issued photo identification card (federal, state or local), such as a driver's license or passport. Persons without an admission ticket or proper identification may be denied admission to the Annual Meeting.

To obtain an admission ticket, go to www.proxyvote.com or call 1-844-318-0137. You will need to enter your 16-digit control number, which can be found on your Notice of Internet Availability of Proxy Materials, voter instruction form and proxy card. The deadline to obtain an admission ticket is 5:00 p.m., Eastern Daylight Time, on May 31, 2016. For questions about admission to the Annual Meeting, please call 1-844-318-0137.

Please note that you will need your ticket to be admitted to the meeting whether you vote before or at the meeting, and regardless of whether you are a registered or beneficial stockholder. If you are attending the meeting as a proxy or qualified representative for a stockholder, you will need to bring your legal proxy or authorization letter, in addition to your admission ticket and government-issued photo identification card.

Stockholders must provide advance written notice to the Company if they intend to have a legal proxy (other than the persons appointed as proxies on the Company's proxy card) or qualified representative attend the Annual Meeting on their behalf. The notice must include the name and address of the legal proxy or qualified representative and must be received by 5:00 p.m., Eastern Daylight Time, on May 31, 2016 in order to allow enough time for the issuance of an admission ticket to such person. For further details, read Other Matters, Advance Notice of Proxy Holders and Qualified Representatives in the Proxy Statement.

Please note that cameras, video and audio recording equipment and other similar electronic devices, as well as large bags (including large handbags and briefcases) and packages will need to be checked at the door. Additionally, the Company may impose additional restrictions on items that must be checked at the door as well as the conduct of the meeting. To ensure the safety of all persons, attendees may also be subject to security inspections.

Requests for admission tickets will be processed in the order received. Please note that seating is limited, and requests for tickets will be handled on a first-come, first-served basis.

DIRECTIONS TO THE PALEY CENTER FOR MEDIA

The Paley Center for Media is the site of our 2016 Annual Meeting of Stockholders.

The Paley Center for Media is located at 25 West 52nd Street, (between Fifth and Sixth Avenues), New York, New York 10019.

BY SUBWAY:

Take any of the following subway lines: E or M to Fifth Avenue and 53rd Street; N or R to 49th Street and Seventh Avenue;

1 to 50th Street and Broadway; B, D, F, or M to 47th-50th Street/Rockefeller Center. The Paley Center is located on 52nd Street (between Fifth and Sixth Avenues).

BY CAR OR TAXI:

From the East: Take I-495 West toward New York/Midtown Tunnel/Manhattan. Take the exit toward 38th-40th St.s/37th Street Turn slight left onto East 37th Street. Take the first right onto 3rd Avenue. Turn left onto East 42nd Street. Turn right onto 6th Avenue/Avenue of the Americas. Turn right onto West 52nd Street. The Paley Center will be on the left.

From the West: Take NJ-495 East/Lincoln Tunnel toward New York City. Continue onto the Lincoln Tunnel. Take the exit toward Dyer Avenue. Keep left at the fork, follow signs for New York 9A/42nd Street/Uptown/Theater District. Make slight right onto Dyer Avenue. Turn right onto West 42nd Street. Turn left onto Sixth Avenue. Turn right onto West 52nd Street. The Paley Center will be on the left.

Important Notice Regarding the Internet Availability of Proxy Materials for the Annual Meeting of Stockholders:

The Notice, Proxy Statement and Annual Report on Form 10-K are available at www.proxyvote.com.

p FOLD AND DETACH HERE p

E10908-Z67618-Z67617

CLASS A PROXY

AMC NETWORKS INC.

**Solicited by the Board of Directors for the
Annual Meeting of Stockholders on June 8, 2016**

The undersigned hereby appoints Sean S. Sullivan, James G. Gallagher and Anne G. Kelly, and each of them, jointly and severally, proxies with full power of substitution, to vote all stock of AMC Networks Inc. (the Company) which the undersigned is entitled to vote at the Company's Annual Meeting of Stockholders to be held at The Paley Center for Media, 25 West 52nd Street, New York, New York, on Wednesday, June 8, 2016, at 10:00 a.m., Eastern Daylight Time, and any adjournment or postponement thereof, hereby ratifying all the said proxies or their substitutes may do by virtue hereof, and the undersigned authorizes and instructs said proxies to vote as stated on the reverse side. If you sign and return this proxy but do not give any direction, this proxy will be voted FOR each of the Director nominees in Proposal (1), FOR Proposals (2), (3) and (4) and in the discretion of the proxies upon such other matters as may properly come before the Annual Meeting and at any adjournment or postponement thereof.

Attention participants in the AMC Networks 401(k) Savings Plan, Cablevision 401(k) Savings Plan or The Madison Square Garden Company 401(k) Savings Plan: If shares of AMC Networks Inc. Class A Common Stock are held in any of these plans, you should complete, sign and return this proxy card to instruct Fidelity Management Trust Company, as Trustee of the Plans, how to vote these shares. Your proxy must be received no later than 11:59 p.m., Eastern Daylight Time, on June 3, 2016 so that the Trustee (who votes the shares on behalf of the Plans participants) has adequate time to tabulate the voting instructions. Your voting instructions will be kept confidential. Fidelity Management Trust Company shall not vote shares of the Company's Class A Common Stock allocated to a participant's account for which it has not received instructions from the Participant. Please read the enclosed Proxy Statement for more information.

Important Notice: All meeting attendees will be asked to bring their admission ticket and present a valid, government-issued photo identification card (federal, state, or local), such as a driver's license or passport, before entering the meeting and proof of stock ownership as of April 12, 2016. In addition, cameras, transmission and other recording devices, including the use of cell phones, will not be permitted at the meeting, and attendees will be subject to security inspections.

The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting, the Proxy Statement and Annual Report on Form 10-K of AMC Networks Inc.

(Continued and to be signed on the reverse side)

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AMC NETWORKS INC.

II PENN PLAZA

NEW YORK, NY 10001

**Vote by Internet or Telephone or Mail
24 Hours a Day, 7 Days a Week**
**Your Internet or telephone vote authorizes the
named proxies to vote the shares in the same
manner as if you marked, signed and returned
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Materials:**

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m., Eastern Daylight Time, on June 7, 2016. Have your proxy card in hand when you access the website and then follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions until 11:59 p.m., Eastern Daylight Time, on June 7, 2016. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to AMC Networks Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. Your proxy card must be received by June 7, 2016.

**If you vote by Internet or by telephone you do
NOT need to mail back your proxy card.**

**ELECTRONIC DELIVERY OF FUTURE
STOCKHOLDER COMMUNICATIONS**

If you would like to reduce the costs incurred by AMC Networks Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and Form 10-Ks electronically via email or the Internet. To sign up for electronic delivery, please follow the

instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years.

**TO ATTEND THE ANNUAL MEETING
YOU MUST OBTAIN AN ADMISSION**

**TICKET AT WWW.PROXYVOTE.COM
Questions? Please contact us at 1-844-318-0137**

TO VOTE, MARK BLOCKS BELOW
IN BLUE OR BLACK INK AS
FOLLOWS:

E08144-P78328

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

| CLASS B STOCKHOLDERS | For | Withhold | For All | To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below. |
|---|-----|----------|---------|---|
| AMC NETWORKS INC. | All | All | Except | |
| Unless otherwise specified in the spaces provided, the undersigned's vote is cast FOR the election of the Director nominees listed in Proposal (1) and FOR Proposals (2), (3) and (4), as more fully described in the accompanying Proxy Statement. | .. | .. | .. | |

**The Board of Directors
recommends you vote
FOR the following
Director nominees:**

1.

Election of the following
nominees as Directors:

- | | |
|--------------------------|---------------------------|
| (01) William J. Bell | (06) Thomas C. Dolan |
| (02) Charles F. Dolan | (07) Brian G. Sweeney |
| (03) James L. Dolan | (08) Vincent Tese |
| (04) Kristin A. Dolan | (09) Marianne Dolan Weber |
| (05) Patrick F. Dolan | |

**The Board of Directors recommends you vote FOR Proposals 2, 3
and 4:**

| | For | Against | Abstain |
|---|------------|----------------|----------------|
| 2. Ratification of the appointment of KPMG LLP as independent registered public accounting firm of the Company for fiscal year 2016 | .. | .. | .. |
| 3. Approval of the Company's 2016 Employee Stock Plan | .. | .. | .. |
| 4. Approval of the Company's 2016 Executive Cash Incentive Plan | .. | .. | .. |

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting. Your signature should appear the same as your name appears. If signing as attorney, executor, trustee or guardian, please indicate the capacity in which signing. When signing as joint tenants, all parties to the joint tenancy must sign. When a corporation gives the proxy, it should be signed by an authorized officer and the corporate seal affixed.

Signature [PLEASE SIGN Date
WITHIN BOX]

Signature (Joint Owner) Date

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1 to 50th Street and Broadway; B, D, F, or M to 47th-50th Street/Rockefeller Center. The Paley Center is located on 52nd Street (between Fifth and Sixth Avenues).

BY CAR OR TAXI:

From the East: Take I-495 West toward New York/Midtown Tunnel/Manhattan. Take the exit toward 38th-40th St.s/37th St. Turn slight left onto East 37th Street. Take the first right onto 3rd Avenue. Turn left onto East 42nd Street. Turn right onto 6th Avenue/Avenue of the Americas. Turn right onto West 52nd Street. The Paley Center will be on the left.

From the West: Take NJ-495 East/Lincoln Tunnel toward New York City. Continue onto the Lincoln Tunnel. Take the exit toward Dyer Avenue. Keep left at the fork, follow signs for New York 9A/42nd Street/Uptown/Theater District. Make slight right onto Dyer Avenue. Turn right onto West 42nd Street. Turn left onto Sixth Avenue. Turn right onto West 52nd Street. The Paley Center will be on the left.

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CLASS B PROXY

AMC NETWORKS INC.

**Solicited by the Board of Directors for the
Annual Meeting of Stockholders on June 8, 2016**

The undersigned hereby appoints Sean S. Sullivan, James G. Gallagher and Anne G. Kelly, and each of them, jointly and severally, proxies with full power of substitution, to vote all stock of AMC Networks Inc. (the Company) which the undersigned is entitled to vote at the Company's Annual Meeting of Stockholders to be held at The Paley Center for Media, 25 West 52nd Street, New York, New York, on Wednesday, June 8, 2016, at 10:00 a.m., Eastern Daylight Time, and any adjournment or postponement thereof, hereby ratifying all the said proxies or their substitutes may do by virtue hereof, and the undersigned authorizes and instructs said proxies to vote as stated on the reverse side. This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.

Important Notice: All meeting attendees will be asked to bring their admission ticket and present a valid, government-issued photo identification card (federal, state, or local), such as a driver's license or passport, before entering the meeting and proof of stock ownership as of April 12, 2016. In addition, cameras, transmission and other recording devices, including the use of cell phones, will not be permitted at the meeting, and attendees will be subject to security inspections.

The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting, the Proxy Statement and Annual Report on Form 10-K of AMC Networks Inc.

(Continued and to be signed on the reverse side)