ALPHA PRO TECH LTD
Form 10-K
March 08, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

{ X } ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

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

Commission file number: 001-15725

ALPHA PRO TECH, LTD.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**63-1009183**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

60 Centurian Drive, Suite 112, Markham, Ontario, L3R 9R2

(Address of Principal Executive Offices, including zip code)

Registrant's telephone number, including area code: **905-479-0654**

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

Title of each Class	Name of each exchange on which registered
Common Stock, Par Value $.01 Per Share	**NYSE MKT**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes__ No X

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No __

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes __ No X

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2016, was $31,687,162.

As of March 1, 2017, the registrant had outstanding 15,411,554 shares of common stock.

DOCUMENTS INCOPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2017 Annual Meeting of Shareholders to be held on June 13, 2017 are incorporated by reference into Part III of this Form 10-K.

ALPHA PRO TECH, LTD.

INDEX TO ANNUAL REPORT ON FORM 10-K

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks, uncertainties and assumptions as described from time to time in registration statements, annual reports and other periodic reports and filings of the Company (as defined below) filed with the Securities and Exchange Commission (“SEC”). All statements, other than statements of historical facts, that address the Company’s expectations of sources of capital or that express the Company’s expectations for the future with respect to financial performance or operating strategies, can be identified as forward-looking statements. As a result, there can be no assurance that the Company’s future results will not be materially different from those described herein as “expected,” “anticipated,” “estimated,” “believed,” “predicted,” “intended,” “planned,” “potential,” “may,” “continue” or “should,” which reflect the current views of the Compan respect to future events. We caution readers that these forward-looking statements speak only as of the date hereof. The Company hereby expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in the Company’s expectations or any change in events, conditions or circumstances on which such statements are based.

Any expectations based on these forward-looking statements are subject to risks and uncertainties. These and many other factors could affect the Company’s future operating results and financial condition and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by the Company or on its behalf.

SPECIAL NOTE REGARDING SMALLER REPORTING COMPANY STATUS

We are filing this Annual Report on Form 10-K as a “smaller reporting company” (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended) based on our public float (the aggregate market value of our common stock equity held by non-affiliates of the Company) as of the last business day of our second fiscal quarter of 2016. As a result of being a smaller reporting company, we are not required to provide certain disclosure in this Annual Report on Form 10-K. Where information is being omitted or reduced in this Annual Report on Form 10-K based on our smaller reporting company status, we have made a special notation herein.

Item 1. Business.

GENERAL

ALPHA PRO TECH, LTD. ("Alpha Pro Tech," "Company," "we," "our" or "us") is the parent company of Alpha Pro Tech, In and Alpha ProTech Engineered Products, Inc. The Company was incorporated in the State of Delaware on July 1, 1994 as a successor to a business that was organized in 1983. Our executive offices are located at 60 Centurian Drive, Suite 112, Markham, Ontario, Canada L3R 9R2, and our telephone number is (905) 479-0654. Our website is located at www.alphaprotech.com.

The Company continued to qualify as a smaller reporting company at the measurement date for determining such qualification during 2016. According to the disclosure requirements for smaller reporting companies, the Company has included consolidated balance sheets as of December 31, 2016 and 2015 and consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for each of the two years in the period ended December 31, 2016.

BUSINESS

Alpha Pro Tech is in the business of protecting people, products and environments. We accomplish this by developing, manufacturing and marketing a line of high-value, disposable protective apparel and infection control products for the cleanroom, industrial, pharmaceutical, medical and dental markets through our wholly owned subsidiary, Alpha Pro Tech, Inc. We also manufacture a line of building supply construction weatherization products through our wholly owned subsidiary, Alpha ProTech Engineered Products, Inc. Our products are sold under the Alpha Pro Tech brand name, as well as under private label.

Our products are grouped into three business segments: (1) the Building Supply segment, consisting of construction weatherization products, such as housewrap and synthetic roof underlayment, as well as other woven material; (2) the Disposable Protective Apparel segment, consisting of disposable protective apparel, such as shoecovers, bouffant caps, gowns, coveralls, lab coats, frocks and other miscellaneous products; and (3) the Infection Control segment, consisting of face masks and eye shields. All financial information presented herein reflects the current segmentation.

Our principal strategy focuses on developing, producing and marketing differentiated, innovative high value products that protect people, products and environments. Our key sales growth strategies are based on communicating directly with end users and developing innovative products to suit individual end users' needs.

Our products are used primarily in cleanrooms, industrial safety manufacturing environments and health care facilities, such as hospitals, laboratories and dental offices, as well as building and re-roofing sites. Our products are distributed principally in the United States of America ("United States" or "U.S.") through a network consisting of purchasing groups, national distributors, local distributors, independent sales representatives, and our own sales and marketing force.

PRODUCTS

Our principal products are grouped into three business segments:

Building Supply:

- Housewrap
- Synthetic roof underlayment
- Other woven material

Disposable Protective Apparel:

- Shoecovers
- Bouffant caps
- Gowns
- Coveralls
- Lab coats
- Frocks

Infection Control:

- Face masks
- Eye shields

Building Supply

The Building Supply segment consists of a line of construction supply weatherization products, namely housewrap and synthetic roof underlayment, as well as other woven material. This line of products is a natural extension of our core capabilities: creating proprietary products designed to protect people and environments.

The usage of these construction supply weatherization products offers great advantages in decreasing the time that it takes to construct a home, as well as reducing costs. The housewrap, under the trademark REX™, offers a weather resistant barrier and, to the homeowner, years of lower energy consumption. REX™ Wrap and REX™ Wrap Plus are woven and coated polypropylene micro perforated weather resistant barriers, and REX™ Wrap Fortis is a highly engineered composite made up of a high-strength woven fabric, a monolithic breather film and a non-woven sheet, offering a high-strength non-perforated membrane.

The proprietary synthetic roof underlayment, REX™ SynFelt, has the ability to resist the environment, as opposed to conventional organic roofing underlayment that is prone to rapid degradation and mold growth. We also manufacture and distribute TECHNOply™ and TECHNO™ SB, economy versions of our synthetic roof underlayment, to capture market share in the lower end of the market.

These products are manufactured in our manufacturing facility in Valdosta, Georgia and through our joint venture in India, as described in more detail below under “Manufacturing.”

Disposable Protective Apparel

The Disposable Protective Apparel segment includes many different styles of disposable products, such as shoecovers, bouffant caps, gowns, coveralls, lab coats, frocks and other miscellaneous products. The vast majority of these products are manufactured by subcontractors in Asia and, to a much lesser extent, a subcontractor in Mexico, as described in more detail below under “Manufacturing.” Certain proprietary products are made using materials supplied by us.

Infection Control

The Infection Control segment includes face masks and eye shields. Our face masks come in a wide variety of filtration efficiencies and styles. Our patented Positive Facial Lock® feature provides a custom fit to the face to prevent blow-by for better protection. The term "blow-by" is used to describe the potential for infectious material to enter or escape a facemask without going through the filter as a result of gaps or openings in the face mask. Our Magic Arch® feature holds the mask away from the nose and mouth, creating a comfortable breathing chamber. One of our masks that incorporates both the Positive Facial Lock® feature and the Magic Arch® feature is the “N-95 Particulate Respirator face mask,” which was recommended by the Centers for Disease Control and Prevention (“CDC”) to combat the spread of the H1N1 Influenza A pandemic in 2009.

All eye shields are made from an optical-grade polyester film and have a permanent anti-fog feature. This provides the wearer with extremely lightweight, distortion-free protection that can be worn for hours, and the eye shields will not fog up from humidity and/or perspiration. An important feature of all face masks and eye and face shields is that they are disposable, which eliminates the possibility of cross infection between patients and saves users, such as hospitals, the expense of sterilization after every use.

This segment could experience increased demand during outbreaks of infectious disease, such as H1N1 in 2009 and the Ebola crisis in 2014.

As described in more detail below under “Manufacturing,” our face masks are primarily manufactured in our facility in Salt Lake City, Utah. Our eye shields are produced in our facility in Nogales, Arizona and assembled by a subcontractor in Mexico.

Financial information related to the three segments can be found in Activity of Business Segments (Note 14) of the Notes to Consolidated Financial Statements.

MARKETS

Our products are sold to the following markets: construction weatherization products (building supply products) are sold to construction supply and roofing distributors, and disposable protective apparel and infection control products are sold to the industrial, cleanroom, medical and dental markets.

Our target markets are construction building supply and roofing distributors, pharmaceutical manufacturing, bio-pharmaceutical manufacturing, medical device manufacturing, lab animal research, high technology electronics manufacturing (which includes the semi-conductor market), and medical and dental distributors.

DISTRIBUTION

We rely primarily on a network of independent distributors for the sale of our products.

We do not generally have backlog orders, as orders are usually placed for shipment and shipped within 30 days. Appropriate levels of inventories are maintained to supply distributors on a timely basis. From time to time, we will stockpile inventory for periods of unusually high demand.

Payment terms are normally net 30 days from the date of shipment. All pricing and payment for our products are in U.S. dollars. Authorized returns must be unopened, in good condition and in the original carton, and may be returned within 90 days of the original date of shipment. All authorized returns are subject to a restocking fee of 20% of the original invoice.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

The following table summarizes the Company's net sales by geographic region for the Company's last two years. All amounts have been rounded to the nearest thousand.

	Years Ended December 31,	
	2016	**2015**
Net sales by geographic region		
United States	$45,068,000	$43,753,000
International	1,108,000	1,202,000
Consolidated net sales	$46,176,000	$44,955,000

Net sales by geographic region are based on the countries in which our customers are located. For the years ended December 31, 2016 and 2015, the Company did not generate sales from any single country, other than the United States, that were significant to the Company's consolidated total net sales.

The following table summarizes the locations of the Company's long-lived assets by geographic region as of December 31, 2016 and 2015.

	December 31, 2016	2015
Long-lived assets by geographic region		
United States	$2,338,000	$2,564,000
International	308,000	343,000
Total	$2,646,000	$2,907,000

MANUFACTURING

Our wholly owned subsidiary, Alpha ProTech Engineered Products, Inc., which manufactures and distributes a line of construction weatherization products for the Building Supply segment, comprised primarily of housewrap and synthetic roof underlayment, operates in a 165,400 square foot facility located at 301 South Blanchard Street, Valdosta, Georgia. The housewrap and synthetic roof underlayment, in a semi-finished state, is manufactured by a company in India in which Alpha Pro Tech has a 41.66% non-controlling ownership interest.

Alpha ProTech Engineered Products, Inc. has a 41.66% ownership interest in a joint venture with Maple Industries and Associates, a manufacturer in India, for the production of housewrap, synthetic roof underlayment products in a semi-finished state and supplies products for the Disposable Protective Apparel segment. The name of the joint venture is Harmony Plastics Private Limited ("Harmony"). Harmony has four facilities in India, three owned and one rented. One facility is a 102,000 square foot building for use in the manufacturing of building products. There is a 71,500 square foot facility for use in the manufacturing of coated material and the sewing of proprietary disposable protective apparel. There is also a 16,000 square foot facility for use in the sewing of proprietary disposable protective apparel. The rented building is a 93,000 square foot facility for building products. We cut, warehouse and ship disposable protective apparel products in a 60,000 square foot facility located at 1287 West Fairway Drive, Nogales, Arizona. The majority of these products are manufactured by subcontractors in Asia and, to a much lesser extent, a subcontractor in Mexico. These goods are manufactured pursuant to our specifications and quality assurance guidelines. Certain proprietary products are being made in Asia using materials supplied by us.

Our mask production facility is located in a 34,500 square foot building located at 236 North 2200 West, Salt Lake City, Utah.

Certain proprietary products are made using materials supplied by us. We do not anticipate any problems with respect to the sources and availability of these proprietary materials needed to produce our products. Our business is not subject to significant seasonal considerations. It is necessary for us to have adequate raw materials and finished inventory in stock.

COMPETITION

We face substantial competition from numerous companies, including many companies with greater marketing and financial resources. Our major competitor in the medical and dental markets is Kimberly-Clark Corporation of Fort Worth, Texas. Other large competitors include 3M Company, Johnson & Johnson, White Knight Engineered Products (Precept Medical Products, Inc.), Cardinal Health, Inc. and Medline Industries Inc. Our major competitors in the industrial and cleanroom market are our former largest distributor, VWR International, LLC, Kimberly-Clark Corporation, 3M Company, Kappler, Inc., DuPont and Allegiance Healthcare Corporation. Our major competitors in the construction supply weatherization market are DuPont for housewrap and Interwrap Inc. for synthetic roof underlayment.

VWR International, LLC, Cardinal Health, Inc. and Medline Industries Inc. are also distributors of our products.

REGULATORY REQUIREMENTS

We are not required to obtain regulatory approval from the U.S. Food and Drug Administration (“FDA”) with respect to the sale of our products. Our products are, however, subject to prescribed good manufacturing practices as defined by the FDA, and our manufacturing facilities are inspected by the FDA every two years to ensure compliance with such good manufacturing practices. We are marketing a N-95 Particulate Respirator face mask that meets the Occupational Safety and Health Administration (“OSHA”) respirator guidelines and has been approved by the National Institute for Occupational Safety and Health (“NIOSH”). This product is designed to help prevent the inhalation of the tuberculosis bacteria.

PATENTS AND TRADEMARKS

Patents

Our policy is to protect our intellectual property rights, products, designs and processes through the filing of patents in the United States and, where appropriate, in Canada and other countries. At present, we have 15 United States patents relating to several of our products. In addition, we have a United States patent on a method to fold and put on sterile garments. We believe that our patents may offer a competitive advantage, but there can be no assurance that any patents, issued or in process, will not be circumvented or invalidated. We also rely on trade secrets and proprietary know-how to maintain and develop our commercial position.

The various United States patents issued have remaining durations of approximately 1 to 9 years before expiration.

Trademarks

Many of our products are sold under various trademarks and trade names, including Alpha Pro Tech. We believe that many of our trademarks and trade names have significant recognition in our principal markets, and we take customary steps to register or otherwise protect our rights in our trademarks and trade names.

EMPLOYEES

As of February 28, 2017, we had 104 full-time employees, including 16 employees at our principal executive office in Markham, Ontario, Canada; 9 employees at our face mask production facility in Salt Lake City, Utah; 30 employees at our Disposable Protective Apparel segment cutting, warehouse and shipping facility in Nogales, Arizona; 36 employees at our Building Supply segment facility in Valdosta, Georgia; 13 employees on our sales and marketing team, located in various areas throughout the United States; and 3 employees in China.

None of our employees are subject to collective bargaining agreements.

AVAILABLE INFORMATION

We make available free of charge on our Internet website (http://www.alphaprotech.com) our most recent Annual Report on Form 10-K, our most recent Quarterly Report on Form 10-Q, any current reports on Form 8-K furnished or filed since our most recent Annual Report on Form 10-K and any amendments to such reports as soon as reasonably practicable following the electronic filing of such reports with the SEC. These reports are also available on the SEC's website (http://www.sec.gov). You may read and copy reports that we file with the SEC at its public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. The past three years of news releases also are made available on the Company's website. In addition, we provide electronic or paper copies of our filings free of charge upon request.

The Company is not including the information contained on or available through its website as a part of, or incorporating such information into, this Annual Report on Form 10-K.

Item 1A. Risk Factors.

Making or continuing an investment in common stock issued by the Company involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on the Company. Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, financial condition and results of operations could be negatively affected, the market price of our common stock could decline and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company.

Global economic conditions could adversely affect the Company's business and financial results.

Unfavorable economic conditions, including the impact of recessions and general economic downturns in the United States and throughout the world, may negatively affect the Company's business and financial results. These economic conditions could negatively impact (i) demand for our products, (ii) the mix of our products' sales, (iii) our ability to collect accounts receivable on a timely basis from certain customers and (iv) the ability of certain suppliers to fill our orders for raw materials or other goods and services. A prolonged recession could result in decreased revenue, margins and earnings.

The loss of any large customer or a reduction in orders from any large customer could reduce our net sales and harm our operating results.

Our operating results could be negatively affected by the loss of revenue from a few large customers. Our customers are not contractually obligated to purchase any fixed quantities of products, and they may stop placing orders with us at any time. We are subject to the risk of losing large customers or incurring significant reductions in sales to these customers.

We rely on suppliers and contractors, and our business could be seriously harmed if these suppliers and contractors are not able to meet our requirements.

We rely on a limited number of suppliers and contractors for our Disposable Protective Apparel and Building Supply segments. If we lose the services of these key suppliers and contractors, or if they are not willing or able to satisfy our requirements, finding substitute suppliers or contractors may be time-consuming and would affect our results of operations in the near term.

There are risks associated with international manufacturing that could have a significant effect on our business.

We subcontract the manufacturing of some of our goods to Asia. These goods are manufactured pursuant to our specifications and quality assurance guidelines. Certain proprietary products are being made in Asia using materials supplied by us.

We expect that a significant portion of our product sales will be derived from the sale of products for which we subcontract the manufacturing to Asia, but we cannot be certain that we will be able to maintain such subcontracting at current levels. If our ability to subcontract some of our manufacturing to Asia were to decline significantly, our business, results of operations and financial condition could be materially adversely affected. International manufacturing is subject to a number of risks, including the following:

changes in foreign government regulations and technical standards;

difficulty of protecting intellectual property;

requirements or preferences of foreign nations for the manufacture of domestic products;

the imposition of duties, border adjustment taxes or tariffs and other barriers to trade;

fluctuations in currency exchange rates relative to the U.S. dollar; and

political and economic instability.

Our joint venture may present risks that are not present when third parties are not involved.

We currently participate in a joint venture in India and may in the future enter into joint ventures with other companies or enterprises in international markets, including joint ventures where we may have a lesser degree of control over the business operations, which may expose us to additional operational, financial, legal or compliance risks. We may be dependent on a joint venture counterparty for product distribution, local market knowledge or other resources. If we are unable to effectively cooperate with joint venture partners, or any joint venture partner fails to meets its obligations under the joint venture arrangement, encounters financial difficulty, or elects to alter, modify or terminate the relationship, we may be unable to achieve our objectives and our results of operations may be negatively impacted thereby.

Our success depends in part on protection of our intellectual property, and our failure to do so could adversely affect our competitive advantage, our brand recognition and our business.

The success and competitiveness of our products depend in part upon our ability to protect our current and future technology, manufacturing processes and brand names, including Alpha Pro Tech, through a combination of patent, trademark, trade secret and unfair competition laws.

We enter into confidentiality and non-disclosure of intellectual property agreements with our employees, consultants and certain vendors and generally control access to and distribution of our proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our proprietary information without authorization or to develop similar information independently.

Policing unauthorized use of intellectual property is difficult. The laws of other countries may afford little or no effective protection of our technology. We cannot assure you that the steps taken by us will prevent misappropriation of our technology or that agreements entered into for that purpose will be enforceable. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets and to determine the validity and scope of the proprietary rights of others. Litigation may result in substantial costs and diversion of resources, either of which could have a material adverse effect on our business, results of operations and financial condition.

Our industry is highly competitive, which may affect our ability to grow our customer base and generate sales.

The markets for our products are intensely competitive. We currently experience competition from numerous companies in each of the markets in which we participate.

Many of our competitors are more established, benefit from greater market recognition and have substantially greater financial, development, manufacturing and marketing resources than we have.

If we do not compete successfully with respect to these or other companies, it could materially adversely affect our business, results of operations and financial condition.

The Company's results are affected by competitive conditions and customer preferences.

Demand for the Company's products, which impacts revenue and profit margins, is affected by (i) the development and timing of the introduction of competitive products; (ii) the Company's response to downward pricing to stay competitive; (iii) changes in customer order patterns, such as changes in the levels of inventory maintained by customers and the timing of customer purchases; and (iv) changes in customers' preferences for our products, including the success of products offered by our competitors and changes in customer designs for our competitors' products that can affect the demand for the Company's products.

The Company's growth objectives are largely dependent on the timing and market acceptance of its new product offerings, including its ability to continually renew its pipeline of new products and to bring those products to market.

This ability may be adversely affected by difficulties or delays in product development, such as the inability to identify viable new products, obtain adequate intellectual property protection or gain market acceptance of new products. There are no guarantees that new products will prove to be commercially successful.

Security breaches and other disruptions to the Company's information technology infrastructure could interfere with the Company's operations, compromise information belonging to the Company and its customers and suppliers and expose the Company to liability, which could adversely impact the Company's business and reputation.

In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores sensitive data, including proprietary business information. Despite security measures and business continuity plans, the Company's information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attack by hackers, breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. Any such event could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations and damage to the Company's reputation, which could adversely affect the Company's business.

The Company's future results may be affected by various legal and regulatory proceedings and legal compliance risks.

From time to time, the Company is subject to certain legal and regulatory proceedings in the ordinary course of business. The outcome of these legal proceedings may differ from the Company's expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible to reasonable estimates, such as a significant judicial ruling or judgment, settlement, regulatory development or change in applicable law. A future adverse ruling, settlement or unfavorable development could result in charges that could have a material adverse effect on the Company's results of operations or cash flows in any particular period.

Our common stock price is volatile, which could result in substantial losses for individual shareholders.

The market price of our common stock has been volatile, and we expect that it will continue to be volatile. In particular, our common stock may be subject to significant fluctuations in response to a variety of factors, including, but not limited to:

- general economic and business conditions;
- changing market conditions in the industries that we serve;
- monetary and fiscal policies, laws and regulations and other activities of government agencies and similar organizations;

- actual or anticipated variations in quarterly operating results;
- failure to meet analyst predictions and projections;
- costs and other effects of legal and administrative proceedings, claims, settlements and judgments;
- additions or departures of key personnel;
- announcements of innovations or new services by us or our competitors;
- our sales of common stock or other securities in the future; and
- other events or factors, many of which are beyond our control.

Due to these factors, you may not be able to sell your stock at or above the price you paid for it, which could result in substantial losses.

We invest in a publicly traded entity with a common stock price that is volatile, which could result in substantial losses for the Company.

The market price of the entity's common stock has been volatile, and we expect that it will continue to be volatile as it is a publicly traded stock. In particular, the entity's common stock may be subject to significant fluctuations in response to a variety of factors, including, but not limited to:

- general economic and business conditions;
- changing market conditions in the industries that it serves;
- monetary and fiscal policies, laws and regulations and other activities of government agencies and similar organizations;
- actual or anticipated variations in quarterly operating results;
- failure to meet analyst predictions and projections;
- costs and other effects of legal and administrative proceedings, claims, settlements and judgments;
- additions or departures of key personnel;
- announcements of innovations or new services by the entity or its competitors;
- its sales of common stock or other securities in the future; and
- other events or factors, many of which are beyond its control.

Due to these factors, we may not be able to sell the investment in the publicly traded entity at or above the price we paid for it, which could result in substantial losses.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's principal executive office is located at 60 Centurian Drive, Suite 112, Markham, Ontario, Canada, L3R 9R2. The approximate monthly rent is $6,000 for 4,200 square feet under a lease expiring February 28, 2018. Working out of the principal executive office are the President and Chairman, Alexander W. Millar, the Chief Executive Officer, Lloyd Hoffman, and the Chief Financial Officer, Colleen McDonald.

The Building Supply segment manufacturing facility is located at 301 South Blanchard Street, Valdosta, Georgia. The average monthly rent is $36,800 for 165,400 square feet. This lease expires on January 1, 2024.

The Disposable Protective Apparel segment has its cutting operation, warehousing and shipping facility at 1287 Fairway Drive, Nogales, Arizona. The monthly rent is $24,100 for 60,000 square feet. This lease expires on December 31, 2017.

The Company manufactures its surgical face masks at 236 North 2200 West, Salt Lake City, Utah. The monthly rent is $19,500 for 34,500 square feet. This lease expires on July 31, 2019.

The Company believes that these arrangements are adequate for its present needs and that other premises, if required, are readily available.

Item 3. Legal Proceedings.

The Company is subject to various pending and threatened litigation actions in the ordinary course of business. Although it is not possible to determine with certainty at this point in time what liability, if any, we will have as a result of such litigation, based on consultation with legal counsel, management does not anticipate that the ultimate liability, if any, resulting from such litigation will have a material effect on our financial condition and results of operations.

10

Item 4. Mine Safety Disclosures.

N/A

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

MARKET INFORMATION

The Company's common stock trades on the NYSE MKT (formerly the NYSE Amex and the American Stock Exchange) (the "NYSE MKT") under the symbol "APT."

The following table sets forth the low and high sales prices of the Company's common stock for the periods indicated, as reported by the NYSE MKT.

		Low	High
2015	First Quarter	$2.20	$2.91
Second Quarter		2.11	2.93
Third Quarter		1.94	2.30
Fourth Quarter		1.55	2.25
2016	First Quarter	$1.55	$1.95
Second Quarter		1.85	2.55
Third Quarter		2.20	3.68
Fourth Quarter		2.85	3.80

As of February 9, 2017, the Company's common stock was held by 154 shareholders of record and approximately 6,240 beneficial owners.

DIVIDEND POLICY

The holders of the Company's common stock are entitled to receive such dividends as may be declared by the Board of Directors of the Company from time to time to the extent that funds are legally available for payment thereof. The Company has never declared or paid any dividends on any of its outstanding shares of common stock. The Board of Directors' current policy is not to pay dividends but rather to use available funds to repurchase common shares in accordance with the Company's repurchase program and to fund the continued development and growth of the Company. Consequently, the Company has no plans to pay cash dividends in the foreseeable future.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth purchases made by or on behalf of the Company or any "affiliated purchaser," as defined in Rule 10b-18 (a)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"), during the fourth quarter of 2016.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
October 1 - 31, 2016	371,700	$ 3.47	371,700	$ 1,289,000
November 1 - 30, 2016	310,800	3.38	310,800	3,231,000
December 1 - 31, 2016	207,000	3.48	207,000	2,505,000
	889,500	$ 3.44	889,500	

(1) Pursuant to the Company's share repurchase program, on November 15, 2016, the Company announced that the Board of Directors had authorized a $3,000,000 expansion of the Company's existing share repurchase program. Under the share repurchase program, the Company has authorized the repurchase of $27,520,000 of common stock, of which $2,505,000 was available to repurchase as of December 31, 2016.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not sell any unregistered equity securities during the periods covered by this Annual Report on Form 10-K.

Item 6. Selected Financial Data

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis together with our consolidated financial statements and the notes to our consolidated financial statements, which appear elsewhere in this report.

Special Note Regarding Forward-Looking Statements

Certain information set forth in this Annual Report on Form 10-K contains “forward-looking statements” within the meaning of federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to potential acquisitions and other information that is not historical information. When used in this report, the words “estimates,” “expects,” “anticipates,” “forecasts,” “plans,” “intends,” “believes” and variations of such words similar expressions are intended to identify forward-looking statements. We may make additional forward-looking statements from time to time. All forward-looking statements, whether written or oral and whether made by us or on our behalf, are expressly qualified by this special note.

Any expectations based on these forward-looking statements are subject to risks and uncertainties. These and many other factors could affect the Company’s future operating results and financial condition and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by the Company or on its behalf.

Special Note Regarding Smaller Reporting Company Status

We are filing this Annual Report on Form 10-K as a "smaller reporting company" (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended) based on our public float (the aggregate market value of our common equity held by non-affiliates of the Company) as of the last business day of our second fiscal quarter of 2016. As a result of being a smaller reporting company, we are allowed and have elected to omit certain information from this Management's Discussion and Analysis of Financial Condition and Results of Operations; however, we have provided all information for the periods presented that we believe to be appropriate and necessary.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with U.S. generally accepted accounting principles ("US GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the periods reported. We base estimates on past experience and on various other assumptions that are believed to be reasonable under the circumstances. The application of these accounting policies on a consistent basis enables us to provide timely and reliable financial information. Our significant accounting policies and estimates are more fully described in "Note 2 – Summary of Significant Accounting Policies" in the notes to our consolidated financial statements in Item 8. Our critical accounting policies and estimates include the following:

Accounts Receivable: Accounts receivable are recorded at the invoice amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. The Company determines the allowance based upon historical write-off experience and known conditions about customers' current ability to pay. Account balances are charged against the allowance when the potential for recovery is considered remote.

Inventories: Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost or market. Allowances are recorded for slow-moving, obsolete or unusable inventory. We assess our inventory for estimated obsolescence or unmarketable inventory and write down the difference between the cost of inventory and the estimated market value based upon assumptions about future sales and supply on-hand, if necessary. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Revenue Recognition: For sales transactions, we comply with the provisions of the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104, *Revenue Recognition*, which states that revenue should be recognized when all of the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) title transfers and the customer assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. These criteria are satisfied upon shipment of product, and sales are recognized accordingly.

Sales Returns, Rebates and Allowances: Sales are reduced for any anticipated sales returns, rebates and allowances based on historical experience. Since our return policy is only 90 days and our products are not generally susceptible to external factors such as technological obsolescence or significant changes in demand, we are able to make a reasonable estimate for returns. We offer end-user product specific and sales volume rebates to select distributors. Our rebates are based on actual sales and are accrued monthly.

Stock-Based Compensation: The Company accounts for stock-based awards using Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718, *Stock Compensation* ("ASC 718"). ASC 718 requires companies to record compensation expense for the value of all outstanding and unvested share-based payments, including employee stock options and similar awards.

The fair values of stock option grants are determined using the Black-Scholes option-pricing model and are based on the following assumptions: expected stock price volatility based on historical data and management's expectations of future volatility, risk-free interest rates from published sources, expected term based on historical data and no dividend yield, as the Board of Directors currently has no plans to pay dividends in the near future. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. In addition, the option-pricing model requires the input of highly subjective assumptions, including expected stock price volatility. Our stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value of such options.

OVERVIEW

Alpha Pro Tech is in the business of protecting people, products and environments. We accomplish this by developing, manufacturing and marketing a line of high-value, disposable protective apparel and infection control products for the cleanroom, industrial, pharmaceutical, medical and dental markets. We also manufacture a line of building supply construction weatherization products. Our products are sold under the Alpha Pro Tech brand name, as well as under private label.

Our products are grouped into three business segments: the Building Supply segment, consisting of construction weatherization products, such as housewrap and synthetic roof underlayment, as well as other woven material; the Disposable Protective Apparel segment, consisting of disposable protective apparel, such as shoecovers, bouffant caps, gowns, coveralls, lab coats, frocks and other miscellaneous products; and the Infection Control segment, consisting of face masks and eye shields. All financial information presented herein reflects the current segmentation.

Our target markets include pharmaceutical manufacturing, bio-pharmaceutical manufacturing and medical device manufacturing, lab animal research, high technology electronics manufacturing (which includes the semi-conductor market), medical and dental distributors, and construction, building supply and roofing distributors.

Our products are used primarily in cleanrooms, industrial safety manufacturing environments, health care facilities, such as hospitals, laboratories and dental offices, and building and re-roofing sites. Our products are distributed principally in the United States through a network consisting of purchasing groups, national distributors, local distributors, independent sales representatives and our own sales and marketing force.

RESULTS OF OPERATIONS

The following table sets forth certain operational data as a percentage of sales for the years indicated:

	2016		**2015**	
Net sales	100.0	%	100.0	%
Gross profit	36.8	%	35.5	%
Selling, general and administrative expenses	27.7	%	30.7	%
Income from operations	8.0	%	3.3	%
Income before provision for income taxes	9.0	%	3.4	%
Net income	6.9	%	2.3	%

Fiscal 2016 Compared to Fiscal 2015

Sales. Consolidated sales for the year ended December 31, 2016 increased to $46,176,000, from $44,955,000 for the year ended December 31, 2015, representing an increase of $1,221,000, or 2.7%. This increase consisted of increased sales in the Building Supply segment of $1,543,000 and increased sales in the Infection Control segment of $120,000, partially offset by decreased sales in the Disposable Protective Apparel segment of $442,000.

Building Supply segment sales for the year ended December 31, 2016 increased by $1,543,000, or 6.0%, to $27,343,000, compared to $25,800,000 for 2015. This segment increase was primarily due to a 10.8% increase in sales of housewrap, a 0.4% increase in sales of synthetic roof underlayment (including REX™, TECHNOply™ and TECHNO SB) and a 27.0% increase in sales of other woven material. Building Supply segment sales by rolls increased by a larger percentage than by dollars due to a competitive marketplace. Sales by rolls for the year ended December 31, 2016 increased by 10.4%, with a 15.0% increase in sales of housewrap and 6.3% increase in sales of synthetic roof underlayment. The sales mix of the Building Supply segment for the year ended December 31, 2016 was 60% for synthetic roof underlayment, 35% for housewrap and 5% for other woven material. This compared to 62% for synthetic roof underlayment, 33% for housewrap and 5% for other woven material for the year ended December 31, 2015.

Sales for the Disposable Protective Apparel segment for the year ended December 31, 2016 decreased by $442,000, or 3.0%, to $14,219,000, compared to $14,661,000 for 2015. The decrease was primarily due to a decrease in sales to our national and regional distributors and to a lesser extent decreased sales to our major international supply chain partner.

Infection Control segment sales for the year ended December 31, 2016 increased by $120,000, or 2.7%, to $4,614,000, compared to $4,494,000 for 2015. Shield sales were up by 14.2%, or $175,000, to $1,404,000, and mask sales were down by 1.7%, or $55,000, to $3,210,000.

Gross Profit. Gross profit increased by $1,012,000, or 6.3%, to $16,984,000 for the year ended December 31, 2016, from $15,972,000 for 2015. The gross profit margin was 36.8% for the year ended December 31, 2016, compared to 35.5% for 2015. In 2015, gross profit margin was positively affected by the U.S. Customs and Border Protection issuing in 2015 a retroactive Generalized System of Preferences (GSP) refund for duty paid on eligible products. Certain Building Supply and Disposable Apparel segment products were eligible for this refund and will remain duty free under this program until at least December 31, 2017. Management expects gross profit margin to be in a similar range in 2017.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by $1,026,000, or 7.4%, to $12,768,000 for the year ended December 31, 2016 from $13,794,000 for 2015. As a percentage of net sales, selling, general and administrative expenses decreased to 27.7% for the year ended December 31, 2016, from 30.7% for 2015. The decrease in expenses was primarily due to an accrual of $601,000 related to the retirement of our former Chief Executive Officer in the third quarter of 2015, which was not repeated in 2016, and a decrease in legal expenses of $335,000 in 2016 compared to 2015.

The change in expenses by segment was as follows: Building Supply was down $216,000, or 4.8%, Disposable Protective Apparel was down $265,000, or 7.0%, Infection Control was down $34,000, or 5.7%, and corporate unallocated expenses were down $511,000, or 10.4%, with $601,000 having been recorded for the retirement accrual in 2015, which was not repeated in 2016.

The Company’s President is entitled to a bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense. A bonus of $232,000 was accrued for the year ended December 31, 2016, as compared to $76,000 for the same period of 2015.

Depreciation and Amortization. Depreciation and amortization expense decreased by $159,000, or 22.6%, to $544,000 for the year ended December 31, 2016, from $703,000 for 2015. The decrease was primarily attributable to decreased depreciation for machinery and equipment in the Infection Control segment.

Income from Operations. Income from operations increased by $2,197,000, or 148.9%, to $3,672,000 for the year ended December 31, 2016, compared to $1,475,000 for 2015. The increased income from operations was primarily due to an increase in gross profit of $1,012,000, a decrease in selling, general and administrative expenses of $1,026,000 and a decrease in depreciation and amortization expense of $159,000.

Other Income. Other income increased by $457,000 to $503,000 for the year ended December 31, 2016, from $46,000 for 2015. Other income consists of equity in income of unconsolidated affiliate and interest income. Other income consisted primarily of equity in income of unconsolidated affiliate of $498,000 and interest income of $5,000 for the year ended December 31, 2016. Other income consisted primarily of equity in income of unconsolidated affiliate of $32,000 and interest income of $14,000 for the year ended December 31, 2015. The equity in income of unconsolidated affiliate was significantly higher in 2016 due to higher gross margin and more income in relation to government incentive programs.

Income before Provision for Income Taxes. Income before provision for income taxes for the year ended December 31, 2016 was $4,175,000, compared to income before provision for income taxes of $1,521,000 for 2015, representing an increase of $2,654,000, or 174.5%. This increase in income before provision for income taxes was primarily due to an increase in income from operations of $2,197,000 and an increase in other income of $457,000.

14

Provision for Income Taxes. The provision for income taxes for the year ended December 31, 2016 was $1,007,000, compared to $480,000 for 2015. The estimated effective tax rate was 24.1% for the year ended December 31, 2016, compared to 31.6% for 2015. In the fourth quarter of 2016, the Company recorded a tax benefit of $194,000 from reversing an uncertain tax position that was accrued in 2012. Excluding this tax benefit, the effective tax rate would have been 28.8% for the year ended December 31, 2016.

Net Income. Net income for the year ended December 31, 2016 was $3,168,000, compared to net income of $1,041,000 for 2015, representing an increase of $2,127,000, or 204.3%. The net income increase was due to an increase in income before provision for income taxes of $2,654,000, partially offset by an increase in provision for income taxes of $632,000. Net income as a percentage of net sales for the year ended December 31, 2016 was 6.9%, and net income as a percentage of net sales for 2015 was 2.3%. Basic and diluted earnings per common share for the years ended December 31, 2016 and 2015 were $0.19 and $0.06, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, we had cash of $9,456,000 and working capital of $27,198,000, representing a decrease in working capital of 12.1%, or $3,728,000, from December 31, 2015. As of December 31, 2016, our current ratio (current assets/current liabilities) was 12:1, compared to a 15:1 current ratio as of December 31, 2015. Cash decreased by 2.3%, or $225,000, to $9,456,000 as of December 31, 2016, compared to $9,681,000 as of December 31, 2015. The decrease in cash was due to cash used in financing activities of $6,750,000 and cash used in investing activities of $308,000, offset by cash provided by operating activities of $6,833,000.

We have a $3,500,000 credit facility with Wells Fargo Bank, consisting of a line of credit with interest at prime plus 0.5%. As of December 31, 2016, the prime interest rate was 3.75%. This credit line was renewed in May 2016 and expires in May 2018. The available line of credit is based on a formula of eligible accounts receivable and inventories. Our borrowing capacity on the line of credit was $3,500,000 as of December 31, 2016. As of December 31, 2016, we did not have any borrowings under this credit facility and do not anticipate using it in the near future.

Net cash provided by operating activities of $6,833,000 for the year ended December 31, 2016 was due to net income of $3,168,000, impacted primarily by the following: share-based compensation expense of $190,000, depreciation and amortization of $544,000, equity in income of unconsolidated affiliate of $498,000, a decrease in deferred income taxes of $21,000, an increase in accounts receivable of $2,052,000, an increase in prepaid expenses of $254,000, a decrease in inventory of $5,404,000, and an increase in accounts payable and accrued liabilities of $310,000.

Net cash provided by operating activities of $5,971,000 for the year ended December 31, 2015 was due to net income of $1,041,000, impacted by the following: share-based compensation expense of $24,000, depreciation and amortization of $703,000, equity in income of unconsolidated affiliate of $32,000, a decrease in deferred income taxes of $48,000, a decrease in accounts receivable of $2,896,000, a decrease in inventories of $146,000, a decrease in prepaid expenses of $1,380,000, and a decrease in accounts payable and accrued liabilities of $139,000.

Accounts receivable increased by $2,052,000, or 74.1%, to $4,822,000 as of December 31, 2016, from $2,770,000 as of December 31, 2015. The increase in accounts receivable was primarily related to extended payment terms that we provided on some Building Supply segment sales to remain competitive, as our competition offers these extended payment terms as well. The number of days that sales remained outstanding as of December 31, 2016, calculated by using an average of accounts receivable outstanding and annual revenue, was 30 days, compared to 34 days as of December 31, 2015.

Inventory decreased by $5,404,000, or 33.0%, to $10,994,000 as of December 31, 2016, from $16,398,000 as of December 31, 2015. The decrease was primarily due to a decrease in inventory for the Disposable Protective Apparel segment of $2,033,000, or 35.2%, to $3,736,000, a decrease in inventory for the Building Supply segment of $2,916,000, or 37.3%, to $4,909,000, and a decrease in inventory for the Infection Control segment of $455,000, or 16.2%, to $2,349,000. Inventory decreased across all segments as a result of a strategic decision to carry less days of inventory.

Prepaid expenses and other current assets increased by $254,000, or 8.2%, to $3,346,000 as of December 31, 2016, from $3,092,000 as of December 31, 2015. The increase was primarily due to an increase in prepaid tax payments.

Accounts payable and accrued liabilities as of December 31, 2016 increased by $310,000, or 14.4%, to $2,465,000 from $2,155,000 as of December 31, 2015. The change was primarily due to an increase in accrued liabilities offset by a small decrease in trade payables.

Net cash used in investing activities was $308,000 for the year ended December 31, 2016, compared to net cash used in investing activities of $449,000 for 2015. Investing activities for the year ended December 31, 2016 consisted of the purchase of property and equipment of $267,000 and the purchase of marketable securities of $41,000. Investing activities for the year ended December 31, 2015 consisted of the purchase of property and equipment of $274,000 and the purchase of marketable securities of $175,000.

Net cash used in financing activities was $6,750,000 for the year ended December 31, 2016, compared to net cash used in financing activities of $1,336,000 for 2015. Net cash used in financing activities for the year ended December 31, 2016 resulted from the payment of $6,773,000 for the repurchase of common stock, partially offset by the proceeds of $17,000 from the exercise of stock options and $6,000 from excess tax benefit from stock options exercised. Net cash used in financing activities for the year ended December 31, 2015 resulted from the payment of $2,110,000 for the repurchase of common stock, partially offset by the proceeds of $765,000 from the exercise of stock options and $9,000 from the excess tax benefit from stock options exercised.

As of December 31, 2016, we had $2,505,000 available for additional stock purchases under our stock repurchase program. For the year ended December 31, 2016, we repurchased 2,453,900 shares of common stock at a cost of $6,773,000. As of December 31, 2016, we had repurchased a total of 14,971,531 shares of common stock at a cost of $25,015,000 through our repurchase program. We retire all stock upon its repurchase. Future repurchases are expected to be funded from cash on hand and cash flows from operating activities.

We believe that our current cash balance and the funds available under our credit facility will be sufficient to satisfy our projected working capital and planned capital expenditures for the foreseeable future.

Related Parties

The Company uses a law firm whose majority member is also a member of the Company’s Board of Directors. The amounts charged by the law firm are billed at the law firm’s normal billing rates.

New Accounting Standards

Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”) is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. ASU 2014-09 is effective for the first interim period within an annual reporting period beginning after December 15, 2017, and early adoption is not permitted. The Company will adopt ASU 2014-09 during the first quarter of 2018. Management is evaluating the provisions of this update and at this point in time has determined that its adoption will have limited to no impact on the Company’s financial position or results of operations.

ASU 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory* (“ASU 2015-11”), applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the updated guidance, a company should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation, instead of at the lower of cost or market. ASU 2015-11 is effective for annual and interim periods beginning after December 15, 2016, and is applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. Management is evaluating the provisions of this update and at this point in time has determined that its adoption will have limited to no impact on the Company’s financial position or results of operations.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes* (Topic 740): *Balance Sheet Classification of Deferred Taxes*, which requires deferred income tax liabilities and assets to be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. The guidance is effective for public entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption being permitted. The Company has not adopted this guidance for the year ended December 31, 2016.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides guidance for the recognition, measurement, presentation, and disclosure of financial instruments. The new guidance revises the accounting requirements related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also changes certain disclosure requirements associated with the fair value of financial instruments. These changes will require an entity to measure, at fair value, investments in equity securities and other ownership interests in an entity and recognize the changes in fair value within net income. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Company has not yet adopted this guidance and has not yet determined the impact of adoption on the Company’s financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize most leases on the balance sheet. The provisions of this guidance are effective for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. Management is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on the Company’s financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The provisions of this guidance are effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. Management is evaluating the provisions of this update and has not determined the impact its adoption will have on the Company’s financial position or results of operations.

16

Management periodically reviews new accounting standards that are issued. Management has not identified any other new standards that it believes merit further discussion.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We subcontract the manufacturing of products in China and, to a lesser extent in Mexico, and have a joint venture in India. In addition, our principal executive office, with 16 employees, is located in Canada. We do not believe that we have a material foreign currency exposure due to the fact that our purchase agreements with companies in China, India and Mexico are settled in U.S dollars. In addition, all sales transactions are in U.S. dollars. In Canada, our foreign currency exposure is not material due to the fact that we do not conduct manufacturing operations in Canada. Our exposure is limited to payroll expenses in the Canadian branch office.

We do not expect any significant effect on our consolidated results of operations from inflation, interest or currency rate fluctuations. We do not hedge interest rates or foreign exchange risks.

Alpha Pro Tech, Ltd.

Item 8. Financial Statements and Supplementary Data.

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

Alpha Pro Tech, Ltd.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

• pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions;

• provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and

• provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed, as of December 31, 2016, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in accordance with the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Alpha Pro Tech, Ltd.:

We have audited the accompanying consolidated balance sheets of Alpha Pro Tech, Ltd. and subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alpha Pro Tech, Ltd. and subsidiaries as of December 31, 2016 and 2015 and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Tanner LLC

Salt Lake City, Utah

March 8, 2017

Alpha Pro Tech, Ltd.

Consolidated Balance Sheets

	December 31,	
	2016	**2015**
Assets		
Current assets:		
Cash	$9,456,000	$9,681,000
Investments	607,000	656,000
Accounts receivable, net of allowance for doubtful accounts of $66,000 and $46,000 as of December 31, 2016 and 2015, respectively	4,648,000	2,762,000
Accounts receivable, related party	174,000	8,000
Inventories	10,994,000	16,398,000
Prepaid expenses	3,346,000	3,092,000
Deferred income tax assets	438,000	484,000
Total current assets	29,663,000	33,081,000
Property and equipment, net	2,646,000	2,907,000
Goodwill	55,000	55,000
Definite-lived intangible assets, net	34,000	51,000
Equity investments in unconsolidated affiliate	3,538,000	3,040,000
Total assets	$35,936,000	$39,134,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$1,005,000	$1,027,000
Accrued liabilities	1,460,000	1,128,000
Total current liabilities	2,465,000	2,155,000
Deferred income tax liabilities	807,000	867,000
Total liabilities	3,272,000	3,022,000
Commitments		
Shareholders' equity:		
Common stock, $.01 par value: 50,000,000 shares authorized; 15,411,556 and 17,850,456 shares outstanding as of December 31, 2016 and 2015, respectively	154,000	178,000
Additional paid-in capital	9,990,000	16,526,000
Accumulated other comprehensive loss	(204,000)	(148,000)
Retained earnings	22,724,000	19,556,000
Total shareholders' equity	32,664,000	36,112,000
Total liabilities and shareholders' equity	$35,936,000	$39,134,000

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Income

	Years Ended December 31,	
	2016	**2015**
Net sales	$46,176,000	$44,955,000
Cost of goods sold, excluding depreciation and amortization	29,192,000	28,983,000
Gross profit	16,984,000	15,972,000
Operating expenses:		
Selling, general and administrative	12,768,000	13,794,000
Depreciation and amortization	544,000	703,000
Total operating expenses	13,312,000	14,497,000
Income from operations	3,672,000	1,475,000
Other income:		
Equity in income of unconsolidated affiliate	498,000	32,000
Interest income, net	5,000	14,000
Total other income	503,000	46,000
Income before provision for income taxes	4,175,000	1,521,000
Provision for income taxes	1,007,000	480,000
Net income	$3,168,000	$1,041,000
Basic earnings per common share	$0.19	$0.06
Diluted earnings per common share	$0.19	$0.06
Basic weighted average common shares outstanding	16,835,129	18,197,109
Diluted weighted average common shares outstanding	16,835,129	18,238,364

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

22

Alpha Pro Tech, Ltd.

Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,	
	2016	**2015**
Net income	$3,168,000	$1,041,000
Other comprehensive loss:		
Change in unrealized loss on marketable securities, net of tax	(56,000)	(1,523,000)
Total other comprehensive loss	(56,000)	(1,523,000)
Comprehensive income (loss)	$3,112,000	$(482,000)

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional	Accumulated Other		
	Shares	Amount	Paid-in Capital	Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of December 31, 2014	18,348,556	$183,000	$17,833,000	$ 1,375,000	$18,515,000	$37,906,000
Options exercised	475,000	5,000	760,000	-	-	765,000
Common stock repurchased and retired	(973,100)	(10,000)	(2,100,000)	-	-	(2,110,000)
Excess tax benefit from stock options exercised	-	-	9,000	-	-	9,000
Share-based compensation expense	-	-	24,000	-	-	24,000
Net income	-	-	-	-	1,041,000	1,041,000
Other comprehensive loss	-	-	-	(1,523,000)	-	(1,523,000)
Balance as of December 31, 2015	17,850,456	178,000	16,526,000	(148,000)	19,556,000	36,112,000
Options exercised	15,000	-	17,000	-	-	17,000
Common stock repurchased and retired	(2,453,900)	(24,000)	(6,749,000)	-	-	(6,773,000)
Excess tax benefit from stock options exercised	-	-	6,000	-	-	6,000
Share-based compensation expense	-	-	190,000	-	-	190,000
Net income	-					