

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 (I.R.S. Employer Identification No.)
Incorporation or Organization)

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:

| <u>Title of each Class</u> | <u>Name of each exchange on which registered</u> |
|---|--|
| 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

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

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 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 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.

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

Smaller reporting company

(Do not check if a 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

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.

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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 Company with 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, Inc. 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 meet 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.

8

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.

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.

| Period | Issuer Purchases of Equity Securities | | | |
|-----------------------|---------------------------------------|---------------------------------------|--|--|
| | 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 | |

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. (1) 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 and 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.

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.

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.

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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.

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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.

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 | Retained | Total |
|---|---------------------|---------------|-------------------|----------------------|----------------------|-----------------|---------------|
| | Shares | Amount | Paid-in | Comprehensive | Income (Loss) | Earnings | |
| | | | Capital | | | | |
| 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 | - | - | - | - | | 3,168,000 | 3,168,000 |
| Other comprehensive loss | - | - | - | (56,000) | | - | (56,000) |
| Balance as of December 31, 2016 | 15,411,556 | \$ 154,000 | \$ 9,990,000 | \$ (204,000) | | \$ 22,724,000 | \$ 32,664,000 |

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

Alpha Pro Tech, Ltd.**Consolidated Statements of Cash Flows**

| | Years Ended December | |
|---|-----------------------------|-------------|
| | 31, | |
| | 2016 | 2015 |
| Cash Flows From Operating Activities: | | |
| Net income | \$3,168,000 | \$1,041,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Share-based compensation | 190,000 | 24,000 |
| Depreciation and amortization | 544,000 | 703,000 |
| Equity in income of unconsolidated affiliate | (498,000) | (32,000) |
| Deferred income taxes | 21,000 | (48,000) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (1,886,000) | 2,571,000 |
| Accounts receivable, related party | (166,000) | 325,000 |
| Inventories | 5,404,000 | 146,000 |
| Prepaid expenses | (254,000) | 1,380,000 |
| Accounts payable and accrued liabilities | 310,000 | (139,000) |
| Net cash provided by operating activities | 6,833,000 | 5,971,000 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (267,000) | (274,000) |
| Purchase of investments | (41,000) | (175,000) |
| Net cash used in investing activities | (308,000) | (449,000) |
| Cash Flows From Financing Activities: | | |
| Proceeds from exercise of stock options | 17,000 | 765,000 |
| Repurchase of common stock | (6,773,000) | (2,110,000) |
| Excess tax benefit from stock options exercised | 6,000 | 9,000 |
| Net cash used in financing activities | (6,750,000) | (1,336,000) |
| Increase (decrease) in cash | (225,000) | 4,186,000 |
| Cash, beginning of the year | 9,681,000 | 5,495,000 |
| Cash, end of the year | \$9,456,000 | \$9,681,000 |

Supplemental disclosure of cash flow information:

| | | |
|----------------------------|-----------|-----------|
| Cash paid for income taxes | \$795,000 | \$303,000 |
|----------------------------|-----------|-----------|

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

1. The Company

Alpha Pro Tech, Ltd. (“Alpha Pro Tech” or the “Company”) is in the business of protecting people, products and environments. The Company accomplishes this by developing, manufacturing and marketing a line of disposable protective apparel for the cleanroom, the industrial markets and the pharmaceutical markets; a line of building supply products for the new home and re-roofing markets; and a line of infection control products for the medical and dental markets.

The Building Supply segment consists of construction weatherization products, such as housewrap and synthetic roof underlayment, as well as other woven material.

The Disposable Protective Apparel segment consists of a complete line of shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats.

The Infection Control segment consists of a line of face masks and eye shields.

The Company’s products are sold under the Alpha Pro Tech brand name, and under private label, and are predominantly sold in the United States of America (“US”).

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, Alpha Pro Tech, Inc. and Alpha ProTech Engineered Products, Inc. All significant intercompany accounts and transactions have been eliminated.

Events that occurred after December 31, 2016 through the date on which these financial statements were filed with the Securities and Exchange Commission (“SEC”) were considered in the preparation of these financial statements.

Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

Periods Presented

All amounts have been rounded to the nearest thousand with the exception of the share data. The Company qualified 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 balance sheets as of the end of the two most recent years and statements of income, comprehensive income (loss), shareholders’ equity and cash flows for each of the two most recent years.

Investments

The Company periodically invests a portion of its cash in excess of short-term operating needs in marketable debt and equity securities. These investments are classified as available-for-sale in accordance with US GAAP. The Company does not have any investments in securities that are classified as held-to-maturity or trading. Available-for-sale investments are carried at their fair values using quoted prices in active markets for identical securities, with unrealized gains and losses, net of deferred income taxes, reported as a component of accumulated other comprehensive income (loss). Realized gains and losses, and declines in value deemed to be other-than-temporary on available-for-sale investments, are recognized in net income. The cost of securities sold is based on the specific identification method. Investments that the Company intends to hold for more than one year are classified as long-term investments in the accompanying balance sheets.

The Company had an investment in non-trading warrants to purchase common stock in a publicly traded entity. These warrants were derivatives that were carried at fair value in the accompanying balance sheets. Gains or losses from changes in the fair value of the warrants are recognized in the accompanying statements of income in the period in which they occurred.

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 its customers' current ability to pay. Account balances are charged against the allowance when management determines that the probability for collection is 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 inventories. The Company assesses inventories for estimated obsolescence or unmarketable products and writes down the difference between the cost of the inventories and the estimated market values based upon assumptions about future sales and supplies on-hand.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Property and equipment are depreciated or amortized using the straight-line method over the shorter of the respective useful lives of the assets or the related lease terms as follows:

| | |
|--|-------|
| Buildings (years) | 25 |
| Machinery and equipment (years) | 5- 15 |
| Office furniture and equipment (years) | 2- 7 |
| Leasehold improvements (years) | 4- 5 |

Expenditures for renewals and betterments are capitalized, whereas costs of maintenance and repairs are charged to operations in the period incurred.

Goodwill and Intangible Assets

The Company accounts for goodwill and definite-lived intangible assets in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350, *Intangibles – Goodwill and Other*. Goodwill is not amortized, but rather is tested annually for impairment. Intangible assets with finite lives are amortized over their useful lives (see Note 6). The Company’s patents and trademarks are recorded at cost and are amortized using the straight-line method over their estimated useful lives of 5-17 years.

Fair Value of Financial Instruments

The estimated fair values of financial instruments are determined based on relevant market information and cannot be determined with precision. The Company’s financial instruments consist primarily of cash and marketable securities.

The Company’s marketable securities are classified as available-for-sale and are carried at fair market value based on quoted market prices.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in its business circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If it is determined that the undiscounted future net cash flows are not sufficient to recover the carrying values of the assets, an impairment loss is recognized for the excess of the carrying values over the fair values of the assets. The Company believes that the future undiscounted net cash flows to be received from its long-lived assets exceed the assets’ carrying values and, accordingly, the Company has not recognized any impairment losses for the years ended December 31, 2016 and 2015.

Revenue Recognition

Sales are recognized when the following 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.

Shipping costs paid by the customers are included in revenue.

Sales are reduced for any anticipated sales returns, rebates and allowances based on historical data.

Shipping and Handling Costs

The costs of shipping products to distributors are recorded in cost of goods sold.

Stock-Based Compensation

The Company maintains a stock option plan under which the Company may grant incentive stock options and non-qualified stock options to employees and non-employee directors. Stock options have been granted with exercise prices at or above the fair market value of the underlying shares of common stock on the date of grant. Options vest and expire according to terms established at the grant date.

The Company accounts for stock-based awards in accordance with ASC 718, *Stock Compensation*. ASC 718 requires companies to record compensation expense for the value of all outstanding and unvested share-based awards, including employee stock options.

For the years ended December 31, 2016 and 2015, there were 855,000 and 120,000 stock options granted, respectively, under the Company's option plan. The Company recognized \$190,000 and \$24,000 in share-based compensation expense for the years ended December 31, 2016 and 2015, respectively, related to issued options.

Income Taxes

The Company accounts for income taxes using the asset and liability method. A valuation allowance is recorded to reduce the carrying amounts of deferred income tax assets unless it is more likely than not that such assets will be realized. The Company's policy is to record any interest and penalties assessed by the Internal Revenue Service as a component of the provision for income taxes. The Company presents taxes assessed by governmental authorities on revenue-producing activities (i.e., sales tax) on a net basis in the accompanying statements of income. The Company provides allowances for uncertain income tax positions when it is more likely than not that the position will not be sustained upon examination by the tax authority.

Alpha Pro Tech, Ltd. and its subsidiaries file income tax returns in the US federal jurisdiction, and in various state and foreign jurisdictions.

Earnings Per Common Share

The following table provides a reconciliation of both net income and the number of shares used in the computation of “basic” earnings per common share (“EPS”), which utilizes the weighted average number of common shares outstanding without regard to potential common shares, and “diluted” EPS, which includes all potential common shares which are dilutive for the years ended December 31, 2016 and 2015.

| | Years Ended December | |
|--|-----------------------------|--------------|
| | 31, | |
| | 2016 | 2015 |
| Net income (numerator) | \$3,168,000 | \$ 1,041,000 |
| Shares (denominator): | | |
| Basic weighted average common shares outstanding | 16,835,129 | 18,197,109 |
| Add: Dilutive effect of common stock options | - | 41,255 |
| Diluted weighted average common shares outstanding | 16,835,129 | 18,238,364 |
| Earnings per common share: | | |
| Basic | \$0.19 | \$0.06 |
| Diluted | \$0.19 | \$0.06 |

Translation of Foreign Currencies

Transactions in foreign currencies are translated into US dollars at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in foreign currencies at each period end are translated at the exchange rate in effect at that date. Transaction gains or losses on foreign currencies are reflected in selling, general and administrative expenses and were not material for the years ended December 31, 2016 and 2015.

The Company does not have a material foreign currency exposure due to the fact that all purchase agreements with companies in Asia and Mexico are in US dollars. In addition, all sales transactions are in US dollars. The Company's only foreign currency exposure is with its Canadian branch office. The foreign currency exposure is not material due to the fact that the Company does not manufacture in Canada. The exposure primarily relates to payroll expenses in the Company's administrative branch office in Canada.

Research and Development Costs

Research and development costs are expensed as incurred and are included in selling, general and administrative expenses. Such costs were not material for the years ended December 31, 2016 and 2015.

Advertising Costs

The Company expenses advertising costs as incurred. These costs are included in selling, general and administrative expenses and were \$39,000 and \$37,000 for the years ended December 31, 2016 and 2015, respectively.

Loss Contingencies

The outcomes of legal proceedings and claims brought against the Company are subject to uncertainty. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued, we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss.

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value in accordance with US GAAP, clarifies the definition of fair value within that framework and expands disclosures about the use of fair value measurements. On a quarterly basis, the Company measures at fair value certain financial assets using a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions. The following fair value hierarchy prioritizes the inputs into three broad

levels.

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. The fair values of the Company's financial assets as of December 31, 2016 and 2015 were determined using the following levels of inputs:

- Level 1—Quoted prices for identical instruments in active markets;
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

**Fair Value Measurements as of
December 31,**

| | Total | Level 1 | Level 2 | Level 3 |
|------------------------------|-----------|-----------|---------|---------|
| Assets: | | | | |
| Marketable securities - 2016 | \$607,000 | \$607,000 | \$ - | \$ - |
| Marketable securities - 2015 | 656,000 | 656,000 | - | - |

The fair values for the marketable securities, classified as Level 1, were obtained from quoted market prices.

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.

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

3. Investments

As of December 31, 2016 and 2015, investments totaled \$607,000 and \$656,000, respectively, which consisted of marketable securities.

The following provides information regarding the Company's marketable securities as of December 31, 2016 and 2015:

| | December 31, | |
|---|---------------------|-------------|
| | 2016 | 2015 |
| Cost basis | \$543,000 | \$502,000 |
| Gain previously recognized on warrants | 380,000 | 380,000 |
| Loss included in accumulated other comprehensive loss | (316,000) | (226,000) |
| Fair value | \$607,000 | \$656,000 |

No marketable securities were sold during the year ended December 31, 2016. The change in unrealized loss of \$56,000 and \$1,523,000 in the statements of comprehensive income (loss) are presented net of tax for the years ended December 31, 2016 and 2015, respectively. The tax benefit on the unrealized loss was \$34,000 and \$835,000, in 2016 and 2015, respectively.

4. Inventories

Inventories consisted of the following:

| | December 31, | |
|-----------------|---------------------|---------------------|
| | 2016 | 2015 |
| Raw materials | \$4,313,000 | \$6,456,000 |
| Work in process | 2,535,000 | 4,143,000 |
| Finished goods | 4,146,000 | 5,799,000 |
| | \$10,994,000 | \$16,398,000 |

5. Property and Equipment

Property and equipment consisted of the following:

| | December 31, | |
|--|---------------------|--------------------|
| | 2016 | 2015 |
| Buildings | \$355,000 | \$355,000 |
| Machinery and equipment | 10,661,000 | 10,515,000 |
| Office furniture and equipment | 1,092,000 | 1,074,000 |
| Leasehold improvements | 506,000 | 497,000 |
| | 12,614,000 | 12,441,000 |
| Less accumulated depreciation and amortization | (9,968,000) | (9,534,000) |
| | \$2,646,000 | \$2,907,000 |

Depreciation and amortization expense for property and equipment was \$527,000 and \$683,000 for the years ended December 31, 2016 and 2015, respectively.

6. Goodwill and Intangible Assets

Management evaluates goodwill for impairment on an annual basis (fourth quarter), and no impairment charge was identified for the years presented.

Definite-lived intangible assets, consisting of patents and trademarks, are amortized over their useful lives. Intangible assets consisted of the following:

| | December 31, 2016 | | | December 31, 2015 | | | | |
|------------------------|---|----------------------------|-------------------------------------|------------------------------------|---|----------------------------|-------------------------------------|------------------------------------|
| | Weighted Average Gross Amortization Period (Years) | Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Gross Amortization Period (Years) | Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patents and Trademarks | 4.0 | \$ 474,000 | \$ (440,000) | \$ 34,000 | 5.0 | \$ 474,000 | \$ (423,000) | \$ 51,000 |

Amortization expense for intangible assets was \$17,000 and \$20,000 for the years ended December 31, 2016 and 2015.

Estimated future amortization expense related to definite-lived intangible assets is as follows:

Years ending December 31,

| | |
|------------|----------|
| 2017 | \$9,000 |
| 2018 | 7,000 |
| 2019 | 5,000 |
| 2020 | 3,000 |
| 2021 | 2,000 |
| Thereafter | 8,000 |
| | \$34,000 |

7. Equity Investments in Unconsolidated Affiliate

In 2005, Alpha ProTech Engineered Products, Inc. (a subsidiary of Alpha Pro Tech, Ltd.) entered into a joint venture with a manufacturer in India for the production of building products. Under the terms of the joint venture agreement, a private company, Harmony Plastics Private Limited (“Harmony”), was created with ownership interests of 41.66% by Alpha ProTech Engineered Products, Inc. and 58.34% by Maple Industries and Associates.

This joint venture positions Alpha ProTech Engineered Products, Inc. to respond to current and expected increased product demand for housewrap and synthetic roof underlayment and provides future capacity for sales of specialty roofing component products and custom products for industrial applications requiring high quality extrusion coated fabrics. The joint venture also supplies products for the Disposable Protective Apparel segment.

The capital from the initial funding and a bank loan, which loan is guaranteed exclusively by the individual shareholders of Maple Industries and Associates and collateralized by the assets of Harmony, were utilized to purchase the original manufacturing facility in India. Harmony currently has four facilities in India (three owned and one rented), consisting of: (1) a 102,000 square foot building for manufacturing building products; (2) a 71,500 square foot building for manufacturing coated material and sewing proprietary disposable protective apparel; (3) a 16,000 square foot facility for sewing proprietary disposable protective apparel; (4) a 93,000 square foot rental for manufacturing of building products. All additions have been financed by Harmony with no guarantees from the Company.

In accordance with ASC 810, *Consolidation*, the Company assesses whether or not related entities are variable interest entities (“VIEs”). For those related entities that qualify as VIEs, ASC 810 requires the Company to determine whether or not the Company is the primary beneficiary of the VIE, and, if so, to consolidate the VIE. The Company has determined that Harmony is not a VIE and is, therefore, considered to be an unconsolidated affiliate.

The Company records its investment in Harmony as “equity investments in unconsolidated affiliate” in the accompanying balance sheets. The Company records its equity interest in Harmony’s results of operations as “equity in income of unconsolidated affiliate” in the accompanying statements of income. The Company reviews annually its investment in Harmony for impairment. Management has determined that no impairment existed as of December 31, 2016 and 2015.

For the years ended December 31, 2016 and 2015, the Company purchased \$12,761,000 and \$14,272,000 of inventories, respectively, from Harmony. For the years ended December 31, 2016 and 2015, the Company recorded equity in income of unconsolidated affiliate of \$498,000 and \$32,000, respectively.

As of December 31, 2016, the Company’s investment in Harmony was \$3,538,000, which consisted of its original \$1,450,000 investment and cumulative equity in income of unconsolidated affiliate of \$3,107,000, less \$942,000 in repayments of an advance and payments of \$77,000 in dividends.

8. Accrued Liabilities

Accrued liabilities consisted of the following:

| | December 31, | |
|--|---------------------|--------------------|
| | 2016 | 2015 |
| Payroll expenses and tax payable | \$556,000 | \$207,000 |
| Bonuses payable | 904,000 | 727,000 |
| Uncertain tax position liability (Note 11) | - | 194,000 |
| | \$1,460,000 | \$1,128,000 |

9. Notes Payable

The Company maintains a credit facility with Wells Fargo Bank that expires in May 2018. Pursuant to the terms of the credit facility, the Company has borrowing capacity up to \$3,500,000 based on eligible accounts receivable and inventories. The credit facility bears interest at prime plus 0.5% (prime rate was 3.75% and 3.50% as of December 31, 2016 and 2015, respectively) and is collateralized by accounts receivable, inventories, trademarks, patents and property and equipment. Under the terms of the facility, the Company pays a 0.5% unused loan fee on a quarterly basis.

As of December 31, 2016, the Company had no outstanding borrowings on its line of credit and no other debt.

10. Shareholders' Equity**Repurchase Program**

During the year ended December 31, 2016, the Company repurchased and retired 2,453,900 shares of its common stock for \$6,773,000. During the year ended December 31, 2015, the Company repurchased and retired 973,100 shares of its common stock for \$2,110,000. As of December 31, 2016, the Company had \$2,505,000 available to repurchase common shares under the repurchase program.

Option Activity

The 2004 Stock Option Plan (the “2004 Plan”) is an equity compensation plan that provides for grants of both incentive stock options and non-qualified stock options to eligible individuals. The 2004 Plan is intended to recognize the contributions made to the Company by key employees of the Company, provide key employees with additional incentive to devote themselves to the future success of the Company and improve the ability of the Company to attract, retain and motivate individuals. The 2004 Plan also is intended as an incentive to certain members of the Board of Directors of the Company to continue to serve on the Board of Directors and to devote themselves to the future success of the Company.

The 2004 Plan provides for a total of 5,000,000 common shares eligible for issuance.

Under the 2004 Plan, approximately 4,205,000 options had been granted as of December 31, 2016. Under the 2004 Plan, option grants have a three-year vesting period and, since 2005, expire no later than the fifth anniversary from the date of grant. In 2004 and 2005, options granted had an expiration date of 10 years after the date of grant. The exercise price of the options is determined based on the fair value of the stock on the date of grant.

The following table summarizes option activity for the years ended December 31, 2016 and 2015:

| | Shares | Weighted Average Exercise Price Per Option |
|--|------------|---|
| Options outstanding, December 31, 2014 | 580,000 | \$ 1.58 |
| Granted to non-employee directors | 120,000 | 1.58 |
| Exercised | (475,000) | 1.61 |
| Canceled/expired/forfeited | - | - |
| Options outstanding, December 31, 2015 | 225,000 | 1.52 |
| Granted to non-employee directors | 45,000 | 3.45 |
| Granted to employees | 810,000 | 2.12 |
| Exercised | (15,000) | 1.15 |
| Canceled/expired/forfeited | - | - |
| Options outstanding, December 31, 2016 | 1,065,000 | 2.06 |
| Options exercisable, December 31, 2016 | 130,000 | 1.53 |

Stock options to purchase 1,065,000 and 225,000 shares of common stock were outstanding as of December 31, 2016 and 2015, respectively. All of the stock options were included in the computation of the weighted-average number of dilutive common shares outstanding for the year ended December 31, 2016.

The fair values of the share-based compensation awards granted were estimated using the Black-Scholes option-pricing model with the following assumptions and weighted average fair values:

| | Stock Options For the Years Ended December 31, | |
|--------------------------|---|-------------|
| | 2016 | 2015 |
| Exercise price | \$2.19 | \$1.58 |
| Risk-free interest rate | 1.13 % | 1.69 % |
| Expected volatility | 59.16% | 59.20% |
| Expected life in years | 4.25 | 4.25 |
| Dividend rate | - | - |
| Black-Scholes fair value | \$1.03 | \$0.75 |

The Company used the Black-Scholes option-pricing model to value the options. The Company uses historical data to estimate the expected term of the options. The risk-free interest rate for periods consistent with the expected term of the award is based on the US Treasury rates in effect at the time of grant. The expected volatility is based on historical volatility. The Company uses an estimated dividend payout ratio of zero, as the Company has not paid dividends in the past and, at this time, does not expect to do so in the future.

The following table summarizes information about stock options as of December 31, 2016:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | | | |
|--------------------------|---------------------|---------------------------------|---|---------------------------|---------|---------------------------------|---|---------------------------|
| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Life (in years) | Aggregate Intrinsic Value | Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Life (in years) | Aggregate Intrinsic Value |
| \$1.51-\$3.45 | 1,065,000 | \$ 2.06 | 4.2 | \$1,530,000 | 130,000 | \$ 1.53 | 2.4 | \$ 256,000 |

The intrinsic value is the amount by which the market value of the underlying common stock exceeds the exercise price of the respective stock options. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2016 and 2015 was \$29,000 and \$340,000, respectively.

As of December 31, 2016, \$803,000 of total unrecognized compensation cost related to stock options was expected to be recognized over a weighted-average remaining period of 2.41 years. Cash received from 15,000 options exercised for the year ended December 31, 2016 was \$17,000.

11. Income Taxes

The provision (benefit) for income taxes consisted of the following:

| | For the Years Ended December 31, | |
|----------|-------------------------------------|-----------|
| | 2016 | 2015 |
| Current | \$986,000 | \$528,000 |
| Deferred | 21,000 | (48,000) |
| | \$1,007,000 | \$480,000 |

Deferred income tax assets (liabilities) consisted of the following:

| | December 31, | |
|---|---------------------|-------------|
| | 2016 | 2015 |
| Current deferred income taxes: | | |
| Foreign tax credits | \$3,000 | \$66,000 |
| Temporary differences: | | |
| Inventory reserve | 101,000 | 107,000 |
| Accrued expenses and inventory | 334,000 | 311,000 |
| Current deferred income tax assets, net | \$438,000 | \$484,000 |
| Non-current deferred income taxes: | | |
| Temporary differences: | | |
| Property and equipment | \$(683,000) | \$(681,000) |
| Intangible assets | (4,000) | (3,000) |
| Marketable securities | 112,000 | 78,000 |
| Basis difference in investments | (129,000) | (129,000) |
| Foreign exchange | (12,000) | (45,000) |
| Other | (20,000) | (12,000) |
| State income taxes | (71,000) | (75,000) |
| Non-current deferred income tax liabilities | (807,000) | (867,000) |
| Net deferred income tax liability | \$(369,000) | \$(383,000) |

The provision for income taxes differs from the amount that would be obtained by applying the US statutory rate to income before income taxes as a result of the following:

| | For the Years Ended | |
|--|----------------------------|-------------|
| | December 31, | |
| | 2016 | 2015 |
| Income taxes based on US statutory rate of 34% | \$1,419,000 | \$518,000 |
| Non-deductible meals and entertainment | 5,000 | 7,000 |
| Domestic manufacturer's deduction | (71,000) | (18,000) |
| Foreign taxes | (169,000) | (11,000) |
| State taxes | 66,000 | 75,000 |
| Other | (243,000) | (91,000) |
| | \$1,007,000 | \$480,000 |

In 2012, the Company modified its tax reporting for Harmony, which lowers the Company's effective tax rate. The Company recorded an uncertain tax position liability of approximately \$342,000 as of December 31, 2012. The uncertain tax position liability was reduced during 2013 to \$194,000 after it was determined that certain tax returns could not be amended. During the fourth quarter of 2016, the statute of limitations expired on the amended returns filed by the Company in 2013, which resulted in the reversal of the remaining \$194,000 uncertain tax position liability.

Unrecognized tax benefits during the years ended December 31, 2016 and 2015 were as follows:

| | For the Years Ended | |
|--|----------------------------|-------------|
| | December 31, | |
| | 2016 | 2015 |
| Balance as of January 1 | \$ 194,000 | \$ 194,000 |
| Gross increase from tax positions taken during the year | - | - |
| Gross increase from tax positions taken during prior periods | - | - |
| Reductions to unrecognized tax benefits | (194,000) | - |
| Balance as of December 31 | \$- | \$ 194,000 |

12. Commitments and Contingencies

Operating Lease Commitments: The Company leases its facilities under non-cancelable operating leases expiring on various dates through January 1, 2024.

The following summarizes future minimum lease payments required under non-cancelable operating lease agreements:

| <u>Years Ending December 31,</u> | Future Minimum Lease Payments |
|---|--|
| 2017 | \$ 1,033,000 |
| 2018 | 686,000 |
| 2019 | 596,000 |
| 2020 | 450,000 |
| 2021 | 450,000 |
| Thereafter | 900,000 |
| | \$4,115,000 |

Total rent expense under operating leases for the years ended December 31, 2016 and 2015 was \$1,031,000 and \$1,036,000, respectively.

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,

the Company 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 the Company's financial condition and results of operations.

13. Employee Benefit Plans

The Company has a 401(k) defined contribution profit sharing plan. Under the plan, US employees may contribute up to 12% of their gross earnings subject to certain limitations. The Company contributes an additional 0.5% of gross earnings for those employees contributing 1% of their gross earnings and contributes 1% of gross earnings for those employees contributing 2% to 12% of their gross earnings. The Company contributions become fully vested after five years. The amounts contributed to the plan by the Company were \$39,000 and \$37,000 for the years ended December 31, 2016 and 2015, respectively.

The Company does not have any other significant pension, profit sharing or similar plans established for its employees. The President is entitled to a bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense \$232,000 was accrued as of December 31, 2016 for the President's bonus. Executive bonuses of \$146,000 were accrued as of December 31, 2015 of which the former Chief Executive Officer was entitled to three-quarters of the 5% bonus amount as he retired at the end of September 2015.

14. Activity of Business Segments

The Company operates through three segments:

Building Supply: consisting of a line of construction supply weatherization products. The construction supply weatherization products consist of housewrap and synthetic roof underlayment, as well as other woven material. A portion of the Company's equity in income of unconsolidated affiliate (Harmony) is included in the total segment income for the Building Supply segment.

Disposable Protective Apparel: consisting of a complete line of disposable protective clothing, such as shoecovers (including the Aqua Trak® and spunbond shoecovers), bouffant caps, coveralls, frocks, lab coats, gowns and hoods for the pharmaceutical, cleanroom, industrial and medical markets. A portion of the Company's equity in income of unconsolidated affiliate (Harmony) is included in the total segment income for the Disposable Protective Apparel segment.

Infection Control: consisting of a line of face masks and eye shields.

The accounting policies of the segments are the same as those described previously under Summary of Significant Accounting Policies (see Note 2). Segment data excludes charges allocated to the principal executive office and other corporate unallocated expenses and income taxes. The Company evaluates the performance of its segments and allocates resources to them based primarily on net sales.

The following table presents net sales for each segment:

| | Years Ended December 31, | |
|-------------------------------|-------------------------------------|--------------|
| | 2016 | 2015 |
| Building Supply | \$27,343,000 | \$25,800,000 |
| Disposable Protective Apparel | 14,219,000 | 14,661,000 |
| Infection Control | 4,614,000 | 4,494,000 |
| Consolidated net sales | \$46,176,000 | \$44,955,000 |

The following table presents the reconciliation of total segment income to total consolidated net income:

| | Years Ended December 31, | |
|---|-------------------------------------|-------------|
| | 2016 | 2015 |
| Building Supply | \$5,345,000 | \$3,605,000 |
| Disposable Protective Apparel | 1,671,000 | 1,439,000 |
| Infection Control | 1,581,000 | 1,396,000 |
| Total segment income | 8,597,000 | 6,440,000 |
| Unallocated corporate overhead expenses | 4,422,000 | 4,919,000 |

| | | |
|----------------------------|-------------|-------------|
| Provision for income taxes | 1,007,000 | 480,000 |
| Consolidated net income | \$3,168,000 | \$1,041,000 |

The following table presents net sales and long-lived asset information by geographic area:

| | 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 |

| | As of December 31, | |
|--|---------------------------|-------------|
| | 2016 | 2015 |
| Long-lived assets by geographic region | | |
| United States | \$2,338,000 | \$2,564,000 |
| International | 308,000 | 343,000 |
| Consolidated total long-lived assets | \$2,646,000 | \$2,907,000 |

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

The following table presents the consolidated net property, equipment, goodwill and intangible assets by segment:

| | As of December 31, | |
|-------------------------------|---------------------------|-------------|
| | 2016 | 2015 |
| Disposable Protective Apparel | \$346,000 | \$394,000 |
| Building Supply | 2,208,000 | 2,410,000 |
| Infection Control | 140,000 | 166,000 |
| Total segment assets | 2,694,000 | 2,970,000 |
| Unallocated corporate assets | 41,000 | 43,000 |
| Total consolidated assets | \$2,735,000 | \$3,013,000 |

15. Concentration of Risk

The Company maintains its cash in various bank accounts, the balances of which at times may exceed federally insured limits. The Company has not experienced any losses related to these accounts, and management does not believe that the Company is exposed to significant credit risk.

The Company's investments in marketable securities are in one publicly traded entity. The Company recognized a gain on investment in common stock warrants in a prior period and recognizes an unrealized gain (loss) in comprehensive income (loss) for changes in the fair value of the investment. The Company is exposed to the fluctuation in the stock price of this investment.

Management believes that adequate provision has been made for risk of loss on all credit transactions.

The Company buys a significant amount of its disposable protective apparel products from a limited number of subcontractors located in Asia and, to a much lesser extent, a subcontractor in Mexico. Management believes that other suppliers could provide similar products at comparable terms. A change in suppliers, however, could cause a delay in shipment and a possible loss of sales, which would affect operating results adversely.

The Building Supply segment buys semi-finished housewrap and synthetic roof underlayment from its joint venture, Harmony, located in India. Although there are a limited number of manufacturers of the particular product, management believes that other suppliers could provide similar products at comparable terms. A change in suppliers, however, could cause a delay in shipment and a possible loss of sales, which would affect operating results adversely.

The Company provides products to customers located primarily in the United States. Customers accounting for 10% or more of accounts receivable as of December 31, 2016 and 2015, and 10% or more of net sales for the years ended December 31, 2016 and 2015, were as follows:

| Accounts receivable: | 2016 | 2015 |
|-----------------------------|-------------|-------------|
| Customer A | 11 % | 11 % |
| Customer B | 15 % | 23 % |
| Customer C | 21 % | 8 % |

| Net Sales: | | |
|-------------------|------|------|
| Customer B | 17 % | 18 % |
| Customer C | 11 % | * |

* Customer's balance was below the 10% threshold for revenue for the year ended December 31, 2015.

16. Employment Agreements

The Company has signed employment agreements with two of its current executive officers, which have terms of approximately five years and which automatically renew in accordance with their terms. The agreements provide that, if the officers' employment is terminated without cause, as defined in the agreements, the officers are entitled to receive certain severance payments. If termination occurs due to retirement, the officers may enter into a four-year consulting arrangement with the Company at a specified percentage of the officers' then - current salaries. Upon death or disability, the Company will also make certain payments to the executive or the executive's estate or beneficiary, as applicable.

During the third quarter of 2015, the Company's former CEO retired, which resulted in the payment of a severance amount of \$601,000, in accordance with his employment agreement. The severance amount was paid to the former CEO over a 12-month period, and the related accrual as of December 31, 2016 and 2015 was \$0 and \$452,000, respectively. The former CEO did not enter into a consulting arrangement subsequent to his retirement.

17. Related Party Transactions

The Company uses a law firm whose majority member is also a member of the Company's Board of Directors. For the years ended December 31, 2016 and 2015, payments for legal services to this related party were \$188,000 and \$110,000, respectively and legal expenses for the years ended December 31, 2016 and 2015 were \$33,000 and \$278,000, respectively. As of December 31, 2016 and 2015, the Company's outstanding balance to this related party

was \$163,000 and \$318,000, respectively.

18. Subsequent Events

The Company has reviewed and evaluated whether any additional material subsequent events have occurred from December 31, 2016 through the filing date of the Company's Annual Report on Form 10-K. All appropriate subsequent event disclosures have been made in the consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our (i) President and Chairman and (ii) Chief Executive Officer (principal executive officers) and (iii) Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of December 31, 2016 pursuant to the evaluation of these controls and procedures required by Rule 13a-15 of the Exchange Act. Disclosure controls and procedures are the controls and other procedures that we have designed to ensure that we record, process, summarize and report in a timely manner the information that we must disclose in reports that we file with or submit to the SEC under the Exchange Act.

In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and that we are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management’s Report on Internal Control over Financial Reporting

This report is included in Item 8 and is incorporated herein by reference.

Attestation Report of the Independent Registered Public Accounting Firm

As a result of being a smaller reporting company, we are not required to provide an attestation report from our independent registered public accounting firm regarding our internal control over financial reporting. We have elected not to include such an attestation report in this Annual Report on Form 10-K, which election was approved by the Audit Committee of the Company's Board of Directors.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of the year ended December 31, 2016, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

We have adopted a Code of Business Conduct and Ethics applicable to all of our directors, officers and employees. A copy of the Code of Business Conduct and Ethics is available on the Company's website at www.alphaprotech.com in the "Investors" section under "Corporate Governance."

Other information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2017.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2017.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Certain of the information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Stockholders will be filed with the SEC on or before April 30, 2017.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information as of December 31, 2016 relating to equity compensation plans of the Company under which the Company's common stock is authorized for issuance.

| Plan Category | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans |
|----------------------|---|---|---|
| | (a) | (b) | |

| | | | | (excluding securities) | |
|---|-----------|-----|---------|--------------------------------|-----|
| | | | | reflected in column (a) | |
| | | | | (c) | |
| Equity compensation plan approved by shareholders | 1,065,000 | (1) | \$ 2.06 | 1,957,000 | (2) |

(1) The number shown in column (a) is the number of shares that may be issued upon exercise of outstanding options under the shareholder approved Alpha Pro Tech, Ltd. 2004 Stock Option Plan (the “2004 Plan”).

(2) The number shown in column (c) is the number of shares that may be issued upon exercise of options granted in the future under the 2004 Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company’s definitive Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant’s definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2017.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company’s definitive Proxy Statement for the 2017 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant’s definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2017.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements.

The consolidated financial statements of the Company and its subsidiaries, included herein in Item 8, are as follows:

Management's Report on Internal Control over Financial Reporting;

Report of Independent Registered Public Accounting Firm;

Consolidated Balance Sheets – December 31, 2016 and 2015;

Consolidated Statements of Income – Years Ended December 31, 2016 and 2015;

Consolidated Statements of Comprehensive Income (Loss) – Years Ended December 31, 2016 and 2015;

Consolidated Statements of Shareholders' Equity – Years Ended December 31, 2016 and 2015;

Consolidated Statements of Cash Flows – Years Ended December 31, 2016 and 2015;

Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules.

The financial statement schedules pursuant to this Item are not included herein because they are not required for a smaller reporting company.

(a)(3) & (b) Exhibits.

The exhibits listed on the Exhibit Index beginning on page 45 of this Annual Report on Form 10-K are filed herewith or are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 8, 2017

ALPHA PRO TECH, LTD.

DATE: March 8, 2017 BY: /s/ Lloyd Hoffman
Lloyd Hoffman
Chief Executive Officer and Director

DATE: March 8, 2017 BY: /s/ Colleen McDonald
Colleen McDonald
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 8, 2017.

/s/ Lloyd Hoffman

Lloyd Hoffman, Chief Executive Officer and Director

(Principal Executive Officer)

/s/ Alexander W. Millar

Alexander W. Millar, President and Chairman

(Principal Executive Officer)

/s/ Colleen McDonald

Colleen McDonald, Chief Financial Officer

(Principal Financial and Accounting Officer)

/s/ Danny Montgomery

Danny Montgomery, Senior Vice President Manufacturing and Director

/s/ David B. Anderson

David B. Anderson, Director

/s/ David Garcia

David Garcia, Director

/s/ Russ Manock

Russ Manock, Director

/s/ Dr. John Ritota

Dr. John Ritota, Director

EXHIBIT INDEX**ITEM 15(a)(3)**

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 3.1.1 | Certificate of Incorporation of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(f) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893). |
| 3.1.2 | Certificate of Amendment of Certificate of Incorporation of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(j) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893). |
| 3.1.3 | Certificate of Ownership and Merger (BFD Industries, Inc. into Alpha Pro Tech, Ltd.), incorporated by reference to Exhibit 3(l) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893). |
| 3.2 | Bylaws of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(g) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893). |
| 10.1 | Alpha Pro Tech, Ltd. 2004 Stock Option Plan, incorporated by reference to Exhibit B to Schedule 14A, filed on April 29, 2004 (File No. 001-15725), in connection with the 2004 Annual Meeting of Stockholders held on June 8, 2004.* |
| 10.1A | Alpha Pro Tech, Ltd. 2004 Stock Option Plan (As Amended on June 7, 2010), incorporated by reference to Exhibit 10.1 to Form 8-K, filed on June 11, 2010.* |
| 10.2 | Non-Qualified Stock Option Agreement of David Anderson, incorporated by reference to Exhibit 4.2 to Form S-8, filed on December 13, 2004 (File No. 333-121184).* |
| 10.3 | Non-Qualified Stock Option Agreement of Robert Isaly, incorporated by reference to Exhibit 4.3 to Form S-8, filed on December 13, 2004 (File No. 333-121184).* |
| 10.4 | Non-Qualified Stock Option Agreement of John Ritota, incorporated by reference to Exhibit 4.4 to Form S-8, filed on December 13, 2004 (File No. 333-121184).* |
| 10.5 | Non-Qualified Stock Option Agreement of Russell Manock, incorporated by reference to Exhibit 4.5 to Form S-8, filed on December 13, 2004 (File No. 333-121184).* |
| 10.6 | Incentive Stock Option Agreement of Alexander W. Millar, incorporated by reference to Exhibit 4.6 to Form S-8, filed on December 13, 2004 (File No. 333-121184).* |
| 10.7 | Incentive Stock Option Agreement of Lloyd Hoffman, incorporated by reference to Exhibit 4.8 to Form S-8, filed on December 13, 2004 (File No. 333-121184).* |
| 10.8 | Employment Agreement between the Company and Alexander Millar, dated May 15, 2015, incorporated by reference to Exhibit 10.2 to Form 10-Q/A for the quarter ended June 30, 2015, filed on November 5, 2015 (File No. 001-15725).* |
| 10.9 | Employment Agreement between the Company and Lloyd Hoffman, dated August 31, 2016, incorporated by reference to Exhibit 10.1 to Form 8-K, filed on September 2, 2016 (File No. 001-15725).* |
| 14 | Alpha Pro Tech, Ltd. Code of Business Conduct and Ethics, incorporated by reference to Exhibit 10(r) to Form 10-K/A, filed on April 29, 2004 (File No. 001-15725). |
| 21 | Subsidiaries of Alpha Pro Tech, Ltd. |
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of President and Chairman pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended. |
| 31.2 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended. |

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- 31.3 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
 - 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – President and Chairman.
 - 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer.
 - 32.3 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer.
 - 101 Interactive Data File
- * Indicates a management contract or compensatory plan or arrangement.