

ALPHA PRO TECH LTD
Form 10-K
March 06, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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
(State or Other Jurisdiction
of
Incorporation or
Organization)

63-1009183
(I.R.S. Employer Identification
No.)

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

(Address of Principal Executive Offices, including zip code)

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

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

<u>Title of each Class</u>	<u>Name of each exchange on which registered</u>
Common Shares, 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.

Edgar Filing: ALPHA PRO TECH LTD - 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, 2013, was \$25,760,000.

As of February 28, 2014, the registrant had outstanding 18,908,107 shares of common stock.

DOCUMENTS INCOPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2014 Annual Meeting of Shareholders to be held on June 3, 2014 are incorporated by reference into Part III of this Form 10-K.

ALPHA PRO TECH, LTD.

INDEX TO ANNUAL REPORT ON FORM 10-K

PART I:

Special Note Regarding Forward-Looking Statements	3
Special Note Regarding Smaller Reporting Company Status	3
Item 1. Business	3
General	3
Products	4
Markets	5
Distribution	5
Financial Information about Geographic Areas	5
Manufacturing	6
Competition	6
Regulatory Requirements	6
Patents and Trademarks	6
Employees	7
Available Information	7
Item 1A. Risk Factors	7
Item 1B. Unresolved Staff Comments	10
Item 2. Properties	10
Item 3. Legal Proceedings	10
Item 4. Mine Safety Disclosures	10

PART II:

Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10
Item 6. Selected Financial Data	11
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	16
Item 8. Financial Statements and Supplementary Data	17
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	38
Item 9A. Controls and Procedures	38
Item 9B. Other Information	39

PART III:

Item 10. Directors, Executive Officers and Corporate Governance	39
Item 11. Executive Compensation	39
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	39
Item 13. Certain Relationships and Related Transactions, and Director Independence	40

Item 14. Principal Accountant Fees and Services	40
---	----

PART IV:

Item 15. Exhibits and Financial Statement Schedules	41
---	----

Signatures	42
------------	----

Exhibit Index	43
---------------	----

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) because our public float (the aggregate market value of our common stock equity held by non-affiliates of the Company) was below the required threshold as of the last business day of our second fiscal quarter of 2013. As a result of being a smaller reporting company, we are not required to provide certain disclosure in this Form 10-K. Where information is being omitted or reduced in this 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" or the "Company" or "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 2013. According to the disclosure requirements for smaller reporting companies, the Company has included in the consolidated financial statements a consolidated balance sheet as of the end of the two most recent fiscal years and consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the two fiscal years preceding the date of the most recent balance sheet.

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 a strategy of 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 "US") 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. In 2012, we introduced TECHNOply™, an economy version 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 Center 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 a chance of cross infection between patients and saves users, such as hospitals, the expense of sterilization after every use.

As described in more detail below under “Manufacturing,” the face masks are primarily manufactured in our facility in Salt Lake City, Utah. The 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 12) 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 (masks and shields) 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. For example, we are currently carrying stockpiled inventory of our N-95 Particulate Respirator face mask that was recommended by the CDC for protection against the H1N1 Influenza A pandemic in 2009.

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, 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,	
	2013	2012
Net sales by geographic region		
United States	\$41,644,000	\$39,463,000
International	2,162,000	1,595,000
Consolidated net sales	\$43,806,000	\$41,058,000

The following table summarizes the locations of the Company's long-lived assets by geographic region for the Company's last two years.

	December 31,	
	2013	2012
Long-lived assets by geographic region		
United States	\$2,668,000	\$2,956,000
International	400,000	463,000
Total	\$3,068,000	\$3,419,000

Net sales by geographic region are based on the countries in which our customers are located. For the years ended December 31, 2013 and 2012, 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.

MANUFACTURING

Our wholly owned subsidiary, Alpha ProTech Engineered Products, Inc. (Building Supply segment), which manufactures and distributes a line of construction weatherization products, primarily housewrap and synthetic roof underlayment, is located 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 and synthetic roof underlayment products in a semi-finished state. 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 the manufacturing of housewrap and synthetic roof underlayment. There is a 71,500 square foot building that manufactures coated material and sews proprietary disposable protective apparel. There is also a 16,000 square foot facility that sews proprietary disposable protective apparel. The rented building is a 12,000 square foot facility that coats material. 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 18 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 12 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, 2014, we had 121 employees, including 17 employees at our principal executive office in Markham, Ontario, Canada; 13 employees at our face mask production facility in Salt Lake City, Utah; 29 employees at our Disposable Apparel cutting, warehouse and shipping facility in Nogales, Arizona; 39 employees at our Building Supply segment facility in Valdosta, Georgia; 16 employees on our sales and marketing team, located in various areas throughout the United States; and 7 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 two 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 or results of operations could be negatively affected, the market price of your 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 manufacture 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;

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

political and economic instability.

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

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

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

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

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

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

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

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

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

Demand for the Company's products, which impacts revenue and profit margins, is affected by (i) the development and timing of the introduction of competitive products; (ii) the Company's response to downward pricing to stay competitive; (iii) changes in customer order patterns, such as changes in the levels of inventory maintained by

customers and the timing of customer purchases; and (iv) changes in customers' preferences for our products, including the success of products offered by our competitors and changes in customer designs for our competitors' products that can affect the demand for the Company's products.

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

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

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

In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores sensitive data, including proprietary business information. Despite security measures and business continuity plans, the Company's information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attack by hackers or 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, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in future 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.

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

The market price of the entities 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;

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 \$7,000 for 4,200 square feet under a lease expiring February 28, 2015. Working out of the principal executive office are the President, Alexander W. Millar, the Chief Executive Officer, Sheldon Hoffman, and the Chief Financial Officer, Lloyd Hoffman.

The Building Supply segment manufacturing facility is located at 301 South Blanchard Street, Valdosta, Georgia. The monthly rent is \$36,000 for 165,400 square feet. This lease expires on April 30, 2020.

The Disposable Protective Apparel segment has its cutting operation, warehousing and shipping facility at 1287 Fairway Drive, Nogales, Arizona. The monthly rent is \$20,000 for 60,000 square feet. This lease expires on December 31, 2014.

The Company manufactures its surgical face masks at 236 North 2200 West, Salt Lake City, Utah. The monthly rent is \$18,000 for 34,500 square feet. This lease expires on July 31, 2016.

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.

None.

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."

10

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
2012	First Quarter	\$ 1.21	\$ 1.58
	Second Quarter	1.20	1.56
	Third Quarter	1.30	1.52
	Fourth Quarter	1.36	1.69
2013	First Quarter	\$ 1.42	\$ 1.94
	Second Quarter	1.47	1.79
	Third Quarter	1.44	1.63
	Fourth Quarter	1.48	2.35
2014 (Through February 28, 2014)	First Quarter	\$ 1.99	\$ 2.60

As of February 28, 2014, the Company's common stock was held by 211 shareholders of record and approximately 4,260 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. It is the current policy of the Board of Directors to retain any earnings to provide for the development and growth of the Company. Consequently, the Company has no current 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 2013.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Shares Purchased	Approximate Dollar Value
			as Part of Publicly Announced Program (1)	of Shares that May Yet Be Purchased Under the Program (1)
October 1 - 31, 2013	154,800	\$ 1.52	154,800	\$ 2,068,000
November 1 - 30, 2013	33,300	1.54	33,300	2,016,000
December 1 - 31, 2013	200,000	2.10	200,000	1,595,000
	388,100	\$ 1.56	388,100	

- (1) Pursuant to the Company's share repurchase program, on September 27, 2013, the Company announced that the Board of Directors had authorized a \$2,000,000 expansion of the Company's existing share repurchase program. Under the share repurchase program, the Company is authorized to repurchase up to a total of \$15,520,000 of common stock.

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 or 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, also 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) because our public float (the aggregate market value of our common equity held by non-affiliates of the Company) was below the required threshold as of the last business day of our second fiscal quarter of 2013. 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.

Critical Accounting Policies

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 reported periods. 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 critical accounting policies include the following:

Inventories: Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost (computed on a standard cost basis, which approximates average 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.

Accounts Receivable: Accounts receivable is 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.

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: Alpha Pro Tech 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, years to maturity 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:

	2013	2012
Net sales	100.0%	100.0%
Gross profit	37.1 %	35.2 %
Selling, general and administrative expenses	29.9 %	31.4 %
Income from operations	5.5 %	2.0 %
Income before provision for income taxes	6.8 %	3.2 %
Net income	4.7 %	2.4 %

Fiscal 2013 Compared to Fiscal 2012

Sales. Consolidated net sales for the year ended December 31, 2013 increased to \$43,806,000, from \$41,058,000 for the year ended December 31, 2012, representing an increase of \$2,748,000, or 6.7%. This increase consisted of increased sales in the Building Supply segment of \$2,624,000, increased sales in the Disposable Protective Apparel segment of \$3,000 and increased sales in the Infection Control segment of \$121,000.

Building Supply segment sales for the year ended December 31, 2013 increased by \$2,624,000, or 11.0%, to \$26,373,000, as compared to \$23,749,000 for 2012. The increase was primarily due to a 20.4% increase in sales of REX™ Wrap housewrap and a 1.3% increase in sales of REX™ SynFelt synthetic roof underlayment. The sales mix of the Building Supply segment for the year ended December 31, 2013 was 61% for synthetic roof underlayment, 35% for housewrap and 4% for other woven material. This compared to 67% for synthetic roof underlayment and 33% for housewrap for the year ended December 31, 2012.

In 2012, we introduced TECHNOply™, an economy version of our synthetic roof underlayment, to capture market share in the lower end of the market. In 2013, sales of TECHNOply™ almost doubled compared to 2012 and contributed 11% of total synthetic roof underlayment sales, as compared to 6% for 2012. TECHNOply™ is expected to be a growth product for the Company. Sales of our newest housewrap, REX™ Wrap Fortis non-perforated breathable housewrap, are starting to gain traction. For 2013, REX™ Wrap Fortis sales increased three-fold over 2012 and comprised 7% of total housewrap sales as compared to 3% for 2012. Sales of REX™ Wrap Fortis are expected to increase significantly in 2014. We will continue to introduce new products in our Building Supply segment as we see opportunities arise.

We believe that the outlook for the Building Supply segment is promising and that we are in a good position to take advantage of significant growth prospects as the housing market continues to recover.

Sales for the Disposable Protective Apparel segment for the year ended December 31, 2013 increased by \$3,000, to \$13,191,000, compared to \$13,188,000 for 2012. The slight increase was primarily due to an increase in sales of disposable protective apparel to regional and national distributors, partially offset by a decrease to our major international supply chain partner. Although sales to our major international partner were down, sales to its end users were not and our sales to this distributor are expected to increase next year. Management is emphasizing a more diversified and broader distribution strategy for our Critical Cover® protective apparel product line and we believe that we will continue to grow our market share.

Infection Control segment sales for the year ended December 31, 2013 increased by \$121,000, or 2.9%, to \$4,242,000, compared to \$4,121,000 for 2012. Mask sales were up by 8.5%, or \$234,000, to \$2,986,000 and shield sales were down by 8.3%, or \$113,000, to \$1,256,000, all compared to the year ended December 31, 2012. The overall mask sales increase for 2013 was primarily due to an increase in medical, dental and industrial mask sales.

Gross Profit. Gross profit increased by \$1,772,000, or 12.3%, to \$16,232,000 for the year ended December 31, 2013 from \$14,460,000 for 2012. The gross profit margin was 37.1% for the year ended December 31, 2013, compared to 35.2% for 2012. The gross profit margin for the year ended December 31, 2013 was positively impacted by an increase in the Building Supply segment margin.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$236,000, or 1.8%, to \$13,115,000 for the year ended December 31, 2013 from \$12,879,000 for the year ended December 31, 2012. As a percentage of net sales, selling, general and administrative expenses decreased to 29.9% for the year ended December 31, 2013 from 31.4% for 2012.

The change in expense by segment was as follows: Building Supply was up \$99,000, or 2.3%, Disposable Protective Apparel was up \$17,000, or 0.5%, and corporate unallocated expenses were up \$302,000 or 6.8%, partially offset by

Infection Control which was down \$182,000, or 24.9%. The increase in corporate unallocated expenses was primarily due to a severance accrual for manufacturing personnel that will not be replaced, as we have restructured some job functions, and executive and management bonuses. The decrease in Infection Control was primarily due to job restructuring.

The Company's Chief Executive Officer and President are each entitled to a bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense. Executive bonuses of \$329,000 were accrued during the year ended December 31, 2013, as compared to \$145,000 for 2012.

Depreciation and Amortization. Depreciation and amortization expense decreased by \$42,000, or 5.5%, to \$722,000 for the year ended December 31, 2013 from \$764,000 for 2012. The decrease for the year was primarily attributable to decreased depreciation for the Disposable Protective Apparel segment.

Income from Operations. Income from operations increased by \$1,578,000, or 193.1%, to \$2,395,000 for the year ended December 31, 2013, compared to income from operations of \$817,000 for the year ended December 31, 2012. The increase was due to an increase in gross profit of \$1,772,000 and a decrease in depreciation and amortization expense of \$42,000, partially offset by an increase in selling, general and administrative expense of \$236,000.

Other Income. Other income increased to \$569,000 for the year ended December 31, 2013 from \$490,000 for 2012. Other income consists of equity in income of unconsolidated affiliate, gains on investment in common stock warrants and interest income. Other income consisted of equity in income of unconsolidated affiliate of \$210,000, a gain on investment in common stock warrants of \$350,000 and interest income of \$9,000 for the year ended December 31, 2013. Other income consisted of equity in income of unconsolidated affiliate of \$480,000 and interest income of \$10,000 for the year ended December 31, 2012.

Income before Provision for Income Taxes. Income before provision for income taxes for the year ended December 31, 2013 was \$2,964,000, compared to income before provision for income taxes of \$1,307,000 for the year ended December 31, 2012, representing an increase of \$1,657,000, or 126.8%. The increase in income before provision for income taxes was due primarily to an increase in income from operations of \$1,578,000 and gain on investment in common stock warrants of \$350,000, partially offset by a decrease in equity in income of unconsolidated affiliate of \$270,000 and a decrease in net interest income of \$1,000.

Provision for Income Taxes. The provision for income taxes for the year ended December 31, 2013 was \$885,000, compared to the provision for income taxes of \$330,000 for 2012. The estimated effective tax rate was 29.9% for the year ended December 31, 2013, compared to 25.2% for 2012. The lower than historical effective tax rates for 2013 and 2012 are primarily due to changes in the treatment of the Company's joint venture in India for U.S. income tax reporting purposes. Management expects the effective tax rate to be in the mid-30% range going forward.

Net Income. Net income for the year ended December 31, 2013 was \$2,079,000, compared to net income of \$977,000 for the year ended December 31, 2012, an increase of \$1,102,000, or 112.8%. The net income increase was primarily due to an increase in income before provision for income taxes of \$1,657,000 partially offset by an increase in income taxes of \$555,000. Net income as a percentage of sales for the year ended December 31, 2013 was 4.7%, and net income as a percentage of sales for 2012 was 2.4%. Basic and diluted earnings per common share for the year ended December 31, 2013 were \$0.11, and basic and diluted earnings per common share for 2012 were \$0.05.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2013, we had cash and cash equivalents of \$8,215,000 and working capital of \$30,915,000, representing an increase in working capital of 4.6%, or \$1,354,000, from December 31, 2012. As of December 31, 2013 and 2012, our current ratio was 19:1. Cash and cash equivalents increased by 80.4%, or \$3,661,000, to \$8,215,000 as of December 31, 2013, compared to \$4,554,000 as of December 31, 2012. The increase in cash and cash equivalents was due to cash provided by operating activities of \$6,093,000, partially offset by cash used in financing activities of \$2,082,000 and cash used in investing activities of \$350,000.

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, 2013, the prime interest rate was 3.25%. This credit line was renewed in May 2012 and expires in May 2014. Our borrowing capacity on the line of credit was \$3,500,000 as of December 31, 2013. The available line of credit is based on a formula of eligible accounts receivable and inventories. As of December 31, 2013, we did not have any borrowings under this credit facility.

Net cash provided by operating activities was \$6,093,000 for the year ended December 31, 2013, compared to net cash used in operating activities of \$1,014,000 for the year ended December 31, 2012. The net cash provided by operating activities for the year ended December 31, 2013 was due to net income of \$2,079,000, adjusted by the following: amortization of share-based compensation expense of \$150,000, depreciation and amortization of \$722,000, equity in income of unconsolidated affiliate of \$210,000, a gain on investment in common stock warrants of \$350,000, a decrease in deferred income taxes of \$3,000, a decrease in accounts receivable of \$1,279,000, a decrease in inventories of \$3,024,000, an increase in prepaid expenses of \$669,000 and an increase in accounts payable and accrued liabilities of \$71,000.

The net cash used in operating activities of \$1,014,000 for the year ended December 31, 2012 was due to net income of \$977,000, adjusted by the following: amortization of share-based compensation expense of \$228,000, depreciation and amortization of \$764,000, equity in income of unconsolidated affiliate of \$480,000, a decrease in deferred income taxes of \$6,000, an increase in accounts receivable of \$1,625,000, an increase in inventories of \$1,598,000, an increase in prepaid expenses of \$56,000 and an increase in accounts payable and accrued liabilities of \$782,000.

Accounts receivable decreased by \$1,279,000, or 20.1%, to \$5,071,000 as of December 31, 2013 from \$6,350,000 as of December 31, 2012. The decrease in accounts receivable was primarily related to the commencement of extended Building Supply segment payment terms in the fourth quarter to remain competitive, as our competition offers these extended payment terms as well. We started this extended payment terms program a little later in 2013 as compared to 2012 which caused the 2013 accounts receivable balance to be lower. The number of days sales outstanding as of December 31, 2013, calculated by using an average of accounts receivable outstanding for the year end dates, was 47 days, compared to 49 days as of December 31, 2012.

Inventories decreased by \$3,024,000, or 17.6%, to \$14,140,000 as of December 31, 2013 from \$17,164,000 as of December 31, 2012. The decrease was primarily due to a decrease in inventories for the Building Supply segment of \$2,195,000, or 27.5%, to \$5,786,000, a decrease in inventories for the Disposable Protective Apparel segment of \$444,000, or 8.0%, to \$5,106,000 and a decrease in inventories for the Infection Control segment of \$385,000, or 10.6%, to \$3,248,000.

Prepaid expenses increased by \$669,000, or 29.1%, to \$2,968,000 as of December 31, 2013 from \$2,299,000 as of December 31, 2012. The increase was primarily due an increase in prepayments to Asia for the purchase of inventories, the prepayment on machinery and equipment for the Building Supply segment, partially offset by a decrease in prepaid tax.

Accounts payable and accrued liabilities as of December 31, 2013 increased by \$72,000, or 4.4%, to \$1,725,000 from \$1,653,000 as of December 31, 2012. The change was primarily due to an increase in accrued liabilities of \$243,000 and a decrease in accounts payable of \$171,000. The increase in accrued liabilities was primarily due to an increase in sales commissions, accrued bonuses and accrued payroll, partially offset by a decrease in accrued tax.

Net cash used in investing activities was \$350,000 for the year ended December 31, 2013, compared to net cash used in investing activities of \$363,000 for 2012. Our investing activities for the year ended December 31, 2013 consisted primarily of the purchase of property and equipment of \$349,000 and the purchase of intangible assets of \$1,000. Our investing activities for the year ended December 31, 2012 consisted primarily of the purchase of property and equipment of \$519,000, the purchase of marketable securities of \$255,000 and the purchase of intangible assets of \$6,000, partially offset by repayment of advances from our unconsolidated affiliate (Harmony) of \$417,000.

Net cash used in financing activities was \$2,082,000 for the year ended December 31, 2013, compared to net cash used in financing activities of \$1,572,000 for 2012. Our net cash used in financing activities for the year ended December 31, 2013 was due to the payment of \$3,134,000 for the repurchase of common stock, partially offset by the proceeds of \$1,052,000 from the exercise of stock options. Our net cash used in financing activities for the year ended December 31, 2012 was due to the payment of \$1,581,000 for the repurchase of common stock, partially offset by the proceeds of \$9,000 from the exercise of stock options.

As of December 31, 2013, we had \$1,595,000 available for additional stock purchases under our stock repurchase program. For the year ended December 31, 2013, we repurchased 1,931,350 shares of common stock at a cost of \$3,134,000. As of December 31, 2013, we had repurchased a total of 10,524,978 shares of common stock at a cost of \$13,926,000 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.

New Accounting Standards

Management reviews new accounting standards as they are issued. Although some of these accounting standards may be applicable to the Company, management has not identified any new standards that it believes merit further discussion, and the Company expects that none would have a significant impact on its consolidated financial statements.

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

We subcontract the manufacture 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 17 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 our interest rate or foreign exchange risks.

Alpha Pro Tech, Ltd.

Item 8. Financial Statements and Supplementary Data.

	Page
Management's Annual Report on Internal Control over Financial Reporting	18
Report of Independent Registered Public Accounting Firm	19
Consolidated Financial Statements:	
Consolidated Balance Sheets as of December 31, 2013 and 2012	20
Consolidated Statements of Income for the Years Ended December 31, 2013 and 2012	21
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013 and 2012	22
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2013 and 2012	23
Consolidated Statements of Cash Flows for the Years Ended December 31, 2013 and 2012	24
Notes to Consolidated Financial Statements	25

All other 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 the transactions and dispositions of our assets;
- 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.

During the process of preparing the Company's consolidated financial statements for the year ended December 31, 2013, it was determined that the Company had not marked to market a non trading unexercised common stock warrant (derivative) related to a publicly traded entity. This oversight did not impact income from operations but had a material impact on the third quarter condensed consolidated financial statements by understating other income and current assets by \$201,000 and understating net income and shareholders' equity by \$133,000. This amount has been corrected in the annual financial statements for the year ended December 31, 2013.

In light of this error, management has concluded that, as of September 30, 2013 and December 31, 2013, a material weakness in the Company's internal control over financial reporting existed related to accounting for this unexercised warrant. The system in place to review the financial instrument (derivative) was insufficient to detect the error.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed, as of December 31, 2013, 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. Based on our assessment, our management concluded that our internal control over financial reporting was not effective as of December 31, 2013. Management has subsequently rectified this weakness, and appropriate systems are in place.

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, 2013 and 2012 and the related consolidated statements of income, comprehensive income, 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, 2013 and 2012 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 6, 2014

Alpha Pro Tech, Ltd.**Consolidated Balance Sheets**

	December 31,	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$8,215,000	\$4,554,000
Investments	1,606,000	293,000
Accounts receivable, net of allowance for doubtful accounts of \$85,000 and \$74,000 as of December 31, 2013 and 2012, respectively	5,071,000	6,350,000
Inventories	14,140,000	17,164,000
Prepaid expenses	2,968,000	2,299,000
Deferred income tax assets	640,000	554,000
Total current assets	32,640,000	31,214,000
Property and equipment, net	3,068,000	3,419,000
Goodwill	55,000	55,000
Definite-lived intangible assets, net	92,000	113,000
Equity investments in and advances to unconsolidated affiliate	2,708,000	2,498,000
Total assets	\$38,563,000	\$37,299,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$689,000	\$860,000
Accrued liabilities	1,036,000	793,000
Total current liabilities	1,725,000	1,653,000
Deferred income tax liabilities	1,257,000	813,000
Total liabilities	2,982,000	2,466,000
Commitments (Notes 9 and 12)		
Shareholders' equity:		
Common stock, \$.01 par value: 50,000,000 shares authorized; 18,878,109 and 20,044,457 shares outstanding as of December 31, 2013 and 2012, respectively	189,000	200,000
Additional paid-in capital	18,994,000	20,915,000
Accumulated other comprehensive income	625,000	24,000
Retained earnings	15,773,000	13,694,000
Total shareholders' equity	35,581,000	34,833,000
Total liabilities and shareholders' equity	\$38,563,000	\$37,299,000

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

Alpha Pro Tech, Ltd.**Consolidated Statements of Income**

	Years Ended December	
	31,	
	2013	2012
Net sales	\$43,806,000	\$41,058,000
Cost of goods sold, excluding depreciation and amortization	27,574,000	26,598,000
Gross profit	16,232,000	14,460,000
Operating expenses:		
Selling, general and administrative	13,115,000	12,879,000
Depreciation and amortization	722,000	764,000
Total operating expenses	13,837,000	13,643,000
Income from operations	2,395,000	817,000
Other income:		
Equity in income of unconsolidated affiliate	210,000	480,000
Gain on investment in common stock warrants	350,000	-
Interest, net	9,000	10,000
Total other income	569,000	490,000
Income before provision for income taxes	2,964,000	1,307,000
Provision for income taxes	885,000	330,000
Net income	\$2,079,000	\$977,000
Basic earnings per common share	\$0.11	\$0.05
Diluted earnings per common share	\$0.11	\$0.05
Basic weighted average common shares outstanding	19,203,406	20,703,296
Diluted weighted average common shares outstanding	19,227,867	20,703,296

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

20

Alpha Pro Tech, Ltd.

Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2013	2012
Net income	\$2,079,000	\$977,000
Unrealized gain on investments, net of taxes of \$376,000 and \$14,000 for 2013 and 2012, respectively	601,000	24,000
Comprehensive income	\$2,680,000	\$1,001,000

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional	Retained Earnings	Accumulated	Total
	Shares	Amount	Paid-in Capital		Other Comprehensive Income	
Balance as of December 31, 2011	21,122,840	\$211,000	\$22,248,000	\$12,717,000	\$ -	\$35,176,000
Options exercised	6,667	-	9,000	-	-	9,000
Common stock repurchased and retired	(1,085,050)	(11,000)	(1,570,000)	-	-	(1,581,000)
Share-based compensation expense	-	-	228,000	-	-	228,000
Net income	-	-	-	977,000	-	977,000
Other comprehensive income	-	-	-	-	24,000	24,000
Balance as of December 31, 2012	20,044,457	200,000	20,915,000	13,694,000	24,000	34,833,000
Options exercised	765,002	8,000	1,044,000	-	-	1,052,000
Common stock repurchased and retired	(1,931,350)	(19,000)	(3,115,000)	-	-	(3,134,000)
Share-based compensation expense	-	-	150,000	-	-	150,000
Net income	-	-	-	2,079,000	-	2,079,000
Other comprehensive income	-	-	-	-	601,000	601,000
Balance as of December 31, 2013	18,878,109	\$189,000	\$18,994,000	\$15,773,000	\$625,000	\$35,581,000

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,	
	2013	2012
Cash Flows From Operating Activities:		
Net income	\$2,079,000	\$977,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Share-based compensation expense	150,000	228,000
Depreciation and amortization	722,000	764,000
Equity in income of unconsolidated affiliate	(210,000)	(480,000)
Gain on investment in common stock warrants	(350,000)	-
Deferred income taxes	(3,000)	(6,000)
Changes in assets and liabilities:		
Accounts receivable, net	1,279,000	(1,625,000)
Inventories	3,024,000	(1,598,000)
Prepaid expenses	(669,000)	(56,000)
Accounts payable and accrued liabilities	71,000	782,000