ALPHA PRO TECH LTD
Form 10-Q
August 03, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2017

Commission File No. 01-15725

Alpha Pro Tech, Ltd.

(exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware, U.S.A. | 63-1009183 |
| (State or other jurisdiction of incorporation) | (I.R.S. Employer Identification No.) |

60 Centurian Drive, Suite 112

| | |
|---|---|
| Markham, Ontario, Canada | L3R 9R2 |
| (Address of principal executive offices) | (Zip Code) |

Registrant’s telephone number, including area code: (905) 479-0654

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

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

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

Large accelerated filer___ Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company_X_

Emerging growth company __

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. __

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

| Class | Outstanding July 28, 2017 |
|---|---|
| Common Stock, $0.01 par value | 15,105,521 shares |

**Alpha Pro Tech, Ltd.**

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**Alpha Pro Tech, Ltd.**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Condensed Consolidated Balance Sheets (Unaudited)**

| | June 30, 2017 | December 31, 2016 (1) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $8,836,000 | $9,456,000 |
| Investments | 564,000 | 607,000 |
| Accounts receivable, net of allowance for doubtful accounts of $85,000 and $67,000 as of June 30, 2017 and December 31, 2016, respectively | 4,947,000 | 4,648,000 |
| Accounts receivable, unconsolidated affiliate | 278,000 | 174,000 |
| Inventories | 10,768,000 | 10,994,000 |
| Prepaid expenses and other current assets | 2,505,000 | 3,346,000 |
| Deferred income tax assets | - | 438,000 |
| Total current assets | 27,898,000 | 29,663,000 |
| | | |
| Property and equipment, net | 3,110,000 | 2,646,000 |
| Goodwill | 55,000 | 55,000 |
| Definite-lived intangible assets, net | 25,000 | 34,000 |
| Equity investments in unconsolidated affiliate | 3,772,000 | 3,538,000 |
| Total assets | $34,860,000 | $35,936,000 |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $1,204,000 | $1,005,000 |
| Accrued liabilities | 712,000 | 1,460,000 |
| Total current liabilities | 1,916,000 | 2,465,000 |
| | | |
| Deferred income tax liabilities | 361,000 | 807,000 |
| Total liabilities | 2,277,000 | 3,272,000 |

| | | |
|---|---|---|
| Commitments | | |
| Shareholders' equity: | | |
| Common stock, $.01 par value: 50,000,000 shares authorized; 14,926,256 and 15,411,556 shares outstanding as of June 30, 2017 and December 31, 2016, respectively | 149,000 | 154,000 |
| Additional paid-in capital | 7,729,000 | 9,990,000 |
| Accumulated other comprehensive loss | (239,000) | (204,000) |
| Retained earnings | 24,944,000 | 22,724,000 |
| Total shareholders' equity | 32,583,000 | 32,664,000 |
| Total liabilities and shareholders' equity | $34,860,000 | $35,936,000 |

(1) The condensed consolidated balance sheet as of December 31, 2016 has been prepared using information from the audited consolidated balance sheet as of that date.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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**Alpha Pro Tech, Ltd.**

**Condensed Consolidated Statements of Income (Unaudited)**

| | For the Three Months Ended June 30, 2017 | 2016 | For the Six Months Ended June 30, 2017 | 2016 |
|---|---|---|---|---|
| Net sales | $11,282,000 | $12,708,000 | $22,032,000 | $24,555,000 |
| Cost of goods sold, excluding depreciation and amortization | 6,795,000 | 8,168,000 | 13,252,000 | 15,770,000 |
| Gross profit | 4,487,000 | 4,540,000 | 8,780,000 | 8,785,000 |
| Operating expenses: | | | | |
| Selling, general and administrative | 3,346,000 | 3,334,000 | 6,819,000 | 6,791,000 |
| Depreciation and amortization | 125,000 | 117,000 | 279,000 | 271,000 |
| Total operating expenses | 3,471,000 | 3,451,000 | 7,098,000 | 7,062,000 |
| Income from operations | 1,016,000 | 1,089,000 | 1,682,000 | 1,723,000 |
| Other income: | | | | |
| Equity in income of unconsolidated affiliate | 129,000 | 93,000 | 234,000 | 191,000 |
| Interest income, net | 1,000 | 1,000 | 2,000 | 2,000 |
| Total other income | 130,000 | 94,000 | 236,000 | 193,000 |
| Income before provision for income taxes | 1,146,000 | 1,183,000 | 1,918,000 | 1,916,000 |
| Provision for income taxes | 342,000 | 386,000 | 564,000 | 612,000 |
| Net income | $804,000 | $797,000 | $1,354,000 | $1,304,000 |
| Basic earnings per common share | $0.05 | $0.05 | $0.09 | $0.07 |
| Diluted earnings per common share | $0.05 | $0.05 | $0.09 | $0.07 |
| Basic weighted average common shares outstanding | 14,953,217 | 17,211,268 | 15,079,733 | 17,440,299 |
| Diluted weighted average common shares outstanding | 15,006,089 | 17,211,268 | 15,151,032 | 17,440,299 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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**Alpha Pro Tech, Ltd.**

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

| | **For the Three Months Ended June 30,** | | **For the Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Net income | $804,000 | $797,000 | $1,354,000 | $1,304,000 |
| Other comprehensive income (loss): | | | | |
| Change in unrealized gain (loss) on marketable securities, net of tax | 43,000 | 18,000 | (35,000) | (78,000) |
| Comprehensive income | $847,000 | $815,000 | $1,319,000 | $1,226,000 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

**Alpha Pro Tech, Ltd.**

**Condensed Consolidated Statement of Shareholders' Equity (Unaudited)**

**For the Six Months Ended June 30, 2017**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2016 | 15,411,556 | $154,000 | $9,990,000 | $ (204,000 ) | $22,724,000 | $32,664,000 |
| Common stock repurchased and retired | (525,300 ) | (5,000 ) | (1,619,000) | - | - | (1,624,000 ) |
| Stock-based compensation expense | - | - | 163,000 | - | - | 163,000 |
| Options exercised | 40,000 | - | 61,000 | - | - | 61,000 |
| Net income | - | - | - | - | 1,354,000 | 1,354,000 |
| Other comprehensive loss | - | - | - | (35,000 ) | - | (35,000 ) |
| Cumulative-effect adjustment of change in accounting for stock-based compensation | - | - | (866,000 ) | - | 866,000 | - |
| Balance as of June 30, 2017 | 14,926,256 | $149,000 | $7,729,000 | $ (239,000 ) | $24,944,000 | $32,583,000 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

**Alpha Pro Tech, Ltd.**

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

| | For the Six Months Ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| **Cash Flows From Operating Activities:** | | |
| Net income | $1,354,000 | $1,304,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation expense | 163,000 | 34,000 |
| Depreciation and amortization | 279,000 | 271,000 |
| Equity in income of unconsolidated affiliate | (234,000) | (191,000) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (299,000) | (2,351,000) |
| Accounts receivable, unconsolidated affiliate | (104,000) | 6,000 |
| Inventories | 226,000 | 3,742,000 |
| Prepaid expenses and other current assets | 841,000 | 150,000 |
| Accounts payable and accrued liabilities | (549,000) | (103,000) |
| Net cash provided by operating activities | 1,677,000 | 2,862,000 |
| **Cash Flows From Investing Activities:** | | |
| Purchase of property and equipment | (734,000) | (163,000) |
| Purchase of marketable securities | - | (41,000) |
| Net cash used in investing activities | (734,000) | (204,000) |
| **Cash Flows From Financing Activities:** | | |
| Repurchase of common stock | (1,624,000) | (1,751,000) |
| Proceeds from exercise of stock options | 61,000 | - |
| Net cash used in financing activities | (1,563,000) | (1,751,000) |
| Increase (decrease) in cash | (620,000) | 907,000 |
| Cash, beginning of the period | 9,456,000 | 9,681,000 |
| Cash, end of the period | $8,836,000 | $10,588,000 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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**Alpha Pro Tech, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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**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 building supply products for the new home and re-roofing markets; a line of disposable protective apparel for the cleanroom, industrial and pharmaceutical 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. Basis of Presentation**

The interim financial information included herein is unaudited; however, the information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for the fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods. These interim condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and, therefore, omit certain information and note disclosures necessary to present the statements in accordance with US generally accepted accounting principles ("US GAAP"). The interim condensed consolidated financial statements should be read in conjunction with the Company's current year SEC filings on Form 10-Q and Form 8-K, as well as the consolidated financial statements for the year ended December 31, 2016, which are included in the Company's Annual Report on Form 10-K (the "2016 Form 10-K"), which was filed on March 8, 2017. The results of operations for the six months ended June 30, 2017 reported in this Form 10-Q are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2016 was prepared using information from the audited consolidated balance sheet contained in the 2016 Form 10-K and does not include all disclosures required by US GAAP for annual consolidated financial statements.

**3. 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 records compensation expense for the fair value of stock-based awards determined as of the grant date, including employee stock options.

For the six months ended June 30, 2017, no stock options were granted under the Company's option plan. For the six months ended June 30, 2016, 810,000 stock options were granted under the Company's option plan. The Company recognized $163,000 and $34,000 in stock-based compensation expense for the six months ended June 30, 2017 and 2016, respectively, related to the vesting of previously issued options.

Stock options to purchase 1,005,000 shares of common stock were outstanding as of June 30, 2017, and stock options to purchase 1,065,000 shares of common stock were outstanding as of December 31, 2016.

**Alpha Pro Tech, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

The Company uses the Black-Scholes option-pricing model to value the options. The Company uses historical data to estimate the life of the options. The risk-free interest rate for periods within the contractual life of the award is based on the US Treasury yield curve in effect at the time of grant. The estimated volatility is based on historical volatility and management's expectations of future volatility. The Company uses an estimated dividend payout 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 stock option activity for the six months ended June 30, 2017:

| | Shares | Weighted Average Exercise Price Per Option |
|---|---|---|
| Options outstanding, December 31, 2016 | 1,065,000 | $ 2.19 |
| Granted to employees and non-employee directors | - | |
| Exercised | (40,000 ) | 1.53 |
| Canceled/expired/forfeited | (20,000 ) | 1.58 |
| Options outstanding, June 30, 2017 | 1,005,000 | 2.09 |
| Options exercisable, June 30, 2017 | 357,300 | 1.97 |

As of June 30, 2017, $640,000 of total unrecognized compensation cost related to stock options was expected to be recognized over a weighted average period of 1.92 years.

As a result of the Company adopting Accounting Standards Update No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, during the quarter ended March 31, 2017, the Company recorded a one-time $866,000 cumulative-effect adjustment to reduce additional paid-in capital and increase retained earnings for excess tax benefits from stock option exercises that had previously been recorded to additional paid-in capital.

**4. Investments**

As of June 30, 2017 and December 31, 2016, investments totaled $564,000 and $607,000 respectively, which consisted of marketable securities.

The following provides information regarding the Company's marketable securities as of June 30, 2017 and December 31, 2016:

| | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Cost basis | $543,000 | $543,000 |
| Gains previously recognized on warrants | 380,000 | 380,000 |
| Loss included in accumulated other comprehensive loss before tax benefit | (359,000) | (316,000) |
| Fair value | $564,000 | $607,000 |

No marketable securities were sold during the six months ended June 30, 2017 and the year ended December 31, 2016. The change in unrealized gain of $43,000 and $18,000 for the three months ended June 30, 2017 and 2016, respectively, in the statements of comprehensive income are presented net of tax for the quarters ended June 30, 2017 and 2016, respectively. The tax expense on the unrealized gain was $22,000 and $5,000 for the quarters ended June 30, 2017 and 2016, respectively. The change in unrealized loss of $35,000 and $78,000 for the six months ended June 30, 2017 and 2016, respectively, in the statements of comprehensive income are presented net of tax for the six months ended June 30, 2017 and 2016. The tax benefit on the unrealized loss was $8,000 and $46,000 for the six months ended June 30, 2017 and 2016, respectively.

**Alpha Pro Tech, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**5. Recent Accounting Pronouncements**

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.

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 adopted this guidance for the period ended June 30, 2017. There was $410,000 in deferred tax assets that were netted against deferred tax liabilities as of the end of the first quarter 2017. Prior periods were not retrospectively adjusted.

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 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. The Company adopted this guidance during the quarter ended March 31, 2017, and the Company recorded a one-time $866,000 cumulative-effect adjustment to reduce additional paid-in capital and increase retained earnings for excess tax benefits from stock option exercises that had previously been recorded to additional paid-in capital. The adoption of this guidance also increased the number of dilutive shares because excess tax benefits are no longer included in the assumed proceeds when calculating the number of dilutive shares. In addition, the effective tax rate will be reduced in future periods when there are excess tax benefits from stock options exercised.

**Alpha Pro Tech, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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

## 6. Inventories

As of June 30, 2017 and December 31, 2016, inventories consisted of the following:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials | $4,333,000 | $4,313,000 |
| Work in process | 2,869,000 | 2,535,000 |
| Finished goods | 3,566,000 | 4,146,000 |
| | $10,768,000 | $10,994,000 |

## 7. Equity Investment 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. In addition, the joint venture now 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 five facilities in India (three owned and two 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 12,000 square foot rented facility for coating material; and (5) a 93,000 square foot rented facility for the manufacturing of building products. All additions have been financed by Harmony with no guarantees from the Company.

In accordance with Accounting Standards Codification (“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 investment in unconsolidated affiliate” in the accompanying condensed consolidated balance sheets. The Company records its equity interest in Harmony’s results of operations as “equity in income of unconsolidated affiliate” in the accompanying condensed consolidated statements of income. The Company periodically reviews its investment in Harmony for impairment. Management has determined that no impairment was required as of June 30, 2017.

**Alpha Pro Tech, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

For the three months ended June 30, 2017 and 2016, Alpha Pro Tech purchased $4,213,000 and $3,107,000 of inventories, respectively, from Harmony. For the six months ended June 30, 2017 and 2016, Alpha Pro Tech purchased $7,839,000 and $5,930,000 of inventories, respectively, from Harmony.

For the three months ended June 30, 2017 and 2016, the Company recorded equity in income of unconsolidated affiliate of $129,000 and $93,000, respectively, related to Harmony. For the six months ended June 30, 2017 and 2016, the Company recorded equity in income of unconsolidated affiliate of $234,000 and $191,000, respectively, related to Harmony.

As of June 30, 2017, the Company's investment in Harmony was $3,772,000, which consisted of its original $1,450,000 investment and cumulative equity in income of unconsolidated affiliate of $3,341,000, less $942,000 in repayments of the advance and $77,000 in dividends.

**8. Accrued Liabilities**

As of June 30, 2017 and December 31, 2016, accrued liabilities consisted of the following:

| | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Payroll expenses | $243,000 | $556,000 |
| Bonuses payable | 469,000 | 904,000 |
| | $712,000 | $1,460,000 |

**9. Basic and Diluted 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 dilutive shares, and "diluted" EPS, which includes all such dilutive shares, for the three and six months ended June 30, 2017 and 2016.

| | **For the Three Months Ended June 30,** | | **For the Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Net income (numerator) | $804,000 | $797,000 | $1,354,000 | $1,304,000 |
| Shares (denominator): | | | | |
| Basic weighted average common shares outstanding | 14,953,217 | 17,211,268 | 15,079,733 | 17,440,299 |
| Add: dilutive effect of common stock options | 52,872 | - | 71,299 | - |
| Diluted weighted average common shares outstanding | 15,006,089 | 17,211,268 | 15,151,032 | 17,440,299 |
| Earnings per common share: | | | | |
| Basic | $0.05 | $0.05 | $0.09 | $0.07 |
| Diluted | $0.05 | $0.05 | $0.09 | $0.07 |

**Alpha Pro Tech, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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## 10. Activity of Business Segments

The Company operates through three business 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. The majority 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.

Segment data excludes charges allocated to the principal executive office and other unallocated expenses and income tax. The Company evaluates the performance of its segments and allocates resources to them based primarily on net sales.

The following table presents consolidated net sales for each segment for the three and six months ended June 30, 2017 and 2016:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Building Supply | $6,283,000 | $7,924,000 | $12,222,000 | $14,679,000 |
| Disposable Protective Apparel | 3,774,000 | 3,624,000 | 7,068,000 | 7,448,000 |
| Infection Control | 1,225,000 | 1,160,000 | 2,742,000 | 2,428,000 |
| Consolidated net sales | $11,282,000 | $12,708,000 | $22,032,000 | $24,555,000 |

The following table presents the reconciliation of consolidated segment income to consolidated net income for the three and six months ended June 30, 2017 and 2016:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Building Supply | $1,170,000 | $1,657,000 | $2,132,000 | $2,670,000 |
| Disposable Protective Apparel | 752,000 | 375,000 | 1,213,000 | 710,000 |
| Infection Control | 412,000 | 381,000 | 1,008,000 | 836,000 |
| Total segment income | 2,334,000 | 2,413,000 | 4,353,000 | 4,216,000 |
| | | | | |
| Unallocated corporate overhead expenses | 1,188,000 | 1,230,000 | 2,435,000 | 2,300,000 |
| Provision for income taxes | 342,000 | 386,000 | 564,000 | 612,000 |
| Consolidated net income | $804,000 | $797,000 | $1,354,000 | $1,304,000 |

**Alpha Pro Tech, Ltd.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

The following table presents the consolidated net property and equipment, goodwill and definite-lived intangible assets ("consolidated assets") by segment as of June 30, 2017 and December 31, 2016:

| | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Building Supply | $2,105,000 | $2,208,000 |
| Disposable Protective Apparel | 356,000 | 346,000 |
| Infection Control | 125,000 | 140,000 |
| Total segment assets | 2,586,000 | 2,694,000 |
| | | |
| Unallocated corporate assets | 604,000 | 41,000 |
| Total consolidated assets | $3,190,000 | $2,735,000 |

**11. Related Party Transactions**

The Company uses a law firm whose majority member was a member of the Company's Board of Directors. Effective March 31, 2017, the Board member resigned from the Board of Directors which removed the related party relationship with this law firm. For the three months ended June 30, 2016 the Company expensed $25,000 for legal services from this related party. For the six months ended June 30, 2017 and 2016, the Company expensed $40,000 and $50,000, respectively, for legal services from this related party, As of December 31, 2016, the Company's outstanding balance to this related party was $163,000.

**12. Commitments**

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. Subsequent Events**

The Company has reviewed and evaluated whether subsequent events have occurred from the condensed consolidated balance sheet date of June 30, 2017 through the filing date of this Quarterly Report on Form 10-Q that would require accounting or disclosure and has concluded that there are no such subsequent events.

**Alpha Pro Tech, Ltd.**

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Special Note Regarding Forward-Looking Statements

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

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

### Special Note Regarding Smaller Reporting Company Status

We are filing this report as a “smaller reporting company” (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended). 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.

**Where to find more information about us.** 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 Securities and Exchange Commission ("SEC"). In addition, in accordance with SEC rules, we provide electronic or paper copies of our filings free of charge upon request.

**Critical Accounting Policies**

The preparation of our financial statements in conformity with US 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:

**Marketable Securities:** The Company periodically invests a portion of its cash in excess of short-term operating needs in marketable equity securities. These investments are classified as available-for-sale in accordance with US GAAP. The Company does not have any investments classified as held-to-maturity or trading securities. Available-for-sale investments are carried at their fair value 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 earnings. 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 condensed consolidated balance sheets.

**Alpha Pro Tech, Ltd.**

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**Inventories:** Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost or net realizable value. 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 net realizable value based upon assumptions about future sales and quantities 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 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 management determines that the potential for recovery is remote.

**Revenue Recognition:** For sales transactions, we comply with the provisions of the 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:** We record compensation expense for the fair value of stock-based awards determined on the date of grant, including employee stock options.

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 life based on historical data and no dividend yield, as the Board of Directors has no current 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. 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.

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Our target markets include pharmaceutical manufacturing, bio-pharmaceutical manufacturing, 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 net sales for the periods indicated:

| | **For the Three Months Ended June 30,** | | **For the Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 39.8% | 35.7% | 39.9% | 35.8% |
| Selling, general and administrative expenses | 29.7% | 26.2% | 31.0% | 27.7% |
| Income from operations | 9.0% | 8.6% | 7.6% | 7.0% |
| Income before provision for income taxes | 10.2% | 9.3% | 8.7% | 7.8% |
| Net income | 7.1% | 6.3% | 6.1% | 5.3% |

**Three and six months ended June 30, 2017 compared to three and six months ended June 30, 2016**

**Sales.** Consolidated sales for the three months ended June 30, 2017 decreased to $11,282,000 from $12,708,000 for the three months ended June 30, 2016, representing a decrease of $1,426,000, or 11.2%. This decrease consisted of decreased sales in the Building Supply segment of $1,641,000, partially offset by increased sales in the Disposable Protective Apparel segment of $150,000 and increased sales in the Infection Control segment of $65,000.

Building Supply segment sales for the three months ended June 30, 2017 decreased by $1,641,000, or 20.7%, to $6,283,000, compared to $7,924,000 for the same period of 2016. This segment decrease was primarily due to a 35.5% decrease in sales of synthetic roof underlayment (including REX™, TECHNOply™ and TECHNO SB), partially offset by a 43.5% increase in sales of other woven material and a 0.7% increase in sales of housewrap. The sales mix of the Building Supply segment for the three months ended June 30, 2017 was 51% for synthetic roof underlayment, 40% for housewrap and 9% for other woven material. This compared to 63% for synthetic roof underlayment, 32% for housewrap and 5% for other woven material for the three months ended June 30, 2016.

Although Building Supply segment sales were down, housewrap sales remained steady, with slightly increased sales in the second quarter and a 4.6% increase year to date. In the third quarter, we will be introducing a new, innovative and exciting product line to our housewrap family. This new product offering will compete in a segment of the housewrap market that is currently untapped for us, and we anticipate will provide us with significant growth opportunities. Synthetic roof underlayment sales were down in the second quarter of 2017, due to a soft roofing market in which shingle shipments were down significantly, as well as lower sales to private label customers and competition in our economy line. The number of rolls of non-private label synthetic roof underlayment sold were down 18%, which is similar to the decline in shingle shipments for the quarter. One of our largest private label distributors was down significantly in the second quarter as it was during the first quarter. Excluding this one private label distributor, the majority of the decline was in our economy TECHNO family line and not our premium REX™ synthetic roof underlayment line. We are seeing the market migrate toward premium roofing products, which have less competition, higher sales dollars per roll and higher gross margin. We believe that our line of synthetic roof underlayment will be a growth driver in the coming quarters.

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Management expects the Building Supply segment to experience growth in the latter half of 2017.

Sales for the Disposable Protective Apparel segment for the three months ended June 30, 2017 increased by $150,000, or 4.1%, to $3,774,000, compared to $3,624,000 for the same period of 2016, primarily due to increased sales to our major international supply chain partner as well as increased sales to national and regional distributors.

Infection Control segment sales for the three months ended June 30, 2017 increased by $65,000, or 5.6%, to $1,225,000, compared to $1,160,000 for the same period of 2016. Mask sales were up by 12.5%, or $97,000, to $866,000, and shield sales were down by 7.8%, or $32,000, to $359,000.

Consolidated sales for the six months ended June 30, 2017 decreased to $22,032,000 from $24,555,000 for the six months ended June 30, 2016, representing a decrease of $2,523,000, or 10.3%. This decrease was due to decreased sales in the Building Supply segment of $2,457,000 and decreased sales in the Disposable Protective Apparel segment of $380,000, partially offset by increased sales in the Infection Control segment of $314,000.

Building Supply segment sales for the six months ended June 30, 2017 decreased by $2,457,000, or 16.7%, to $12,222,000, compared to $14,679,000 for the same period of 2016. This segment decrease was primarily due to a 29.8% decrease in sales of synthetic roof underlayment (including REX™, TECHNOply™ and our new TECHNO SB), partially offset by a 4.6% increase in sales of housewrap and a 24.9% increase in sales of other woven material. The sales mix of the Building Supply segment for the six months ended June 30, 2017 was 53% for synthetic roof underlayment, 40% for housewrap and 7% for other woven material. This compared to 63% for synthetic roof underlayment, 32% for housewrap and 5% for other woven material for the six months ended June 30, 2016.

Sales for the Disposable Protective Apparel segment for the six months ended June 30, 2017 decreased by $380,000, or 5.1%, to $7,068,000, compared to $7,448,000 for the same period of 2016. The decrease was primarily due to decreased sales to our national and regional distributors and to a lesser extent to our major international supply chain partner.

Infection Control segment sales for the six months ended June 30, 2017 increased by $314,000, or 12.9%, to $2,742,000, compared to $2,428,000 for the same period of 2016. Mask sales were up by 15.3%, or $260,000, to

$1,944,000, and shield sales were up by 7.7%, or $54,000, to $798,000.

**Gross Profit.** Gross profit decreased by $53,000, or 1.2%, to $4,487,000 for the three months ended June 30, 2017 from $4,540,000 for the same period of 2016. The gross profit margin was 39.8% for the three months ended June 30, 2017, compared to 35.7% for the same period of 2016. Although gross profit margin in the second quarter of 2017 was 39.8%, gross profit margin for the latter half of the 2016 year was approximately 38%, as we worked on reducing product costs.

Gross profit decreased by $5,000, or 0.1%, to $8,780,000 for the six months ended June 30, 2017 from $8,785,000 for the same period of 2016. The gross profit margin was 39.9% for the six months ended June 30, 2017, compared to 35.8% for the same period of 2016.

Management expects gross profit margin to be in and around the 39% range in 2017.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased by $12,000, or 0.4%, to $3,346,000 for the three months ended June 30, 2017 from $3,334,000 for the three months ended June 30, 2016. As a percentage of net sales, selling, general and administrative expenses increased to 29.7% for the three months ended June 30, 2017, from 26.2% for the same period of 2016.

The change in expenses for the second quarter of 2017 by segment was as follows: Building Supply was up $86,000, or 8.0%, Infection Control was up $14,000, or 10.5%, Disposable Protective Apparel was down $39,000, or 10.5%, and corporate unallocated expenses were down $49,000, or 4.3%.

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Selling, general and administrative expenses increased by $28,000, or 0.4%, to $6,819,000 for the six months ended June 30, 2017 from $6,791,000 for the six months ended June 30, 2016. As a percentage of net sales, selling, general and administrative expenses increased to 31.0% for the six months ended June 30, 2017 from 27.7% for the same period of 2016.

The change in expenses for the first six months of 2017 by segment was as follows: Building Supply was up $51,000, or 2.2%, Infection Control was up $2,000, or 0.7%, corporate unallocated expenses were up $126,000, or 5.5%, and Disposable Protective Apparel was down $151,000, or 8.0%.

Pursuant to his employment agreement, the Company's President and Chairman is entitled to a bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense. A bonus of $60,000 was accrued for the three months ended June 30, 2017, as compared to $62,000 for the same period of 2016. A bonus of $101,000 was accrued for both the six months ended June 30, 2017 and 2016.

**Depreciation and Amortization.** Depreciation and amortization expense increased by $8,000, or 6.8%, to $125,000 for the three months ended June 30, 2017 from $117,000 for the same period of 2016.

Depreciation and amortization expense increased by $8,000, or 3.0%, to $279,000 for the six months ended June 30, 2017 from $271,000 for the same period of 2016.

**Income from Operations.** Income from operations decreased by $73,000, or 6.7%, to $1,016,000 for the three months ended June 30, 2017, compared to $1,089,000 for the three months ended June 30, 2016. The decreased income from operations was primarily due to a decrease in gross profit of $53,000 and an increase in selling, general and administrative expenses of $12,000.

Income from operations decreased by $41,000, or 2.4%, to $1,682,000 for the six months ended June 30, 2017, compared to $1,723,000 for the six months ended June 30, 2016. The decreased income from operations was primarily due to a decrease in gross profit of $5,000, an increase in selling, general and administrative expenses of $28,000 and an increase in depreciation and amortization expense of $8,000.

**Other Income.** Other income increased by $36,000 to $130,000 for the three months ended June 30, 2017 from $94,000 for the same period of 2016. Other income consisted primarily of equity in income of unconsolidated affiliate of $129,000 and interest income of $1,000 for the three months ended June 30, 2017. Other income consisted primarily of equity in income of unconsolidated affiliate of $93,000 and interest income of $1,000 for the three months ended June 30, 2016.

Other income increased by $43,000 to $236,000 for the six months ended June 30, 2017 from $193,000 for the same period of 2016. Other income consisted primarily of equity in income of unconsolidated affiliate of $234,000 and interest income of $2,000 for the six months ended June 30, 2017. Other income consisted primarily of equity in income of unconsolidated affiliate of $191,000 and interest income of $2,000 for the six months ended June 30, 2016.

**Income before Provision for Income Taxes.** Income before provision for income taxes for the three months ended June 30, 2017 was $1,146,000, compared to income before provision for income taxes of $1,183,000 for the three months ended June 30, 2016, representing a decrease of $37,000, or 3.1%. This decrease in income before provision for income taxes was primarily due to a decrease in income from operations of $73,000, partially offset by an increase in other income of $36,000.

Income before provision for income taxes for the six months ended June 30, 2017 was $1,918,000, compared to income before provision for income taxes of $1,916,000 for the six months ended June 30, 2016, representing an increase of $2,000, or 0.1%. The increase in income before provision for income taxes was primarily due to an increase in other income of $43,000, partially offset by a decrease in income from operations of $41,000.

**Provision for Income Taxes.** The provision for income taxes for the three months ended June 30, 2017 was $342,000, compared to $386,000 for the same period of 2016. The estimated effective tax rate was 29.8% for the three months ended June 30, 2017, compared to 32.6% for the same period of 2016. The Company does not record a tax provision on equity in income of unconsolidated affiliate. For the three months ended June 30, 2017, the estimated effective tax rate would have been 33.6% if the equity in income of unconsolidated affiliate were taxable. Management expects the effective tax rate to be in the high 20% range for the remainder of 2017.

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The provision for income taxes for the six months ended June 30, 2016 was $564,000, compared to $612,000 for the same period of 2016. The estimated effective tax rate was 29.4% for the six months ended June 30, 2017, compared to 31.9% for the same period of 2016.

**Net Income.** Net income for the three months ended June 30, 2017 was $804,000, compared to net income of $797,000 for the three months ended June 30, 2016, representing an increase of $7,000, or 0.9%. The net income increase was due to a decrease in provision for income taxes of $44,000, partially offset by a decrease in income before provision for income taxes of $37,000. Net income as a percentage of net sales for the three months ended June 30, 2017 was 7.1%, and net income as a percentage of net sales for the same period of 2016 was 6.3%. Basic and diluted earnings per common share for the three months ended June 30, 2017 and 2016 were $0.05 and $0.05, respectively.

Net income for the six months ended June 30, 2017 was $1,354,000, compared to net income of $1,304,000 for the six months ended June 30, 2016, representing an increase of $50,000, or 3.8%. The net income increase was due to an increase in income before provision for income taxes of $2,000 and a decrease in provision for income taxes of $48,000. Net income as a percentage of net sales for the six months ended June 30, 2017 was 6.1%, and net income as a percentage of net sales for the same period of 2016 was 5.3%. Basic and diluted earnings per common share for the six months ended June 30, 2017 and 2016 were $0.09 and $0.07, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2017, we had cash of $8,836,000 and working capital of $25,982,000, representing a decrease in working capital of 4.5%, or $1,216,000, from December 31, 2016. As of June 30, 2017, our current ratio (current assets/current liabilities) was 15:1, compared to a 12:1 current ratio as of December 31, 2016. Cash decreased by 6.6%, or $620,000, to $8,836,000 as of June 30, 2017, compared to $9,456,000 as of December 31, 2016. The decrease in cash was due to cash used in investing activities of $734,000 and cash used in financing activities of $1,563,000, partially offset by cash provided by operating activities of $1,677,000.

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 June 30, 2017, the prime interest rate was 4.25%. 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 June 30, 2017. As of June 30, 2017, 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 $1,677,000 for the six months ended June 30, 2017 was due to net income of $1,354,000, adjusted primarily by the following: stock-based compensation expense of $163,000, depreciation and amortization of $279,000, equity in income of unconsolidated affiliate of $234,000, an increase in accounts receivable of $403,000, a decrease in inventory of $226,000, a decrease in prepaid expenses of $841,000 and a decrease in accounts payable and accrued liabilities of $549,000.

Accounts receivable increased by $403,000, or 8.4%, to $5,225,000 as of June 30, 2017 from $4,822,000 as of December 31, 2016. The increase in accounts receivable was primarily related to increased revenue in the second quarter of 2017 compared to the fourth quarter of 2016. The number of days that sales remained outstanding as of June 30, 2017, calculated by using an average of accounts receivable outstanding, was 44 days, compared to 30 days as of December 31, 2016.

Inventory decreased by $226,000, or 2.1%, to $10,768,000 as of June 30, 2017 from $10,994,000 as of December 31, 2016. The decrease was primarily due to a decrease in inventory for the Disposable Protective Apparel segment of $976,000, or 26.1%, to $2,759,000, partially offset by an increase in inventory for the Building Supply segment of $747,000, or 15.2%, to $5,656,000 and an increase in inventory for the Infection Control segment of $3,000, or 0.1%, to $2,353,000.

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Prepaid expenses and other current assets decreased by $841,000, or 25.1%, to $2,505,000 as of June 30, 2017 from $3,346,000 as of December 31, 2016. The decrease was primarily due to a decrease in deposits for the purchase of inventory.

Accounts payable and accrued liabilities as of June 30, 2017 decreased by $549,000, or 22.3%, to $1,916,000, from $2,465,000 as of December 31, 2016. The change was primarily due to a decrease in accrued liabilities of $748,000 and an increase in trade payables of $199,000.

Net cash used in investing activities was $734,000 for the six months ended June 30, 2017, compared to net cash used in investing activities of $204,000 for the same period of 2016. Our investing activities for the six months ended June 30, 2017 consisted of the purchase of property and equipment of $734,000. Our investing activities for the six months ended June 30, 2016 consisted of the purchase of property and equipment of $163,000 and the purchase of marketable securities of $41,000.

Net cash used in financing activities was $1,563,000 for the six months ended June 30, 2017, compared to net cash used in financing activities of $1,751,000 for the same period of 2016. The net cash used in financing activities for the six months ended June 30, 2017 was due to the payment of $1,624,000 for the repurchase of shares of our common stock, offset by proceeds from exercise of stock options of $61,000. The net cash used in financing activities for the six months ended June 30, 2016 was due to the payment of $1,751,000 for the repurchase of shares of our common stock.

As of June 30, 2017, we had $2,881,000 available for additional stock purchases under our stock repurchase program. During the six months ended June 30, 2017, we repurchased 525,300 shares of common stock at a cost of $1,624,000. As of June 30, 2017, we had repurchased a total of 15,496,831 shares of common stock at a cost of $26,639,000 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.

**Recent Accounting Pronouncements**

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.

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 adopted this guidance for the period ended June 30, 2017. There was $410,000 in deferred tax assets that were netted against deferred tax liabilities as of the end of the first quarter 2017. Prior periods were not retrospectively adjusted.

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.

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In February 2016, the FASB issued ASU 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. The Company adopted this guidance during the quarter ended March 31, 2017, and the Company recorded a one-time $866,000 cumulative-effect adjustment to reduce additional paid-in capital and increase retained earnings for excess tax benefits from stock option exercises that had previously been recorded to additional paid-in capital. The adoption of this guidance also increased the number of dilutive shares because excess tax benefits are no longer included in the assumed proceeds when calculating the number of dilutive shares. In addition, the effective tax rate will be reduced in future periods when there are excess tax benefits from stock options exercised.

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

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

## ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**.

Under the supervision and with the participation of our management, including our President and Chairman and our Chief Executive Officer (principal executive officers) and our 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 June 30, 2017, 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 officers and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

**Alpha Pro Tech, Ltd.**

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**PART II. OTHER INFORMATION**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**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 Exchange Act:

| | **Issuer Purchases of Equity Securities** | | | |
|---|---|---|---|---|
| **Period** | **Total Number of Shares Purchased** | **Weighted Average Price Paid per Share** | **Total Number of Shares Purchased as Part of Publicly Announced Program (1)** | **Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)** |
| April 1 - 30, 2017 | 72,000 | $ 2.78 | 72,000 | $ 1,325,000 |
| May 1 - 31, 2017 | 74,000 | 3.00 | 74,000 | 1,101,000 |
| June 1 - 30, 2017 | 16,600 | 2.94 | 16,600 | 2,881,000 |
| | 162,600 | 2.90 | 162,600 | |

(1) On June 22, 2017, the Company announced that the Board of Directors had authorized a $2,000,000 expansion of the Company’s existing share repurchase program.

**SECURITIES SOLD**

We did not sell unregistered equity securities during the period covered by this report.

**Alpha Pro Tech, Ltd.**

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**ITEM 6. EXHIBITS**

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|---|---|
| 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). |
| 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. |
| 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 Files for Alpha Pro Tech, Ltd's Form 10-Q for the period ended June 30, 2017. |

**Alpha Pro Tech, Ltd.**

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**SIGNATURES**

Pursuant to the requirements 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.

| | | |
|---|---|---|
| | | ALPHA PRO TECH, LTD. |
| DATE: August 3, 2017 | BY: | /s/ Lloyd Hoffman |
| | | Lloyd Hoffman<br>Chief Executive Officer |
| DATE: August 3, 2017 | BY: | /s/ Colleen McDonald |
| | | Colleen McDonald<br>Chief Financial Officer |