ALPHA PRO TECH LTD
Form 10-K
March 11, 2009
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 10549

FORM 10-K

(Mark One)

x **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

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

Commission file number: 01-15725

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 Address of principal offices	**L3R 9R2** Zip Code

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

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

Common Shares Par Value $.01 Per Share

(Title of Class)

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

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

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 or Regulation S-K (Sec. 229.405 of this chapter) 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. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 o	Accelerated filer o	Non-accelerated filer x (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2). Yes o No x

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 5, 2009 was $16,078,149 based on the average bid and asked price on that date. The number of registrant s Common Shares outstanding as of March 5, 2009 was 23,850,853.

Documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated are as follows: Registrant s definitive proxy statement for its Annual Meeting of Stockholders, to be held on June 9, 2009, which will be filed with the Securities and Exchange Commission on or before April 30, 2009 (incorporated by reference under Part III).

Table of Contents

ALPHA PRO TECH, LTD.

INDEX TO ANNUAL REPORT ON FORM 10-K

Table of Contents

PART I

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

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 filed with the Securities and Exchange Commission. All statements, other than statements of historical facts, which address the Company s expectations of sources of capital or which express the Company s expectation 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 believed, anticipated, estimated or expected, 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 statement is based.

ITEM 1. BUSINESS

GENERAL

ALPHA PRO TECH, LTD. (the Company or Alpha Pro Tech, we, our or us) 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. Information contained on our website is not part of this report.

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. We also manufacture and market a line of construction weatherization products for the construction, building and re-roofing markets. As well, we manufacture and distribute a line of extended care products and a line of pet beds. Our products are sold both under the Alpha Pro Tech brand name as well as under private labels.

Our products are classified into five groups: Disposable protective apparel, consisting of a complete line of shoecovers, bouffant caps, gowns, coveralls and lab coats; construction weatherization products, consisting of house wrap and synthetic roof underlayment; infection control products, consisting of a line of face masks and eye shields; and extended care products, consisting of a line of medical bed pads, wheelchair covers, geriatric chair surfaces and a line of pet beds.

Our products as classified above are grouped into four business segments. The Disposable Protective Apparel segment, consisting of disposable protective apparel; the Engineered Products segment, consisting of construction weatherization products such as house wrap and synthetic roof underlayment; the Infection Control segment, consisting of face masks and eye shields; and the Extended Care segment, consisting of extended care products, namely medical bed pads and pet beds.

Table of Contents

Our target markets are 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, pet stores and pet distributors and construction supply and roofing distributors.

Our principle strategy focuses on developing, producing and marketing differentiated innovative high value products which 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 Disposable Protective Apparel, Infection Control, Extended Care and Engineered Products segment products are used primarily in cleanrooms, laboratories, industrial safety manufacturing environments, hospitals, dental offices construction sites and pet dealers and distributors and are distributed principally in the United States through a network consisting of purchasing groups, national and regional distributors, independent sales representatives and an internal sales and marketing force.

PRODUCTS

Our principal product groups and products include the following:

Disposable Protective Apparel:

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

Engineered Products:

- House wrap
- Synthetic roof underlayment

Infection Control:

• Face masks

• Eye shields

Extended Care:

• Unreal Lambskin®

• Medi-Pads

• Hospital pads

• Wheelchair accessories

• Bedrail pads

• Pet beds

Disposable Protective Apparel

The disposable protective apparel product line was established in 1994. The products manufactured include many different styles of shoecovers, bouffant caps, gowns, coveralls, lab coats, frocks, and other miscellaneous products. The vast majority of these products are manufactured by a third party subcontractor in China and to a much lesser extent a third party subcontractor in Mexico.

Table of Contents

Engineered Products

This segment consists of a line of construction supply weatherization products, namely house wrap and synthetic roof underlayment.

This line of products is a natural extension of our core capabilities: creating proprietary products designed to protect people and environments. The house wrap offers a weather resistant barrier designed to lower energy consumption costs. The proprietary synthetic roof underlayment is designed to resist the environment, as opposed to conventional roofing underlayment that is prone to rapid degradation and mold growth.

The usage of these two construction supply weatherization products offers great advantages in decreasing the time it takes to construct a home as well as offering cost reduction. The house wrap, REX Wrap , offers a weather resistive barrier and, to the home owner, years of lower energy consumption. 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.

Infection Control Products (Mask 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 entering or escaping 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 facemask which was recommended by the Center for Disease Control to combat the spread of Severe Acute Respiratory Syndrome (SARS) during the outbreak of 2003.

All of the 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 will not fog up from humidity and/or perspiration. An important feature of all eye and face shields is that they are disposable. This eliminates a chance of cross infection between patients and saves hospitals the expense of sterilization after every use.

Extended Care Products

The Extended Care product line consists of a line of Unreal Lambskin® products for the medical market. The Unreal Lambskin® (synthetic lambskin) is used to produce medical bed pads, which prevent decubitus ulcers or bedsores on long term care patients. The Unreal Lambskin® is also used to manufacture bedrail pads, knee and elbow protectors, as well as wheelchair accessories.

Included in the extended care product line is a line of pet products. The Pet Product line uses our existing Unreal Lambskin® raw material to manufacture pet products. The Unreal Lambskin® is used to produce retail pet beds.

MARKETS

Our products are sold to the following markets: disposable protective apparel as well as the infection control products (masks and shields) are sold to the industrial market, cleanroom market, medical and dental markets; construction weatherization products are sold to construction supply and roofing distributors; Unreal Lambskin® medical bed pads are sold to the extended care market; and pet beds are sold to the pet distributors and retailers.

Our target markets are 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, construction supply and roofing distributors and pet stores and pet distributors.

Table of Contents

Our products are used primarily in cleanrooms, industrial safety manufacturing environments, health care facilities such as hospitals, laboratories and dental offices, as well as construction sites. Our pet beds are used by pet owners and veterinarians. 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.

DISTRIBUTION

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

Sales to our largest distributor represented 38.0% of total sales for 2008, 45.1% for 2007 and 45.1% for 2006. We have had a contractual relationship with this distributor since 1995 and effective January 1, 2006 signed a new multiple year contract which provides optional extensions beyond the initial term of the agreement. Previously, this distributor had exclusive rights to sell and distribute Alpha Pro Tech s Critical Cover® trade named disposable protective apparel products, and exclusive rights to sell and distribute Alpha Pro Tech branded products to domestic and international clean room and industrial customers. Under terms of the new contract, this distributor has the exclusive right to sell and distribute Alpha Pro Tech s Critical Cover® trade named disposable protective apparel products, but non-exclusive rights to sell and distribute Alpha Pro Tech branded products. The loss of this distributor would have a material adverse effect on our business.

We do not generally have backlog orders, as orders are usually placed for shipment and shipped within 30 days. We anticipate no problem in fulfilling orders as they are placed.

MANUFACTURING

Our disposable protective apparel facility is located in a 60,000 square foot facility located at 1287 West Fairway Drive in Nogales, Arizona which is used for cutting, warehousing and shipping. The majority of these products are manufactured by a third party subcontractor in China and to a much lesser extent a third party subcontractor in Mexico. These goods are manufactured pursuant to our specifications and quality assurance guidelines. Certain proprietary products are being made in China using material supplied by us. In addition, we have a 36,000 square foot material coating and automated shoecover facility located at 2224 Cypress Street, Valdosta, Georgia.

Our wholly-owned subsidiary, Alpha ProTech Engineered Products, Inc., which manufactures and distributes a line of construction weatherization products, primarily house wrap and synthetic roof underlayment, is located in a 50,000 square foot facility at 301 S. Blanchard St., Valdosta, Georgia. The house wrap and the synthetic roof underlayment is manufactured by a company in India in which the company has a 41.66% ownership.

In 2005, Alpha ProTech Engineered Products, Inc. entered into a 41.66% joint venture with Maple Industries and Associates (Maple), a manufacturer in India, for the production of house wrap and synthetic roof underlayment products. The name of the joint venture is Harmony Plastics Private Limited (Harmony). Harmony s start up funding was utilized to purchase an existing 33,000 square-foot manufacturing facility in India; this facility includes manufacturing equipment necessary to produce synthetic roof underlayment. In addition, Harmony also built a

60,000 square-foot facility for the manufacturing of house wrap and other building products.

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

An 18,000 square foot facility located at 951 Todd Drive, Janesville, Wisconsin is used to manufacture our Extended Care products and consumer products including a line of pet beds.

Table of Contents

We have multiple suppliers of the materials used to produce our products. We currently have no problems, and do not anticipate any problems, with respect to the sources and availability of the materials needed to produce our products. Our business is not subject to significant seasonal considerations. It is necessary for us to have adequate raw material 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 of Fort Worth, Texas. Other large competitors include 3M Company, Johnson & Johnson, Cardinal Health, Inc., and Medline Industries Inc. Our major competitors in the industrial and cleanroom market are Kimberly Clark, 3M Company, Kappler USA and DuPont. In the extended care market, Skil-care, Glenoit Mills and JT Posey Co. are our principal competitors, and in the pet products market, principal competitors include Flexmat Corporation and Lazy Pet Company. Our major competitors in the construction supply weatherization market are Dupont for house wrap and WR Grace and Interwrap for roof underlayment.

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 which has been approved by the National Institute for Safety and Health (NIOSH). This product is designed to help prevent the inhaling of the tuberculosis virus.

We do not anticipate that any federal, state or local requirements which have been or may be enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have any material effect on the capital expenditures, earnings or competitive position of our business.

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 foreign countries. At present, we have 19 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 4 to 17 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.

Table of Contents

EMPLOYEES

As of February 10, 2009, we had 142 employees, including 19 people at our head office in Markham, Ontario, Canada; 18 people at our facemask production facility in Salt Lake City, Utah; 7 people at our Extended Care and pet beds production facility in Janesville, Wisconsin; 28 people at our cutting, warehouse and shipping facility in Nogales, Arizona; 17 people at our coating and automated shoecover facility in Valdosta, Georgia; 25 people at our Engineered Products facility in Valdosta, Georgia; 14 people on our sales team, a 3 person marketing staff and 11 people in China.

None of our employees are subject to collective bargaining agreements.

AVAILABLE INFORMATION

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (SEC). These materials can be inspected and copied at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of these materials may also be obtained by mail at prescribed rates from the SEC s Public Reference Room at the above address. Information about the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC s Internet site is http://www.sec.gov.

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 report with the SEC. The past two years of news releases are also made available on our website. In addition, we provide electronic or paper copies of our filings free of charge upon request.

ITEM1A. RISK FACTORS

The following factors, as well as factors described elsewhere in this Form 10-K, or in other filings by the Company with the Securities and Exchange Commission, could negatively affect the Company s consolidated financial position, results of operations or cash flows. Other factors not presently known to us or that we presently believe are not material could also affect our business operations and financial results.

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

Unfavorable economic conditions, including the impact of recessions 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 depend upon revenue from a few larger 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.

Table of Contents

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company s Head Office is located at 60 Centurian Drive, Suite 112, Markham, Ontario L3R 9R2. The approximate monthly costs are $3,000 under a lease expiring February 28, 2012. Working out of the head office are the President, Alexander Millar, Chief Executive Officer, Sheldon Hoffman and Chief Financial Officer, Lloyd Hoffman.

The Apparel Division has its cutting operation, warehousing, and shipping facility at 1287 Fairway Drive, Nogales, Arizona. The monthly rent is $16,000 for 60,000 square feet. This lease expires December 31, 2009.

The Coating and Automated Shoecover Division has its facility at 2224 Cypress Street, Valdosta, Georgia. The monthly rent is $5,600 for 36,000 square feet. This lease expires May 30, 2010.

Our wholly-owned subsidiary, Alpha ProTech Engineered Products, Inc. is located at 301 S. Blanchard St. Valdosta, Georgia. The monthly rent is $12,000 for 50,000 square feet. This lease expires October 31, 2009.

We manufacture our surgical face masks at 236 North 2200 West, Salt Lake City, Utah. The monthly rent is $13,000 for 34,500 square feet. This lease expires on July 31, 2010.

The extended care and consumer pet bed products manufacturing facility is located at 951 Todd Drive, Janesville, Wisconsin. This 18,000 square foot facility is leased for $8,100 monthly, which includes taxes and utilities. The lease expires August 31, 2011.

We believe that these arrangements are adequate for our present needs and that other premises, if required, are readily available.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2008.

Table of Contents

PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Common Shares of the Company trade on the New York Stock Exchange Alternext US (NYSE Alternext US) under the symbol APT.

The high and low range of bid prices for the Common Shares of the Company for the quarters indicated was as follows:

	Low		High	
2007				
First Quarter	$	2.50	$	3.45
Second Quarter		2.31		3.28
Third Quarter		1.45		2.70
Fourth Quarter		1.52		1.77
2008				
First Quarter	$	1.14	$	1.72
Second Quarter		0.90		1.22
Third Quarter		0.90		1.59
Fourth Quarter		0.80		1.46
2009				
First Quarter	$	0.80	$	1.04
(Through March 5, 2009)				

As of March 5, 2009 there were 349 shareholders of record, and approximately 3,800 beneficial owners.

Dividend Policy

The holders of the Company s Common Shares 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 nor paid any dividends on any of its Common Shares. 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 intention to pay cash dividends in the foreseeable future.

10

Table of Contents

COMPARISON OF CUMULATIVE TOTAL RETURN OF ONE OR MORE

COMPANIES, PEER GROUPS, INDUSTRY INDEXES AND/OR BROAD MARKETS

Company/Index/ Market	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Alpha Pro Tech Ltd.	100.00	83.69	100.00	120.17	72.10	42.49
Surgical Appliances & Supplies	100.00	119.27	114.06	126.48	151.20	87.55
NASDAQ Market Index	100.00	108.41	110.79	122.16	134.29	79.25

The above graph compares the five-year cumulative return of the Company during the years 2004 through 2008 with the comparable return of two indices. The Industry Index represents the industry or line-of-business of the Company. The graph assumes $100 invested on January 1, 2004. The comparison assumes that all dividends are reinvested.

The Industry Index represents the Surgical Appliances and Supplies division comprised of 36 corporations, compiled from the SIC Code within which the Company is listed.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Alpha Pro Tech, Ltd.

Selected Financial Data

	Year Ended December 31, 2008	2007	2006	2005	2004
Historical Consolidated Income Statements Data					
Sales	$ 35,786,000	$ 35,453,000	$ 37,338,000	$ 31,095,000	$ 24,841,000
Gross profit	15,480,000	16,442,000	17,320,000	14,147,000	12,286,000
Selling, general and administrative expenses	12,639,000	12,541,000	10,939,000	9,796,000	8,925,000
Depreciation and amortization	586,000	494,000	448,000	499,000	517,000
Equity in income (loss) of unconsolidated affiliate	185,000	214,000	60,000	(16,000)	
Gain on sale of assets					7,000
Interest income, net	75,000	94,000	36,000	24,000	7,000
Income before provision for income taxes	2,515,000	3,715,000	6,029,000	3,860,000	2,858,000
Provision for income taxes	951,000	1,298,000	2,290,000	1,410,000	1,011,000
Net income	$ 1,564,000	$ 2,417,000	$ 3,739,000	$ 2,450,000	$ 1,847,000
Basic net income per share	$ 0.06	$ 0.10	$ 0.15	$ 0.10	$ 0.08
Diluted net income per share	$ 0.06	$ 0.09	$ 0.15	$ 0.10	$ 0.08
Basic weighted average shares outstanding	24,773,497	25,319,656	24,141,535	23,684,229	23,215,809
Diluted weighted average shares outstanding	24,773,497	25,615,730	25,129,198	25,247,236	24,624,613
Historical Consolidated Balance Sheets Data					
Current assets	$ 23,576,000	$ 24,604,000	$ 22,297,000	$ 16,874,000	$ 15,348,000
Total assets	29,168,000	29,486,000	26,852,000	21,871,000	18,789,000
Current liabilities	1,883,000	1,935,000	2,679,000	2,576,000	2,437,000
Long-term liabilities	819,000	747,000	693,000	652,000	652,000
Shareholders equity	26,466,000	26,804,000	23,480,000	18,643,000	15,700,000

Table of Contents

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 selected five-year financial data, our consolidated financial statements and the notes to our consolidated financial statements, which appear elsewhere in this report.

Cautionary Statement for Forward-Looking Information

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 variat 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, are also expressly qualified by these cautionary statements.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 polices 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. Provision is made for slow-moving, obsolete or unusable inventory. We assess our inventory for estimated obsolescence or unmarketable inventory and write down the difference between the cost of inventory and the estimated market value based upon assumptions about future sales and supply on-hand, if necessary. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Revenue Recognition: For sales transactions, we comply with the provisions of the SEC s Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, which states that revenue should be recognized when 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 revenues are recognized accordingly.

Sales Returns and Rebates: 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 accrued monthly.

Stock Based Compensation: The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS 123R) effective January 1, 2006, using the modified prospective application method. SFAS 123R requires companies to record compensation expense for the value of all outstanding and unvested share-based payments, including employee stock options and similar awards.

Table of Contents

The fair values of stock option grants are determined using the Black-Scholes option pricing model and the following assumptions: expected stock price volatility based on historical 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 management currently does not intend to pay dividends in the near future. The Black-Scholes option valuation 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 valuation 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 their fair value.

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 construction weatherization products and a line of medical bed pads and accessories as well as a line of pet beds. Our products are sold both under the Alpha Pro Tech brand name as well as under private label.

Our products are classified into five groups: disposable protective apparel, consisting of a line of shoecovers, bouffant caps, gowns, coveralls and lab coats; infection control products, consisting of a line of face masks and eye shields; extended care products, consisting of a line of medical bed pads, wheelchair covers, geriatric chair surfaces, operating room table surfaces and pediatric surfaces; a line of pet beds; and construction weatherization products, consisting of house wrap and synthetic roof underlayment.

Our products as classified above are grouped into four business segments. The Disposable Protective Apparel segment, consisting of disposable protective apparel; the Infection Control segment, consisting of face masks and eye shields; the Extended Care segment, consisting of extended care products, namely medical bed pads and pet beds; and the Engineered Products segment, consisting of construction weatherization products such as REX Wrap house wrap and REX Synfelt synthetic roof underlayment.

Our target markets are 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, pet stores and pet distributors and construction 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, as well as construction supply sites. Our pet beds are used by pet owners and veterinarians. 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 periods indicated:

	2008	**2007**	**2006**
Net sales	100.0%	100.0%	100.0%
Gross profit	43.3%	46.4%	46.4%
Selling, general and administrative	35.3%	35.4%	29.3%
Income from operations	6.3%	9.6%	15.9%
Income before provision for income taxes	7.0%	10.5%	16.1%
Net income	4.4%	6.8%	10.0%

Table of Contents

Fiscal 2008 compared to Fiscal 2007

Sales. Consolidated sales for the twelve months ended December 31, 2008 increased to $35,786,000 from $35,453,000 for the twelve months ended December 31, 2007, representing an increase of $333,000 or 0.9%. This increase consists of increased sales of Engineered Products segment of $2,989,000 and increased Infection Control segment sales of $51,000, partially offset by decreased Disposable Protective Apparel products of $2,380,000 and decreased sales from our Extended Care products segment of $327,000.

Sales for the Disposable Protective Apparel segment for the twelve months ended December 31, 2008 decreased by $2,380,000 or 10.5% to $20,203,000 compared to $22,583,000 for the same period of 2007. The decrease is primarily related to decreased sales to our largest distributor as well as lower sales to other cleanroom and industrial distributors, partially offset by increased sales to a major national distributor with which we received preferred vendor status during the first quarter of 2008. Although our shipments to our largest distributor were weak in 2008, their shipments of our products to their end users were much stronger than our sales to them. We expect sales for 2009 to be improved as compared to 2008.

Engineered Products segment sales for the twelve months ended December 31, 2008 increased by $2,989,000 or 57.2% to $8,216,000 as compared to $5,227,000 for the same period of 2007. The segment increase of 57.2% is primarily due to a 119.9% increase in sales of REX Synfelt synthetic roof underlayment and a 9.8% increase in sales of REX Wrap house wrap. The sales mix of the Engineered Products sales for the year ended December 31, 2008: 64% synthetic roof underlayment and 36% house wrap. This compared to 47% synthetic roof underlayment and 53% house wrap in 2007.

Our Engineered Products distribution channel strategy is continuing to gain momentum. Our REX synthetic roof underlayment is being positively received as a superior product in the industry and we believe is a cost effective and better alternative to felt paper. Our ICC-ES approval for our REX Wrap house wrap significantly expands our market opportunities as many construction supply companies, builders and architects require this certification to sell the product. As well, our high-quality, multi-color printed house wrap gives us a distinct competitive advantage in the marketplace.

We continue to be optimistic that our distribution channel strategy will broaden our ability to take advantage of market opportunities for synthetic roof underlayment and house wrap throughout next year and into the future. Although our sales are growing and are expected to continue to grow, the downturn in the economy and in particular the housing market will affect our sales. We are currently working on opportunities with existing and new distributors and we are optimistic about the future of this segment.

Infection Control segment sales for the twelve months ended December 31, 2008 increased by $51,000 or 0.8% to $6,563,000 compared to $6,512,000 for the same period of 2007. Shield sales were up 4.8% and mask sales were down 1.0% when compared to last year. Shield sales improved in 2008 due to the fact that we received a $1.7 million shield order in the fourth quarter of 2008, from the same customer from which we received the non-recurring order from in the first quarter of 2007. This order is being shipped out over a period of three quarters and commenced shipping in the fourth quarter of 2008. As of December 31, 2008 we have shipped $580,000 of the order, the balance of $1,161,000 will ship in 2009. Mask sales decreased by 1.0 % in 2008 primarily due a decrease in N-95 respirator mask sales partially offset by an increase in dental and industrial mask sales. Shield sales should improve in 2009 due to the above mentioned order but, unless concerns about Avian Flu increase, we expect mask sales in 2009 to be similar to 2008.

Sales from our Extended Care segment decreased by $327,000 or 28.9% to $804,000 for the twelve months ended December 31, 2008 from $1,131,000 for the twelve months ended December 31, 2007. The decrease in sales is primarily the result of lower pet bed sales. This line of products is not expected to be a growth segment for the Company.

Table of Contents

Gross Profit. Gross profit decreased by 0.6% to $15,480,000 for the twelve months ended December 31, 2008 from $16,442,000 for the same period in 2007. The gross profit margin was 43.3% for the twelve months ended December 31, 2008 compared to 46.4% for the twelve months ended December 31, 2007.

Gross profit margin for 2008 has been affected by the change in product mix in which Engineered Products sales, which has lower margins, increased to 23.0% for 2008 as compared to 14.7% for last year. Additionally, cost of goods for the Disposable Protective Apparel segment increased in China and the United States due to increased labor and material costs in China, the strengthening Chinese currency and higher crude oil prices, which has also impacted our gross profit margin.

We expect our gross margins for the Disposable Protective Apparel segment to improve in 2009 as we pass on a price increase to our distributors.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $98,000 or 0.8% to $12,639,000 for the twelve months ended December 31, 2008 from $12,541,000 for the twelve months ended December 31, 2007. As a percentage of net sales, selling, general and administrative expenses decreased slightly to 35.3% for the twelve month ended December 31, 2008 from 35.4 % for the same period in 2007. The increase is primarily due to increased employee compensation of $423,000, increased professional fees $47,000, increased outside service expenses of $89,000, increased insurance expense of $125,000 primarily related to Engineered Products, increased public company related expenses of $121,000 of which $74,000 was related to Sarbanes Oxley 404 internal control compliance, increased option expense of $66,000 and increased loss on foreign exchange of $91,000, partially offset by decreased marketing expenses of $187,000, decreased travel expenses of $192,000, decreased executive bonus of $133,000 and a severance agreement of $320,000 for our previous Senior VP of Manufacturing in April 2007 and decreased research and development costs of $42,000.

The chief executive officer and president are each entitled to a bonus equal to 5% of the pre-tax profits of the Company. Bonuses of $280,000 were accrued for the twelve months ended December 31, 2008 as compared to $413,000 in the same period of 2007.

Depreciation and Amortization. Depreciation and amortization expense increased by $92,000 or 18.6% to $586,000 for the twelve months ended December 31, 2008 from $494,000 for the same period in 2007. The increase is primarily attributable to increased depreciation for Engineered Products.

Income from Operations. Income from operations decreased by $1,152,000 or 33.8%, to $2,255,000 for the twelve months ended December 31, 2008 as compared to income from operations of $3,407,000 for the twelve months ended December 31, 2007. The decrease in income from operations is due to a decrease in gross profit of $962,000, an increase in selling, general and administrative expenses of $98,000 and an increase in depreciation and amortization of $92,000.

Equity in income of unconsolidated affiliates. For the year ended December 31, 2008, we recorded equity in income of unconsolidated affiliates of $185,000 as compared to $214,000 for the same period of 2007.

Net Interest. For the twelve months ended December 31, 2008, net interest income was $75,000 compared to net interest income of $94,000 for the twelve months ended December 31, 2007. Interest income decreased to $76,000 for the year ended December 31, 2008 as compared to $102,000 for the same period of 2007, due to lower interest rates. Interest expense decreased to $1,000 for the year ended December 31, 2008 compared to $8,000 for the same period of 2007.

Income before Provision for Income Taxes. Income before provision for income taxes for the twelve months ended December 31, 2008 was $2,515,000 compared to $3,715,000 for the twelve months ended December 31, 2007, representing a decrease of $1,200,000 or 32.3%. The decrease in income before provision for income taxes is due primarily to a decrease in income from operations of $1,152,000, a decrease of $29,000 in equity in income of unconsolidated affiliates (Harmony) and a decrease in net interest income of $19,000.

Table of Contents

Provision for Income Taxes. The provision for income taxes for the twelve months ended December 31, 2008 was $951,000 compared to $1,298,000 for the same period of 2007. The effective tax rate was 37.8% for the twelve months ended December 31, 2008 as compared to 35.0% for the same period in 2007. The difference in the effective rate is primarily due to an increase in state taxes and other taxes. Management expects the effective tax rate to be in the 38% range going forward.

Net Income. Net income for the twelve months ended December 31, 2008 was $1,564,000 compared to net income of $2,417,000 for the twelve months ended December 31, 2007, a decrease of $853,000 or 35.3%. The net income decrease was primarily due to a decrease in income before provision for income taxes of $1,200,000, partially offset by a decrease in income taxes of $347,000. Net income as a percentage of sales for the twelve months ended December 31, 2008 and 2007 was 4.4% and 6.8% respectively. Basic income per share for the year ended December 31, 2008 and 2007 was $0.06 and $0.10, respectively. Diluted income per share for the year ended December 31, 2008 and 2007 was $0.06 and $0.09, respectively.

Fiscal 2007 compared to Fiscal 2006

Sales. Consolidated sales for the year ended December 31, 2007 decreased to $35,453,000 from $37,338,000 for the year ended December 31, 2006, representing a decrease of $1,885,000 or 5.1%. We attribute the decrease to decreased sales of Engineered Products segment of $2,554,000, to decreased Infection Control segment sales of $432,000, to decreased sales from our Extended Care products segment of $299,000, partially offset by increased sales of Disposable Protective Apparel products of $1,400,000.

Sales for the Disposable Protective Apparel segment for the year ended December 31, 2007 increased by $1,400,000 or 6.6% to $22,583,000 compared to $21,183,000 for the same period of 2006. The increase is primarily related to increased sales to cleanroom and industrial distributors, partially offset by lower sales to our largest distributor. Although sales only increased by 6.6% or $1.4 million in 2007, sales for this segment were up 17.4% or $2.6 million through the first nine months of 2007. Year over year growth was significantly impacted by weak shipments in the fourth quarter of 2007 to our largest distributor as well as a record quarter in the fourth quarter of 2006. Although our shipments to this distributor were weak in the fourth quarter, their shipments to their end users were in line with their 2007 quarterly average sales.

In September 2006, we announced the signing of a new distribution contract with our largest distributor in which they retained the exclusive right to sell our private label Critical Cover® products, but have also allowed us the right to sell Alpha Pro Tech branded products to other distributors. This has enabled us to gain additional market share as we develop relationships with other industrial and cleanroom distributors.

Infection Control segment sales for the year ended December 31, 2007 decreased by $432,000 or 6.3% to $6,512,000 compared to $6,944,000 for the same period of 2006. Mask sales in this segment were down by $1,004,000 and shield sales were up by $572,000. Mask sales were down primarily due to lower sales of our N-95 NIOSH approved Respirator mask as concerns about Avian Flu have abated in 2007 and shield sales were strong primarily due to a large non-recurring order in the first quarter of 2007.

Engineered Products segment sales for the year ended December 31, 2007 decreased by $2,554,000 or 32.9% to $5,227,000 as compared to $7,781,000 for the same period of 2006. The decrease for the year is primarily due to a 46.3% decrease in sales of REX Wrap house wrap as sales of REX Synfelt synthetic roof underlayment were flat. The breakdown of the Engineered Products sales is as follows for the year ended December 31, 2007: 53% house wrap, 47% synthetic roof underlayment. This compares to 67% house wrap and 33% synthetic roof underlayment for the year ended December 31, 2006.

The Engineered Products segment decrease for 2007 is the result of two factors. Firstly, a change in distribution channel strategy in which we decided to move forward on a non exclusive basis with our former distributor, which led the distributor to source product from other suppliers and to ultimately discontinue purchasing from us.

Table of Contents

Secondly, the downturn in the housing market has hurt our sales, in particular our house wrap line, as fewer houses are being built and distributors are keeping inventories low.

Sales from our Extended Care segment decreased by $299,000 or 20.9% to $1,131,000 for the year ended December 31, 2007 from $1,430,000 for the year ended December 31, 2006. The decrease in sales is primarily the result of lower medical bed pad sales of $146,000 and lower pet bed sales of $153,000.

Gross Profit. Gross profit decreased by 5.1% to $16,442,000 for the year ended December 31, 2007 from $17,320,000 for the same period in 2006. The gross profit margin was 46.4% for the year ended December 31, 2007 and December 31, 2006.

The gross profit margin on the Engineered Products segment has improved for the year ended December 31, 2007 as compared to the same period of 2006. Although the gross profit margin in the Engineered Products segment is lower than the overall company margin, we expect it to continue to improve as sales grow. The gross profit margin on the Disposable Protective Apparel segment was down slightly due to increased costs from China.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $1,602,000 or 14.7% to $12,541,000 for the year ended December 31, 2007 from $10,939,000 for the year ended December 31, 2006. As a percentage of net sales, selling, general and administrative expenses increased to 35.4% for the year ended December 31, 2007 from 29.4% for the same period in 2006. The increase is primarily due to increased expenses for the Engineered Products segment of $934,000, a severance agreement of $320,000 for our previous Senior VP of Manufacturing in April 2007, increased employee compensation of $161,000, increased expenses for travel to Asia of $118,000 and increased marketing expenses of $54,000.

The Engineered Products segment increase of $934,000 is broken down as follows: a $368,000 increase in employee compensation, a $326,000 increase in marketing expenses, an $111,000 increase in commission for independent representatives, a $78,000 increase in travel expenses and a $56,000 increase in insurance expenses, partially offset by a $5,000 decrease in miscellaneous expenses.

As a percentage of net sales, selling, general and administrative expenses increased to 35.4% for the year ended December 31, 2007 from 29.3% for the same period in 2006.

The chief executive officer and president are each entitled to a bonus equal to 5% of the pre-tax profits of the Company. Bonuses of $413,000 were accrued for the year ended December 31, 2007 as compared to $670,000 in the same period of 2006.

Depreciation and Amortization. Depreciation and amortization expense increased by $46,000 or 10.3% to $494,000 for the year ended December 31, 2007 from $448,000 for the same period in 2006. The increase is primarily attributable to an increased depreciation for Engineered Products.

Income from Operations. Income from operations decreased by $2,526,000 or 42.6%, to $3,407,000 for the year ended December 31, 2007 as compared to income from operations of $5,933,000 for the year ended December 31, 2006. The decrease in income from operations is due to a decrease in gross profit of $878,000, an increase in selling, general and administrative expenses of $1,602,000 and an increase in depreciation and amortization of $46,000.

Equity in income of unconsolidated affiliates. For the year ended December 31, 2007, we recorded equity in income of unconsolidated affiliates of $214,000 as compared to $60,000 for the same period of 2006. The net change in equity in income is primarily due to a gain of $103,000 on a foreign currency exchange contract that occurred in the third quarter of 2007.

Net Interest. For the year ended December 31, 2007, we had net interest income of $94,000 compared to net interest income of $36,000 for the year ended December 31, 2006. Interest income increased by $61,000 to

Table of Contents

$102,000 for the year ended December 31, 2007 as compared to $41,000 for the same period of 2006, due to higher cash balances. Interest expense increased slightly to $8,000 for the year ended December 31, 2007 compared to $5,000 for the same period of 2006.

Income Before Provision for Income Taxes. Income before provision for income taxes for the year ended December 31, 2007 was $3,715,000 compared to $6,029,000 for the year ended December 31, 2006, representing a decrease of $2,314,000 or 38.4%. The decrease in income before provision for income taxes is due to a decrease in income from operations of $2,526,000, partially offset by an increase in net interest income of $58,000 and a net increase of $154,000 from our unconsolidated affiliate (Harmony).

Based on the analysis of segment income excluding corporate overhead allocations, a primary reason for the decline in income before provision for income tax was due to a net decrease of $1,543,000 in the Engineered Products segment. This segment experienced a loss of $826,000 for the year ended December 31, 2007 as compared to income of $717,000 for the same period of 2006.

Provision for Income Taxes. The provision for income taxes for the year ended December 31, 2007 was $1,298,000 compared to $2,290,000 for the year ended December 31, 2006. The effective tax rate was 35.0% for the year ended December 31, 2007 as compared to 38.0% for the same period in 2006. The decrease in the effective tax rate is due to a reduction in state taxes.

Net Income. Net income for the year ended December 31, 2007 was $2,417,000 compared to net income of $3,739,000 for the year ended December 31, 2006, a decrease of $1,322,000 or 35.4%. The net income decrease was primarily due to a decrease in income before provision for income taxes of $2,314,000, partially offset by a decrease in income taxes of $992,000. Net income as a percentage of sales for the year ended December 31, 2007 and 2006 was 6.8% and 10.0% respectively. Basic income per share for the year ended December 31, 2007 and 2006 was $0.10 and $0.15 respectively. Diluted income per share for the year ended December 31, 2007 and 2006 was $0.09 and $0.15 respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, we had cash and cash equivalents of $4,578,000 and working capital of $21,693,000, a decrease in working capital of 4.3% or $976,000 since December 31, 2007. As of December 31, 2008, our current ratio was 12.5:1 as compared to 12.7:1 as of December 31, 2007. Cash increased by $514,000 to $4,578,000 as of December 31, 2008 as compared to $4,064,000 as of December 31, 2007. The increase in cash is due to cash provided by operating activities of $3,846,000 offset by cash paid for the repurchase of common stock of $2,125,000 and cash used in investing activities of $1,207,000.

We have a $3,500,000 credit facility with a bank, consisting of a line of credit with interest at prime plus 0.5%. At December 31, 2008, the prime interest rate was 3.25%. This credit line expires in May 2009 and we plan to renew it upon expiration. Our borrowing capacity on the line of credit was $3,500,000 at December 31, 2008. The available line of credit is based on a formula of eligible accounts receivable and inventories. As of December 31, 2008, we did not have any debt.

Net cash provided by operating activities was $3,846,000 for the twelve months ended December 31, 2008 compared to $2,085,000 net cash provided by operating activities for the twelve months ended December 31, 2007. The net cash provided by operating activities of $3,846,000 for the twelve months ended December 31, 2008 is due to net income of $1,564,000, adjusted by the following: an increase in accounts receivable of $669,000, an increase in net deferred tax asset of $19,000, a decrease in accounts payable and accrued liabilities of $52,000, equity in income of unconsolidated affiliates of $185,000, a decrease in inventory of $2,150,000, a decrease in prepaid expenses of $248,000, amortization of share-based compensation expense of $223,000 and depreciation and amortization of $586,000.

Table of Contents

The net cash provided in operating activities of $2,085,000 for the twelve months ended December 31, 2007 is due to net income of $2,417,000, adjusted by the following: an increase in inventory of $1,398,000, a decrease in accounts receivable of $1,735,000, an increase in prepaid expenses of $393,000, a decrease in accounts payable and accrued liabilities of $744,000, equity in income of unconsolidated affiliates of $214,000, amortization of share-based compensation of $158,000, depreciation and amortization of $494,000 and an increase in net deferred tax asset of $30,000.

Accounts receivable increased by $669,000 or 15.1% to $5,091,000 as of December 31, 2008 from $4,422,000 as of December 31, 2007. The increase in accounts receivable of 15.1% is directly related to the sales increase of 14.8% in the fourth quarter of 2008 as compared to the same quarter of 2007. The number of days of sales outstanding has remained constant at 51 days as of December 31, 2008 and 2007.

Inventory decreased by $2,054,000 or 14.6% to $12,057,000 as of December 31, 2008 from $14,111,000 as of December 31, 2007. The decrease is primarily due to a decrease in inventory for the Engineered Products segment of $2,009,000 to $5,950,000 as of December 31, 2008 from $7,959,000 as of December 31, 2007. The vast majority of the $2,009,000 decrease in Engineered Products segment inventory occurred in the third and fourth quarter of 2008 and we expect our inventory turns to continue to improve in the coming quarters.

Prepaid expenses and other current assets decreased by $248,000 to $1,340,000 as of December 31, 2008 from $1,588,000 as of December 31, 2007. The decrease of $248,000 is primarily due to a decrease in prepaid inventory for Engineered Products of $289,000.

Accounts payable and accrued liabilities as of December 31, 2008 decreased by $52,000 to $1,883,000 from $1,935,000 as of December 31, 2007. The net change in 2008 was primarily due a decrease in accrued liabilities of $215,000 and an increase in trade payables of $163,000. Accrued liabilities are down as follows: commission and bonus accrual $161,000, accrued rebates and other $145,000. This is partially offset by an increase in accrued professional fees $40,000 and accrued payroll expenses $51,000.

Net cash used in investing activities was $1,207,000 for the twelve months ended December 31, 2008 compared to net cash used in investing activities of $607,000 for the twelve months ended December 31, 2007. Our investing activity for the nine months in 2008 consisted of expenditures for property and equipment of $1,156,000 and the purchase of intangible assets of $51,000, compared to $555,000 and $52,000, respectively, for the same period of 2007. The Company purchased capital equipment for Engineered Products in the amount of $700,000 in the fourth quarter of 2008.

For the twelve months ended December 31, 2008, net cash used in financing activities was $2,125,000 compared to cash provided by financing activities of $749,000 for the same period of 2007. Our financing activities for the twelve months ended December 31, 2008 consisted of the repurchase of 1,732,800 shares of common stock at a cost of $2,125,000. Our financing activities in 2007 consisted of cash proceeds of $1,431,000 from the exercise of 1,646,375 stock options and an income tax benefit from stock options exercised of $225,000, partially offset by the repurchase of 572,300 common stock at a cost of $907,000.

As of December 31, 2007 we had $1,096,000 available on our repurchase program. On April 2, 2008, our Board of Directors authorized the repurchase of up to an additional $2,000,000 of our outstanding common stock. As of December 31, 2008 we have $971,000 available on our repurchase program. For the twelve months ended December 31, 2008, we have repurchased and retired 1,732,800 shares of common stock at a cost of $2,125,000. As of December 31, 2008, we have repurchased and retired a total of 4,638,900 shares of common stock at a cost of

$5,550,000 through our repurchase program. Future repurchases are expected to be funded from cash on hand and cash-flow from operations.

Table of Contents

As shown below, at December 31, 2008, our contractual cash obligations totaled approximately $1,046,000.

Contractual Obligations

		Payments Due by Period		
	Total	1 Year	2-3 Years	4-5 Years
Operating leases	$ 1,046,000	$ 678,000	$ 360,000	$ 8,000
Total contractual cash obligations	$ 1,046,000	$ 678,000	$ 360,000	$ 8,000

We believe that cash generated from operations, 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

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157) . SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement addresses how to calculate fair value measurements required or permitted under other accounting pronouncements. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice. SFAS 157 was effective beginning January 1, 2008 for assets and liabilities measured at fair value on a recurring basis. Our adoption of SFAS 157 did not have a material impact on our consolidated financial statements. In February 2008, the FASB deferred for one year the effective date of SFAS 157 only with respect to nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, and removed certain leasing transactions from the scope of SFAS 157. SFAS 157 is effective for us as of January 1, 2009 for assets and liabilities measured at fair value on a non-recurring basis.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 was effective for us as of January 1, 2008, however we did not elect to apply the fair value option to any financial instruments or other items upon adoption or during the twelve months ended December 31, 2008. As a result, the adoption of SFAS 159 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160) which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. SFAS 160 is effective January 1, 2009 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We do not consolidate our partially owned affiliated and therefore we do not expect the application of this standard to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, (SFAS 141R), which changes how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 141R is effective January 1, 2009, and will be applied prospectively. The impact of adopting SFAS 141R will depend on the nature and terms of future acquisitions.

Table of Contents

We periodically review new accounting standards that are issued. Although some of these accounting standards may be applicable to us, we have not identified any other new standards that we believe merit further discussion, and we expect that none would have a significant impact on our 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 executive office, which employs 19 people, is located in Canada. Our results of operations could be negatively affected by changes in foreign currency exchange rates due to stronger economic conditions in those countries. We believe we do not have a material foreign currency exposure due to the fact that our purchase agreements with companies in China, India and Mexico are in US dollars. In Canada our foreign currency exposure is not material due to the fact that we do not manufacture in Canada.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated financial statements and the Report of our Independent Registered Public Accounting Firm thereon are set forth under Item 15 (a) (1) of this Form 10-K.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for the years ended December 31, 2008 and 2007 is presented below:

2008 Quarters

	1st	2nd	3rd	4th
Revenue	$ 7,524,000	$ 8,913,000	$ 10,217,000	$ 9,132,000
Gross profit	3,450,000	3,918,000	4,355,000	$ 3,757,000
Net income	139,000	385,000	745,000	$ 295,000
Basic and Diluted income per share (1)	0.01	0.02	0.03	0.01

2007 Quarters

	1st	2nd	3rd	4th
Revenue	$ 9,044,000	$ 9,149,000	$ 9,308,000	$ 7,952,000
Gross profit	4,164,000	4,269,000	4,395,000	3,614,000
Net income (1)	535,000	507,000	916,000	457,000
Basic and Diluted income per share (1)	0.02	0.02	0.04	0.02

(1) Net income and income per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly net income and income per share amounts do not necessarily equal the total for the year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Table of Contents

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and 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 15d- 15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission 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 we are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

Changes in Internal Controls.

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

Management 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 15d-15(f) under the Exchange Act 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 accounting principles generally accepted in this United States of America 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 accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorization 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.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed, as of December 31, 2008, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in the framework in 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 effective as of December 31, 2008.

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.

Table of Contents

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

The information pursuant to Items 10, 11, 12 and 13 is omitted from this report (in accordance with General Instruction G for Form 10-K), since the Company is filing with the Commission (by no later than April 30, 2009), a definitive proxy statement pursuant to Regulation 14A, which involves the election of directors at the annual shareholders meeting of the Company which is expected to be held in June 2009.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning principal accountant fees and services will appear in the Proxy Statement under the heading Fees Paid to PricewaterhouseCoopers LLP and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1 and 2 Financial Statements and Financial Statement Schedules

See Index to Financial Statements and Financial Statement Schedules appearing on Page F-1 of this Form 10-K

(b) A Form 8-K was filed during the last quarter covered by this report, reporting the issuance of a release dated November 6, 2008 announcing the registrant s financial results for the third quarter of 2008.

(c) Exhibit Index

23 (a) Consent of Independent Registered Public Accounting Firm (filed herewith)

31.1 Certification Pursuant to Rule 13a-14(b) and Rule 15d-14(b) of the Exchange Act, Signed by Chief Executive Officer (filed herewith)

31.2 Certification Pursuant to Rule 13a-14(b) and Rule 15d-14(b) of the Exchange Act, Signed by Chief Financial Officer (filed herewith)

32.1 Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Signed by Chief Executive Officer (filed herewith)

Table of Contents

32.2 Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Signed by Chief Financial Officer (filed herewith)

ITEM 16. Exhibits

(3)	(a)	Certificate of Incorporation dated February 17, 1983
	(b)	Certificate of Change of Name dated July 27, 1988
	(c)	Certificate of Change of Name dated July 4, 1989
	(d)	Memorandum
	(e)	Articles (equivalent to By-Laws)
	(f)	Certificate of Incorporation of Alpha Pro Tech, Ltd. dated June 15, 1994*
	(g)	Application for Certificate of Registration and Articles of Continuance- State of Wyoming - Filed June 24, 1994 *
	(h)	Certificate of Registration and Articles of Continuance of Secretary of State, State of Wyoming, dated June 24, 1994 *
	(i)	Certificate of Secretary of State of Wyoming dated June 24, 1995 *
	(j)	Certificate of Amendment of Certificate of Incorporation of Alpha Pro Tech, Ltd., dated June 24, 1994 *
	(k)	Article of Merger of BFD Industries, Inc., a Wyoming Corporation and Alpha Pro Tech, Ltd., a Delaware Corporation, effective July 1, 1994 *
	(l)	Certificate of Ownership and Merger which merges BFD Industries with and into Alpha Pro Tech, Ltd., a Delaware Corporation effective July 1, 1994 *
(4)	(a)	Form of Common Stock Certificate **
(10)	(a)	Form of Director s Stock Option Agreement
	(b)	Form of Employee s Stock Option Agreement
	(c)	Employment Agreement between the Company and Al Millar dated June, 1989
	(c)(i)	Employment Agreement between the Company and Donald E. Bennett, Jr. **
	(c)(ii)	Employment Agreement between the Company and Michael Scheerer ***
	(d)	Lease Agreement between White Dairy Company, Inc. and the Company for lease of the premises situated at 2724-7th Avenue South, Birmingham, Alabama, 35233, dated March 1990 and amendment thereto dated April, 1990
	(e)	BFD Industries Limited Partnership Agreement between 881216 Ontario Inc. and Bernard Charles Sherman dated May 17, 1990
	(f)	Asset Purchase Agreement between the Company and the BFD Industries Limited Partnership dated May 17, 1990
	(g)	Purchase Agreement between the Company, Bernard Charles Sherman and Apotex, Inc. dated June 21, 1991 and amendment thereto made August 30, 1991
	(h)	Professional Services Agreement between the Company and Quanta Corporation dated September, 1991
	(i)	Sales and Marketing Agreement between the Company and MDC Corp., dated October 4, 1991
	(j)	National Account Marketing Agreement between the Company and National Contracts, Inc. dated October 7, 1991
	(k)	Group Purchasing Agreement between the Company and Premier Hospitals Alliance, Inc. dated November 1, 1991.
	(l)	Letter of Intent between the Company and the shareholders of Alpha Pro Tech, Inc. dated December 11, 1991 and amendment thereto dated February 19, 1992
	(m)	Group Purchasing Agreement between the Company and AmeriNet Incorporated dated January, 1992
	(n)	Group Purchasing Agreement between the Company and Magnet, Inc.
	(o)	Share Purchase Agreement re Acquisition of Alpha Pro Tech, Inc.
	(p)	VWR Scientific Products Corporation Distribution Agreement dated January 1, 2000****

Table of Contents

	(q)	Business Relationship/Confidentially Agreement between the Company and McDonald s Corporation dated February 1, 2000 and First Amendment thereto *****
	(r)	Joint Manufacturing & Marketing Agreement between Alpha ProTech Engineered Products, Inc. and Perma R Products, Inc.for housewrap dated January 28, 2005 ******
	(s)	Joint Manufacturing & Marketing Agreement between Alpha ProTech Engineered Products, Inc. and Perma R Products, Inc. for synthetic roof underlayment dated February 24, 2005 ******
(23)	(a)	Consent of Independent Registered Public Accounting Firm *******

Unless otherwise noted, all of the foregoing exhibits are incorporated by reference to Form 10 Registration Statement (File No. 0-1983) filed on February 25, 1992.

*	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 019893)
**	Incorporated by reference to Registration Statement on Form S-1, (File No. 33-93894) which became effective August 10, 1995
***	Incorporated by reference to Post-Effective Amendment No. 1 filed January 30, 1997 to Registration Statement on Form S-1 (File No,. 33-93894)
****	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 01-9893)
*****	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 01-9893)
******	Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 01-9893)
*******	Filed herewith

Table of Contents

SIGNATURES

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

ALPHA PRO TECH, LTD.

DATE:	**March 11, 2009**	BY:	/s/ **Sheldon Hoffman** Sheldon Hoffman Chief Executive Officer and Director
DATE:	**March 11, 2009**	BY:	/s/ **Lloyd Hoffman** Lloyd Hoffman Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registration and in the capacities indicated on March 11, 2009.

/s/ **David B. Anderson**
David B. Anderson, Director

/s/ **Sheldon Hoffman**
Sheldon Hoffman, Director

/s/ **Robert H. Isaly**
Robert H. Isaly, Director

/s/ **Russ Manock**
Russ Manock, Director

/s/ **Alexander W. Millar**
Alexander W. Millar, Director

/s/ **Danny Montgomery**
Danny Montgomery, Director

/s/ **Dr. John Ritota**
Dr. John Ritota, Director

27

Table of Contents

Alpha Pro Tech, Ltd.

Index to Consolidated Financial Statements

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

Table of Contents

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Alpha Pro Tech, Ltd. and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Salt Lake City, UT

March 10, 2009

Table of Contents

Alpha Pro Tech, Ltd.

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 4,578,000	$ 4,064,000
Accounts receivable, net of allowance for doubtful accounts of $71,000 and $65,000 at December 31, 2008 and 2007, respectively	5,091,000	4,422,000
Inventories, net	12,057,000	14,111,000
Prepaid expenses and other current assets	1,340,000	1,588,000
Deferred income taxes	510,000	419,000
Total current assets	23,576,000	24,604,000
Property and equipment, net	3,942,000	3,439,000
Goodwill, net	55,000	55,000
Intangible assets, net	202,000	180,000
Equity investments in and advances to unconsolidated affiliates	1,393,000	1,208,000
Total assets	$ 29,168,000	$ 29,486,000
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 620,000	$ 457,000
Accrued liabilities	1,263,000	1,478,000
Total current liabilities	1,883,000	1,935,000
Deferred income taxes	819,000	747,000
Total liabilities	2,702,000	2,682,000
Commitments and contingencies (Note 11)		
Shareholders equity:		
Common stock, $.01 par value, 50,000,000 shares authorized, 23,850,855 and 25,583,655 issued and outstanding at December 31, 2008 and 2007, respectively	239,000	256,000
Additional paid-in capital	24,785,000	26,670,000
Accumulated surplus/(deficit)	1,442,000	(122,000)
Total shareholders equity	26,466,000	26,804,000
Total liabilities and shareholders equity	$ 29,168,000	$ 29,486,000

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

Table of Contents

Alpha Pro Tech, Ltd.

Consolidated Income Statements

	Year ended December 31, 2008	2007	2006
Net sales	$ 35,786,000	$ 35,453,000	$ 37,338,000
Cost of goods sold, excluding depreciation and amortization shown below	20,306,000	19,011,000	20,018,000
Gross profit	15,480,000	16,442,000	17,320,000
Expenses:			
Selling, general and administrative	12,639,000	12,541,000	10,939,000
Depreciation and amortization	586,000	494,000	448,000
Income from operations	2,255,000	3,407,000	5,933,000
Other income			
Equity in income of unconsolidated affiliates	185,000	214,000	60,000
Interest, net	75,000	94,000	36,000
Income before provision for income taxes	2,515,000	3,715,000	6,029,000
Provision for income taxes	951,000	1,298,000	2,290,000
Net income	$ 1,564,000	$ 2,417,000	$ 3,739,000
Basic income per share	$ 0.06	$ 0.10	$ 0.15
Diluted income per share	$ 0.06	$ 0.09	$ 0.15
Basic weighted average shares outstanding	24,773,497	25,319,656	24,141,535
Diluted weighted average shares outstanding	24,773,497	25,615,730	25,129,198

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

Table of Contents

Alpha Pro Tech, Ltd.

Consolidated Statements of Shareholders Equity

	Shares	Common Stock	Additional Paid-in Capital	Accumulated Surplus/ (Deficit)	Total
Balance at December 31, 2005	23,787,955				