

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2020

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number: 001-15725

ALPHA PRO TECH, LTD.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

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

60 Centurian Drive, Suite 112, Markham, Ontario, L3R 9R2
(Address of Principal Executive Offices, including zip code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	APT	NYSE American

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2020, was \$216,910,119.

As of March 2, 2021, the registrant had outstanding 13,596,757 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders to be held on June 9, 2021 are incorporated by reference into Part III of this Form 10-K.

ALPHA PRO TECH, LTD.
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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks, uncertainties and assumptions as described from time to time in registration statements, annual reports and other periodic reports and filings of the Company (as defined below) filed with the Securities and Exchange Commission (“SEC”). Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions, including, without limitation, our expected orders, production levels and sales in 2020 and 2021, the expected effects of the COVID-19 pandemic, and other information that is not historical information. All statements, other than statements of historical facts that address the Company’s expectations of sources of capital or that express the Company’s expectations for the future with respect to financial performance or operating strategies or results can be identified as forward-looking statements. As a result, there can be no assurance that the Company’s future results will not be materially different from those described herein as “expected,” “anticipated,” “estimated,” “believed,” “predicted,” “intended,” “planned,” “potential,” “may,” “continue” or “should,” or using variations of such words or similar expressions, which reflect the current views of the Company with respect to future events. We caution readers that these forward-looking statements speak only as of the date hereof. The Company hereby expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in the Company’s expectations or any change in events, conditions or circumstances on which such statements are based.

Any expectations based on these forward-looking statements are subject to risks and uncertainties. These risks and other factors include, but are not limited to, those listed in this report under “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this report. These and many other factors could affect the Company’s future operating results and financial condition and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by the Company or on its behalf.

SPECIAL NOTE REGARDING SMALLER REPORTING COMPANY STATUS

We are filing this Annual Report on Form 10-K as a “smaller reporting company” (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended) based on our public float (the aggregate market value of our common stock equity held by non-affiliates of the Company) as of the last business day of our second fiscal quarter of 2020. As a result of being a smaller reporting company, we are not required to provide certain disclosure in this Annual Report on Form 10-K. Where information is being omitted or reduced in this Annual Report on Form 10-K based on our smaller reporting company status, we have made a special notation herein.

Item 1. Business.

GENERAL

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

The Company continued to qualify as a smaller reporting company at the measurement date for determining such qualification during 2020. According to the disclosure requirements for smaller reporting companies, the Company has included consolidated balance sheets as of December 31, 2020 and 2019 and consolidated statements of comprehensive income, shareholders’ equity and cash flows for each of the two years in the period ended December 31, 2020.

BUSINESS

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

Our products are grouped into two business segments: (1) the Building Supply segment, consisting of construction weatherization products, such as housewrap and synthetic roof underlayment as well as other woven material; and (2) the Disposable Protective Apparel

segment, consisting of disposable protective garments (including shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats), face masks and face shields. All financial information presented in this report reflects the current segmentation.

Until the first quarter of 2019, face masks and face shields were included in a separate business segment called Infection Control.

STRATEGY

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

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

PRODUCTS

Our principal products are grouped into two business segments:

Building Supply:

- Housewrap
- Housewrap accessories: flashing and tape
- Synthetic roof underlayment
- Other woven material

Disposable Protective Apparel:

- Shoecovers
- Bouffant caps
- Gowns
- Coveralls
- Lab coats
- Frocks
- Face masks
- Face shields

Building Supply

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

The usage of these construction supply weatherization products offers great advantages in decreasing the time that it takes to construct a home, as well as reducing costs. The housewrap, under the trademark REX™, offers a weather resistant barrier and, to the homeowner, years of lower energy consumption. REX™ Wrap and REX™ Wrap Plus are woven and coated polypropylene micro perforated weather resistant barriers, and REX™ Wrap Fortis with JX ALTA 360° Drainage Technology™ is a one-of-a-kind breathable product that uniquely enables the drainage of water in every direction to protect buildings from the elements exponentially better, we believe, than a traditional housewrap, while decreasing job site material waste, simplifying installation to reduce labor and allowing fewer products to be carried onto the job site.

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

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

Disposable Protective Apparel

The Disposable Protective Apparel segment consists of a complete line of disposable protective garments (shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats), as well as face masks and face shields.

Our goal in the design and manufacture of all our disposable protective garments is to keep the wearer cool, clean, comfortable and to provide the right level of protection for the wearer and the wearer's environment. To achieve this, we offer a comprehensive selection of materials and garment designs to meet a wide range of application requirements. Our materials are clean, durable and offer the wearer a great comfort level. Our products are offered under proprietary materials such as ChemTech®, BarrierTech®, ComforTech®, AlphaGuard® and GenPro®, UltraGrip™, SafeStep®, MaxGrip®, AquaTrak®, SureGrip™ and NaviTrak®.

The vast majority of the disposable protective garments are manufactured through our joint venture in India, and, to a much lesser extent, by other contract manufacturers in Asia and Mexico, as described in more detail below under "Manufacturing." Certain proprietary products are made using materials supplied by us.

Our face masks come in a wide variety of filtration efficiencies and styles. Our patented Positive Facial Lock® feature provides a custom fit to the face to prevent blow-by for better protection. The term "blow-by" is used to describe the potential for infectious material to enter or escape a face mask 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.

Our N-95 Particulate Respirator National Institute for Occupational Safety and Health ("NIOSH") approved face mask, which incorporates both the Positive Facial Lock® feature and the Magic Arch® feature, has historically experienced increased demand during outbreaks of infectious disease, such as SARS in 2003, Bird Flu in 2006, H1N1 in 2009 and COVID-19 in 2020 to combat the spread of these diseases.

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

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

All of our disposable protective apparel products, including face masks and face shields, are sold through similar distribution channels, are single-use and disposable, have the purpose of protecting people, products and environments, and have to be produced in Food and Drug Administration ("FDA") approved facilities, regardless of the market served. Based on these similarities, the Infection Control segment was combined with the Disposable Protective Apparel segment beginning with the first quarter of 2019. The disclosures in this Annual Report reflect this current segmentation.

The Company's products are sold under the "Alpha Pro Tech" brand name and under private label, and they are predominantly sold in the U.S.

Financial information related to the two segments can be found in Activity of Business Segments (Note 15) of the Notes to Consolidated Financial Statements.

MARKETS

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

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

DISTRIBUTION

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

We do not usually have backlog orders, as orders are usually placed for shipment and shipped within 30 days, although at December 31, 2020, as a result of the COVID-19 pandemic and expansion in the construction sector we did have a backlog of unfulfilled orders for our personal protective equipment ("PPE") products and certain of our building supply products. Appropriate levels of inventories are maintained to supply distributors on a timely basis. From time to time, we will stockpile inventory for periods of unusually high demand. Disruptions in the supply chain as well unpredictable changes in the response to the COVID-19 pandemic have created uncertainty in the timing of deliveries and fulfillment of backlogged orders. Some orders may ultimately be cancelled due to unavoidable delays and changing circumstances.

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

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

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

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Net sales by geographic region		
United States	\$ 90,495,000	\$ 45,748,000
International	<u>12,205,000</u>	<u>917,000</u>
Consolidated net sales	<u>\$ 102,700,000</u>	<u>\$ 46,665,000</u>

Net sales by geographic region are based on the countries in which our customers are located. For the year ended December 31, 2020, the Company generated sales of approximately \$8,090,000 from Australia. During that year, no other single country (other than the United States) had sales that were significant to the Company's consolidated net sales. For the year ended December 31, 2019, the Company did not generate sales from any single country (other than the United States) that were significant to the Company's consolidated net sales.

The following table summarizes the locations of the Company's long-lived assets by geographic region as of December 31, 2020 and 2019.

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Long-lived assets by geographic region		
United States	\$ 2,787,000	\$ 2,450,000
International	<u>1,566,000</u>	<u>1,493,000</u>
Consolidated total long-lived assets	<u>\$ 4,353,000</u>	<u>\$ 3,943,000</u>

MANUFACTURING

Our wholly owned subsidiary, Alpha ProTech Engineered Products, Inc., manufactures and distributes a line of construction weatherization products for the Building Supply segment, comprised primarily of housewrap and synthetic roof underlayment. Alpha ProTech Engineered Products, Inc. operates in a 165,400 square foot facility in Valdosta, Georgia.

Alpha ProTech Engineered Products, Inc. has a 41.66% ownership interest in a joint venture with Maple Industries and associates, a manufacturer in India, for the production of Building Supply segment products, such as housewrap and synthetic roof underlayment products, in a semi-finished state, and the production of Disposable Protective Apparel segment products. The name of the joint venture is Harmony Plastics Private Limited ("Harmony"). Harmony has four facilities in India, three owned and one rented. One owned facility is a 113,000 square foot building for use in the manufacturing of building products. There is a 73,000 square foot owned facility for use in the manufacturing of coated material and the sewing of proprietary disposable protective apparel. There is also a 16,000 square foot owned facility for use in the sewing of proprietary disposable protective apparel. The rented building is a 93,000 square foot facility for use in the manufacturing of Building Supply segment products.

We cut, warehouse and ship disposable protective apparel products in a 60,000 square foot facility in Nogales, Arizona. The majority of these products are manufactured by contract manufacturers in Asia and, to a much lesser extent, by a contract manufacturer in Mexico. These goods are manufactured pursuant to our specifications and quality assurance guidelines. Certain proprietary products are being made in Asia using materials supplied by us.

Our mask production facility is located in a 34,500 square foot building in Salt Lake City, Utah.

We have encountered over the last year a number of constraints within our supply chain due to government-mandated shutdowns, raw materials shortages and shipping delays. Although we continue to work to alleviate these supply chain issues by securing additional supply sources, in the event of subsequent shutdowns, shortages or delays, our production and sales could be further impacted. Our business is

not subject to significant seasonal considerations, although it is necessary for us to have adequate raw materials and finished inventory in stock.

COMPETITION

We face substantial competition from numerous companies, including many companies with greater marketing and financial resources. Our major competitors in the construction supply weatherization market are DuPont for housewrap and Interwrap Inc. for synthetic roof underlayment. Our major competitor in the medical and dental markets is Kimberly-Clark Corporation of Fort Worth, Texas. Other large competitors include 3M Company, Johnson & Johnson, White Knight Engineered Products (Precept Medical Products, Inc.), Cardinal Health, Inc. and Medline Industries Inc. Our major competitors in the industrial and cleanroom market are our former largest distributor, VWR International, LLC, Kimberly-Clark Corporation, 3M Company, Kappler, Inc., DuPont and Allegiance Healthcare Corporation. VWR International, LLC, Cardinal Health, Inc. and Medline Industries Inc. are also distributors of our products. The principal methods and elements of competition include brand recognition and loyalty, product innovation, quality and performance, price, and marketing and distribution capabilities. For additional discussion of the competitive environment in which we conduct our business, see Part I, Item 1A, "Risk Factors."

REGULATORY REQUIREMENTS

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

Our operations are subject to federal, state and local laws, regulations and ordinances relating to various environmental, health and safety matters. We believe that our operations are in compliance with, or we are taking actions designed to ensure compliance with, these laws, regulations, and ordinances. However, the nature of our operations exposes us to the risk of claims concerning non-compliance with environmental, health, and safety laws or standards, and there can be no assurance that material costs or liabilities will not be incurred in connection with those claims. We are not currently named as a party in any judicial or administrative proceeding relating to environmental, health, and safety matters, and we currently have no anticipated capital expenditures for environmental projects that are expected to have a material effect on our financial condition, results of operations or liquidity.

PATENTS AND TRADEMARKS

Patents

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

The various United States patents issued have remaining durations of approximately 1 to 5 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.

HUMAN CAPITAL

As of February 26, 2021, we had 115 full-time employees, including 19 employees at our principal executive office in Markham, Ontario, Canada; 51 employees at our face mask production facility in Salt Lake City, Utah; 36 employees at our Disposable Protective Apparel segment cutting, warehouse and shipping facility in Nogales, Arizona; 35 employees at our Building Supply segment facility in Valdosta, Georgia; 16 employees on our sales and marketing team, located in various areas throughout the United States; and 1 employee in China.

None of our employees are subject to collective bargaining agreements. We have had no labor-related work stoppages, and we believe that our relations with our employees are good.

Workplace Health and Safety

The health, safety, and wellness of our employees is a priority in which we have always invested, and will continue to do so. These investments and the prioritization of employee health, safety, and wellness took on particular significance in 2020 in light of COVID-19. To that end, the Company maintains a variety of programs to reduce and eliminate injuries and promote safety and regularly measures progress against those programs. These programs promote personal responsibility for workplace safety and encourage associates to set a meaningful example as safety ambassadors.

In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees, as well as the communities in which we operate, in compliance with government regulations. Through the efforts of a cross-functional COVID-19 response team, the Company has responded to numerous people-related challenges resulting from the pandemic. The Company addressed various country, state, and local restrictions, mandates and guidelines and provided compliance programs at all Company locations designed to operate facilities in a safe manner. To protect and support our essential team members, we have implemented health and safety measures that included maximizing personal workspaces, changing shift schedules, providing PPE, and instituting mandatory screening before accessing buildings.

Diversity and Inclusion

We strive to foster a culture where mutual respect, inclusive behavior, and dignity are core to our individual expectations. We remain committed to fostering an inclusive environment in which our differing backgrounds, life experiences, and perspectives join to positively impact the communities in which we live and serve. We do this by leading with inclusion and empowering everyone to do their best work as their most authentic selves—regardless of race, color, national origin, religion, sex, sexual orientation, gender identity and expression, age, disability, or military service status. We are united by our collective purpose and common set of organizational values that are core to our mission and culture.

AVAILABLE INFORMATION

We make available free of charge on our Internet website (<http://www.alphaprotech.com>) our most recent Annual Report on Form 10-K, our most recent Quarterly Report on Form 10-Q, any current reports on Form 8-K furnished or filed since our most recent Annual Report on Form 10-K and any amendments to such reports, as well as our most recent proxy statement, as soon as reasonably practicable following the electronic filing of such reports with the SEC. These reports are also available on the SEC's website (<http://www.sec.gov>).

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

Item 1A. Risk Factors.

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

Risks Related to the COVID-19 Pandemic

The effects of the COVID-19 pandemic could have a material adverse effect on our business, financial results and results of operations.

In December 2019, COVID-19 surfaced in Wuhan, China, and the World Health Organization characterized COVID-19 as a pandemic on March 11, 2020. The situation relating to the COVID-19 pandemic is complex and still evolving, with a broad number of governmental and commercial efforts to contain the spread of the virus globally. The duration and extent of the impact of the COVID-19 pandemic on our business, operations and financial results depends on factors that cannot be accurately predicted at this time, such as the severity and transmission rate of new variants of the COVID-19 virus, the extent and effectiveness of containment actions, the speed and efficacy of vaccination efforts, and the impact of these and other factors on our employees, customers, industry partners, suppliers and third-party dealers and distributors.

Federal, state and local governments, as well as foreign governments, have imposed numerous protocols and regulations in an effort to limit the spread of the COVID-19. We have implemented a number of measures in an effort to protect our employees' health and well-being, including having certain office workers work remotely and suspending employee travel. The potential negative effects to our operations, including reductions in production levels, research and development activities and increased costs resulting from our efforts to mitigate the impact of COVID-19, may adversely affect our ability to provide our products. Furthermore, the implications of unsuccessfully implementing health and well-being measures, which could, for example, result in workers at our manufacturing facilities testing positive for COVID-19, would also adversely affect our business, including resulting in a product recall. Although we will continue to adhere to restrictions imposed by local governments in the jurisdictions in which we operate, government regulations have impacted workforce availability and expense in certain of the Company's manufacturing facilities, and we expect this to continue for some time.

Although we have experienced increased sales and significantly increased demand for our PPE products, the global COVID-19 pandemic has and may continue to have an adverse impact on our manufacturing and distribution capabilities. Disruptions relating to the COVID-19 pandemic, including shelter-in-place orders in the U.S., Mexico, India and other countries, have prevented and could again prevent employees, suppliers, distributors and others from accessing manufacturing facilities and from transporting our products or the components required to manufacture our products. For example, the government-mandated closure in India, which started in late March and ended in May 2020, impacted our order fulfillment and revenue growth related to our disposable protective garments. Any government regulation may also impact our ability to supply and ship our products to certain customers, which could lead to cancellation of some orders. Further, worldwide supply chain disruption relating to the COVID-19 pandemic has resulted in product shortages that have impacted and may continue to impact our ability to manufacture our products. We currently utilize third parties to, among other things, manufacture certain components and materials for our products, and to provide services such as sterilization services, and we purchase these materials and services from numerous suppliers worldwide. If either we or any third parties in the supply chain for materials used in the production of our products continue to be adversely impacted by the COVID-19 pandemic, including the restrictions resulting from the COVID-19 pandemic, our supply chain may continue to be disrupted, limiting our ability to manufacture our products. These disruptions may, among other things, continue to impact our ability to produce and supply products in quantities necessary to meet market demand.

Further, in connection with the COVID-19 pandemic and in an effort to increase the wider availability of needed medical and other supplies and products, we may elect to, or governments may require us to, allocate our products (for example, pursuant to the U.S. Defense Production Act (the "DPA")) in a way that adversely affects our regular operations and financial results, results in differential treatment of customers and/or adversely affects our reputation and customer relationships. Likewise, suppliers of our raw materials who are subject to requests under the DPA may be unable to fulfill our orders for those raw materials, or such fulfillment could be delayed. In addition, unpredictable increases in demand for certain of our products could, or in some cases may continue to, exceed our capacity to meet such demand, which could adversely affect our financial results and customer relationships and result in negative publicity.

As a result of the COVID-19 pandemic, we have experienced a significant increase in orders of our PPE products from both legacy and new customers. Because of the uncertainty associated with the pandemic, we may experience a decrease in sales from certain of these customers at the point at which conditions related to the virus change or improve and demand for these products subsides, which could impact our expectations of future orders and sales.

COVID-19 has resulted in a downturn in the global financial markets and a slowdown in the global economy. This economic environment may impact some of our customers' ability to pay or lead them to request extended payment terms, and we have experienced and may continue to experience cost increases from some of our suppliers. Additionally, decreased housing starts and increased uncertainty in the housing market could negatively impact demand for our Building Supply segment products.

Moreover, the impacts of the COVID-19 pandemic may exacerbate other pre-existing risks, such as political, regulatory, social, financial, operational and cybersecurity risks, and those associated with global economic conditions, any of which could have a material adverse effect on our business.

Risks Related to Our Industry

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

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

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

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

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

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

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

- changes in foreign government regulations and technical standards;
- difficulty of protecting intellectual property;
- requirements or preferences of foreign nations for the manufacture of domestic products;
- the imposition of duties, border adjustment taxes or tariffs and other barriers to trade;
- fluctuations in currency exchange rates relative to the U.S. dollar; and
- political and economic instability.

In particular, if the current COVID-19 outbreak continues and results in a continued prolonged period of travel, commercial and other similar restrictions, we could experience global supply disruptions. These restrictions have disrupted and could continue to disrupt our ability to receive manufactured products from China and may disrupt our suppliers located elsewhere who rely on products from China. If we experience additional supply disruptions, we may not be able to develop alternate sourcing quickly. Any disruption of our production schedule caused by an unexpected shortage of supplies even for a relatively short period of time could cause us to alter production schedules or suspend production entirely, which could cause a loss of revenues, which would adversely affect our operations

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

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

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

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

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

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

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

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

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

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

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

Our ability to continually renew our pipeline of new products and to bring those products to market may be adversely affected by difficulties or delays in product development, such as the inability to identify viable new products, obtain adequate intellectual property protection or gain market acceptance of new products. There are no guarantees that new products will prove to be commercially successful. In addition, our product development and distribution activities are subject to inherent risks related to natural disasters, including earthquakes such as the one that recently occurred near our facility in Utah, which could disrupt our supply chain and impair our ability to manufacture or sell our products.

General Risks

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

Unfavorable economic conditions, including the impact of recessions and general economic downturns in the United States and throughout the world, may negatively affect the Company's business and financial results. These economic conditions could negatively impact (i) demand for our products, (ii) the number and types of products sold, (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.

Our joint venture may present risks that are only present when third parties are involved.

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

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

In the ordinary course of business, the Company relies on information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores sensitive data, including proprietary business information. Despite security measures and business continuity plans, the Company's information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attack by hackers, breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters or other catastrophic events. While we have not experienced any material losses related to cyber-attacks or information security breaches to date, any such event could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations and damage to the Company's reputation, which could adversely affect the Company's business.

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

From time to time, the Company is subject to certain legal and regulatory proceedings in the ordinary course of business and otherwise. The outcome of these legal proceedings may differ from the Company's expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments could lead the Company to change current estimates of liabilities and related insurance receivables where applicable, or make such estimates for matters previously not susceptible to

reasonable estimates, such as a significant judicial ruling or judgment, settlement, regulatory development or change in applicable law. A future adverse ruling, settlement or unfavorable development could result in charges that could have a material adverse effect on the Company's results of operations or cash flows in any particular period.

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

The market price of our common stock has been volatile, and we expect that it will continue to be volatile. In particular, our common stock may be subject to significant fluctuations in response to a variety of factors, including:

- general economic and business conditions;
- changing market conditions in the industries that we serve;
- monetary and fiscal policies, laws and regulations and other activities of government agencies and similar organizations;
- conditions in U.S. and global securities markets and other capital markets;
- actual or anticipated variations in quarterly operating results;
- failure to meet analyst predictions and projections;
- costs and other effects of legal and administrative proceedings, claims, settlements and judgments;
- additions or departures of key personnel;
- announcements of innovations or new services by us or our competitors;
- domestic and international health crises and pandemics;
- our sales of common stock or other securities in the future; and
- other events or factors, many of which are beyond our control.

In addition, our common stock price has recently experienced significant fluctuations due to speculation surrounding the effects of the COVID-19 outbreak on our operations. Such fluctuations may create conditions in which the market price of our common stock does not reflect an accurate measure of the long-term value of our common stock.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's principal executive office is located at 60 Centurian Drive, Suite 112, Markham, Ontario, Canada, L3R 9R2. The approximate monthly rent is \$3,300 for 4,200 square feet under a lease expiring February 28, 2022. Working out of the principal executive office are the President and Chief Executive Officer, Lloyd Hoffman, and the Chief Financial Officer, Colleen McDonald.

The Building Supply segment manufacturing facility is located at 301 South Blanchard Street, Valdosta, Georgia. The average monthly rent is \$37,500 for 165,400 square feet. This lease expires on January 1, 2024.

The Disposable Protective Apparel segment has its cutting operation, warehousing and shipping facility at 1287 Fairway Drive, Nogales, Arizona. The approximate monthly rent is \$28,000 for 60,000 square feet. This lease expires on December 31, 2021.

The Company manufactures its surgical face masks at 236 North 2200 West, Salt Lake City, Utah. The monthly rent is \$17,800 for 34,500 square feet. This lease expires on July 31, 2024.

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

Item 3. Legal Proceedings.

The Company is subject to various pending and threatened litigation actions in the ordinary course of business. Although it is not possible to determine with certainty at this point in time what liability, if any, 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.

Item 4. Mine Safety Disclosures.

N/A

PART II

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

MARKET INFORMATION

The Company’s common stock trades on the NYSE American (formerly the NYSE MKT, the NYSE Amex and the American Stock Exchange) (the “NYSE American”) under the symbol “APT.”

As of March 2, 2021, the Company’s common stock was held by 114 shareholders of record and approximately 25,000 beneficial owners.

Dividends

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

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth purchases made by or on behalf of the Company or any “affiliated purchaser,” as defined in Rule 10b-18 (a)(3) of the Securities Exchange Act of 1934, during the fourth quarter of 2020.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program (1)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)</u>
October 1 - 31, 2020	38,000	\$15.26	38,000	\$6,162,000
November 1 - 30, 2020	62,500	13.37	62,500	5,319,000
December 1 - 31, 2020	67,500	12.25	67,500	4,486,000
	<u>168,000</u>	<u>\$13.35</u>	<u>168,000</u>	

(1) Pursuant to the Company’s share repurchase program, on September 22, 2020, the Company announced that the Board of Directors had authorized a \$5,000,000 expansion of the Company’s existing share repurchase program. All of the shares included in this table were purchased pursuant to this program. Since the inception of the share repurchase program, the Company has authorized the repurchase of \$42,520,000 of common stock, of which \$4,486,000 was available to repurchase as of December 31, 2020.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

Item 6. Selected Financial Data

The Company has applied the amendment to Regulation S-K Item 301 which became effective on February 10, 2021.

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

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

Special Note Regarding Forward-Looking Statements

Certain information set forth in this Annual Report on Form 10-K contains “forward-looking statements” within the meaning of federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to potential acquisitions and other information that is not historical information. When used in this report, the words “estimates,” “expects,” “anticipates,” “forecasts,” “plans,” “intends,” “believes” and variations of such words or similar expressions are intended to identify forward-looking statements. We may make additional forward-looking statements from time to time. We caution readers that these forward-looking statements speak only as of the date hereof. The Company hereby expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in the Company’s expectations or any change in events, conditions or circumstances on which such statements are based. 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 risks and other factors include, but are not limited to, those listed below and under “Risk Factors,” and elsewhere in this report. These and many other factors could affect the Company’s future operating results and financial condition and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by the Company or on its behalf.

Special Note Regarding Smaller Reporting Company Status

We are filing this Annual Report on Form 10-K as a “smaller reporting company” (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended) based on our public float (the aggregate market value of our common equity held by non-affiliates of the Company) as of the last business day of our second fiscal quarter of 2020. As a result of being a smaller reporting company, we are allowed and have elected to omit certain information from this Management’s Discussion and Analysis of Financial Condition and Results of Operations; however, we have provided all information for the periods presented that we believe to be appropriate and necessary to aid in an understanding of the current consolidated financial position, changes in financial position and results of operations of the Company.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the periods reported. We base estimates on past experience and on various other assumptions that are believed to be reasonable under the circumstances. Our estimates are subject to uncertainties associated with the ongoing COVID-19 pandemic. The application of these accounting policies on a consistent basis enables us to provide timely and reliable financial information. Our significant accounting policies and estimates are more fully described in Note 2 – “Summary of Significant Accounting Policies” in the notes to our consolidated financial statements in Item 8. Our critical accounting policies and estimates include the following:

Accounts Receivable: Accounts receivable are recorded at the invoice amount and do not bear interest. The general terms for receivables is net 30 days. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. The Company determines the allowance based upon historical write-off experience and known conditions about customers’ current ability to pay. Account balances are charged against the allowance when the potential for recovery is considered remote. For new customers with no order history with the Company we may require advance payments to reduce our credit risk.

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 supply on-hand, if necessary. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Leases: We determine if an arrangement is a lease at inception. Operating leases are included as right-of-use (“ROU”) assets and lease liabilities on our consolidated balance sheet. ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Our leases do not provide an implicit rate, and, therefore, we estimate our collateralized borrowing rate under similar terms based on the information available at the commencement date in determining the present value of future minimum lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options. We do not record leases on our consolidated balance sheet with a term of one year or less. We elected a package of transition practical expedients, which included not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs

for existing leases. We also elected a practical expedient to not separate lease and non-lease components. We did not elect the practical expedient to use hindsight in determining our lease terms or assessing impairment of our ROU assets.

Revenue Recognition: Net sales includes revenue from products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Our customer contracts have a single performance obligation: transfer control of products to customers. Revenue is measured as the amount of consideration that we expect to receive in exchange for transferring control of products. All revenue is recognized when we satisfy our performance obligations under the applicable contract. We recognize revenue in connection with transferring control of the promised products to the customer, with revenue being recognized at the point in time when the customer obtains control of the products, which is generally when title passes to the customer upon delivery to a third party carrier for FOB shipping point arrangements and to the customer for FOB destination arrangements, at which time a receivable is created for the invoice sent to the customer. Shipping and handling activities are performed prior to the customer obtaining control of the goods, and are accounted for as fulfillment activities and are not a promised good or service. Shipping and handling charges billed to customers are included in revenue. Shipping and handling costs, associated with the distribution of the Company's product to the customers, are recorded in cost of goods sold and are recognized when control of the product is transferred to the customer, which is at the time products are delivered to the third party carrier for FOB shipping point arrangements and to the customer for FOB destination arrangements. We estimate product returns based on historical return rates and estimate rebates based on contractual agreements. Using probability assessments, we estimate sales incentives expected to be paid over the term of the contract. Sales taxes and value added taxes in foreign and domestic jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from net sales. The Company manufactures certain private label goods for customers and has determined that control does not pass to the customer at the time of manufacture, based upon the nature of the private labelling. The Company has determined that, as of December 31, 2020, it had no material contract assets, and concluded that its contract liabilities (primarily rebates) had the right of offset against customer receivables. As of December 31, 2020, the Company had contract liabilities of \$209,000 as a result of customer advance payments of orders connected to the COVID-19 pandemic (see "Impact of the Novel Coronavirus (COVID-19)" below). No such contract liabilities existed as of December 31, 2019.

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

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

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

OVERVIEW

Alpha Pro Tech is in the business of protecting people, products and environments. We accomplish this by developing, manufacturing and marketing a line of high-value, disposable protective apparel 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 two business segments: (i) the Building Supply segment, consisting of construction weatherization products, such as housewrap and synthetic roof underlayment as well as other woven material; and (ii) the Disposable Protective Apparel segment, consisting of disposable protective garments (including shoe covers, bouffant caps, coveralls, gowns, frocks and lab coats), face masks and face shields.

Previously, face masks and face shields were included in a separate business segment called Infection Control. All of our disposable protective apparel, including face masks and face shields, are sold through similar distribution channels, are single-use and disposable, have the purpose of protecting people, products and environments, and have to be produced in FDA approved facilities, regardless of the market served. Based on these similarities, we determined that it would be best to consolidate the Infection Control segment into the

Disposable Protective Apparel segment beginning with the first quarter of 2019. All financial information presented in this report reflects the current segmentation.

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

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

Impact of the Novel Coronavirus (COVID-19)

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. COVID-19 continues to spread throughout the U.S. and the world and has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. COVID-19 has had, and we expect the virus to continue to have, a number of effects, both positive and negative, on our business operations and financial condition.

We have experienced a significant surge in customer demand for our proprietary N-95 Particulate Respirator face mask product and other personal protective equipment (“PPE”) products as a result of COVID-19. We experienced a dramatic increase in revenue from sales of PPE products during the year of 2020, especially with respect to face masks and disposable protective garments, including shoe covers, coveralls, gowns, lab coats and bouffant caps.

In an effort to meet the unprecedented demand, and to aid communities around the world in responding to the ongoing healthcare crisis, the Company began ramping up production during the first quarter of 2020 of our PPE products, in particular our N-95 face mask, which is manufactured by the Company in the United States. We have addressed the growing customer demand for PPE products by increasing and improving the human, mechanical, and supply chain components behind production. Even with these increases and improvements, customer demand for PPE products, face masks in particular, continues to exceed industry supply in many instances, and we believe that this may continue for some time.

We have encountered over the last several months a number of constraints within our supply chain due to government-mandated shutdowns, raw materials shortages and shipping delays. Although we continue to work to alleviate these supply chain issues (which have improved since the second quarter of 2020) by securing additional supply sources, in the event of subsequent shutdowns, shortages or delays, our production and sales could be further impacted. Further, we expect that prices of raw materials may rise more rapidly in the current environment than our sales prices, which could decrease our profits.

We are continuing to serve our customers while taking every precaution to provide a safe work environment for our employees. We have enacted enhanced operating protocols to assure the safety and well-being of our employees, placed restrictions on non-essential travel, and otherwise adjusted work schedules to maximize our capacity while adhering to recommended precautions such as social distancing. We believe that we may have to take further actions that we determine are in the best interests of our employees or as required by federal, state, or local authorities. Although we will continue to adhere to restrictions imposed by local governments in the jurisdictions in which we operate, government regulations have impacted workforce availability and expense in certain of the Company’s manufacturing facilities, and we expect this to continue for some time. While this remains a fluid situation, all of our U.S. manufacturing sites are currently operating at or above normal production rates.

COVID-19 has resulted in a downturn in the global financial markets and a slowdown in the global economy. This economic environment may impact some of our customers’ ability to pay or lead them to request extended payment terms, and we have experienced cost increases from some of our suppliers. And, despite the tremendous surge in demand for our PPE products in recent months, we expect that demand for our Building Supply segment products could be negatively impacted if we experience a decrease in housing starts and increased uncertainty in the housing market and the economy in general, although to date we have not experienced any material negative impact in our Building Supply segment.

The impact of the COVID-19 pandemic continues to unfold. Overall, the increase in sales of our PPE products resulting from the pandemic has had a positive impact on our 2020 financial results. The extent of the pandemic’s effect on our future operational and financial performance will depend in large part on future developments. Future developments include the duration, scope and severity of the pandemic and new variants, the actions taken to contain or mitigate its impact, the impact on governmental programs and budgets, the development of treatments or vaccines, and the efficacy of mass vaccinations, and the resumption of widespread economic activity in certain sectors. Due to the inherent uncertainty of the unprecedented and rapidly evolving situation, we are unable to predict with any certainty the likely impact of the COVID-19 pandemic on our future operations

OUTLOOK FOR 2021

In 2021, we expect the market for our products to normalize in some respects, although we believe that sales will remain strong as compared to historical levels. More specifically:

- So far in 2021, we are witnessing a softening in the demand for NIOSH-approved N-95 particulate respirator face masks manufactured by smaller companies like Alpha Pro Tech, creating some uncertainty in the market. Factors contributing to this include (i) increased availability of N-95 face masks resulting from manufacturers ramping up production capacity and actual production, especially in the early months of the pandemic, (ii) increased competition, driven by more manufacturers entering the N-95 face mask market since the pandemic began in 2020, as well as Emergency Use Authorization in the U.S. that has allowed foreign manufactured, non-NIOSH approved KN-95 face masks, among others, to gain prevalence, (iii) decreased demand from some distributors and their ultimate consumers in light of high levels of stockpiled inventory, resulting from a rush to obtain face masks in the early months of the pandemic, and (iv) the improvement in outlook with respect to the duration, scope and severity of the pandemic and the rollout and availability of vaccines. As a result of these factors, we expect that face mask sales, specifically sales of our N-95 particulate respirator face mask, in the first quarter of 2021 will be materially lower than in the fourth quarter of 2020, although we should still show revenue growth as compared to the first quarter of 2020. Additionally, we expect that, due to certain of these factors, specifically the improvement in outlook with respect to the pandemic and the growing number of individuals being vaccinated to protect against COVID-19, face mask sales may continue to decline in future periods.
- We expect that face shield sales will remain at levels higher than those experienced before the COVID-19 pandemic.
- Open orders for our disposable protective garments remain at historically high levels. The Company's joint venture through which these products are manufactured has ramped up production capacity in order to respond to this demand.
- Based on open orders for both our synthetic roof underlayment and housewrap products, we expect continued growth in our Building Supply segment, and the Company has committed to investing approximately \$4.0 million in new equipment to increase production capacity of this segment. However, economic uncertainty resulting from the COVID-19 pandemic remains and could negatively impact demand for these products longer-term.

Management will continue to carefully monitor the current dynamic market conditions and work to respond to them swiftly and effectively.

RESULTS OF OPERATIONS

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

	<u>2020</u>	<u>2019</u>
Net sales	100.0%	100.0%
Gross profit	49.2%	36.4%
Selling, general and administrative expenses	17.7%	28.6%
Income from operations	30.8%	6.5%
Income before provision for income taxes	31.4%	7.9%
Net income	26.4%	6.4%

Fiscal Year 2020 Compared to Fiscal Year 2019

Sales. Consolidated sales for the year ended December 31, 2020 increased to a record \$102,700,000, from \$46,665,000 for the year ended December 31, 2019, representing an increase of \$56,035,000, or 120.1%. This increase consisted of increased sales in the Disposable Protective Apparel segment of \$52,031,000 and increased sales in the Building Supply segment of \$4,004,000.

Disposable Protective Apparel Segment

Sales for the Disposable Protective Apparel segment for the year ended December 31, 2020 increased by \$52,031,000, or 259.0%, to a record \$72,120,000, compared to \$20,089,000 for 2019. This segment increase was due to a 1,262% increase in sales of face masks, a 631.2% increase in face shields and a 23.7% increase in sales of disposable protective garments. The sales mix of the Disposable

Protective Apparel segment for the year ended December 31, 2020 was approximately 58% for face masks, 15% for face shields and 27% for disposable protective garments. This sales mix is compared to approximately 15% for face masks, 8% for face shields and 77% for disposable protective garments for the year ended December 31, 2019.

The increase in face mask sales was primarily attributable to increased sales of our proprietary N-95 Particulate Respirator face mask resulting from increased customer demand associated with the COVID-19 pandemic. Face masks had a record year in 2020, surpassing the prior Company sales record set in 2009 during the H1N1 pandemic, by a multiple of 2.4 times. Face mask sales grew during each quarter of 2020. Fourth quarter face mask sales were \$15.4 million compared to \$13.4 million in the third quarter of 2020, \$8.5 million in the second quarter of 2020 and \$4.5 million in the first quarter of 2020. Face shields also had a record year in 2020, with a very significant increase compared to the prior record set in 2009, by a multiple of 2.9 times. The disposable protective garments line sales increased an impressive 23.7% in 2020 and the Company's joint venture, Harmony, has ramped up production capacity to facilitate our current higher than historical open orders. Although open orders are strong, revenue growth could be impacted by longer than normal shipping and port times which is occurring in early 2021 across all markets shipping from international production facilities.

Building Supply Segment

Building Supply segment sales for the year ended December 31, 2020 increased by \$4,004,000, or 15.1%, to a record \$30,580,000, compared to \$26,576,000 for the year ended December 31, 2019. The Building Supply segment increase was primarily due to an increase in sales of synthetic roof underlayment of 16.4%, an increase in sales of housewrap of 12.5% and an increase of other woven material of 20.2% compared to 2019.

The sales mix of the Building Supply segment for the year ended December 31, 2020 was approximately 48% for synthetic roof underlayment, 43% for housewrap and 9% for other woven material. This compared to approximately 47% for synthetic roof underlayment, 44% for housewrap and 9% for other woven material for the year ended December 31, 2019. Our synthetic roof underlayment product line includes REX SynFelt®, REX TECHNOply® and TECHNO SB®, and our housewrap product line consists of REX Wrap®, REX Wrap® Plus and REX Wrap Fortis®.

Despite the challenges of 2020, our Building Supply segment experienced a record year with growth across all our product lines. Our TECHNO family of synthetic roof underlayment products showed continued growth as a result of strong sales of our TECHNO SB®25 product line, which was instrumental in the 16.4% growth of this product family in 2020. Housewrap sales hit record levels in 2020. In 2020, we added housewrap accessories, namely flashing and tape products, to our portfolio of housewrap sales, which opened up new market distribution and aided in the increase of housewrap sales of 12.5%. Sales of both synthetic roof underlayment and housewrap have benefitted from an increase in new home construction during 2020 and management's determination to expand the Company's distribution reach to cover the new home growth. Our sales of other woven materials increased in 2020, with an increase of 20.2% as our historically largest customer returned to its normal buying patterns.

At the end of 2020, our open orders for both the synthetic roof underlayment and housewrap product lines were at higher than historical levels and as a result, we anticipate growth into 2021. Given the uncertainty of the economy as a result of the COVID-19 pandemic, growth could be negatively affected in 2021, however to date we have not experienced any material negative impact in our Building Supply segment. Management expects continued growth in this segment and has committed to investing approximately \$4.0 million in new equipment to increase production capacity of this segment.

Gross Profit. Gross profit increased by \$33,510,000, or 197.4%, to \$50,482,000 for the year ended December 31, 2020, from \$16,972,000 for the year ended December 31, 2019. The gross profit margin was 49.2% for the year ended December 31, 2020, compared to 36.4% for the year ended December 31, 2019. The gross profit margin was positively affected by the significant change in product mix, which was altered due to a surge in customer demand as a result of the COVID-19 pandemic for face masks, in particular our N-95 Particulate Respirator face mask, and face shields, which generally have a higher gross profit margin than our other products.

The gross profit margin in 2020 was significantly higher than historical levels, but management believes that gross profit margin could be negatively affected in 2021 as a result of potential changes in product mix and changes in distribution channels associated with the pandemic, as well as expected increases in raw material costs, resin in particular, as well as ocean freight and other transportation costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$4,823,000, or 36.1%, to \$18,171,000 for the year ended December 31, 2020, from \$13,348,000 for the year ended December 31, 2019. The increase in expenses was largely due to the pandemic response. However, as a percentage of net sales, selling, general and administrative expenses decreased to 17.7% for the year ended December 31, 2020, down from 28.6% for 2019, primarily as a result of the growth in net sales due to the pandemic.

The change in expenses by segment for the year ended December 31, 2020 was as follows: Disposable Protective Apparel was up \$2,038,000, or 48.1%; Building Supply was up \$155,000, or 3.0%; and corporate unallocated expenses were up \$2,630,000, or 67.6%. The increase in the Disposable Protective Apparel segment expenses was related to increased employee compensation, increased factory expenses and increased commissions as a result of increased sales, primarily due to the pandemic. The increase in the Building Supply segment expenses was related to increased employee compensation, increased commission and increased insurance costs, partially offset

by decreased marketing and travel expenses. The increase in corporate unallocated expenses was primarily due to increased accrued bonuses, increased public company expenses and increased professional fees.

In accordance with the terms of his employment agreement, the Company's current President and Chief Executive Officer is entitled to an annual bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense, up to a maximum of \$1.0 million. A bonus amount of \$1,000,000 was accrued for the year ended December 31, 2020, compared to \$194,000 for the year ended December 31, 2019.

Depreciation and Amortization. Depreciation and amortization expense increased by \$127,000, or 21.12%, to \$729,000 for the year ended December 31, 2020, from \$602,000 for the year ended December 31, 2019. The increase was primarily attributable to increased depreciation for machinery and equipment in the Building Supply segment and to a lesser extent increased depreciation for machinery and equipment in the Disposable Protective Apparel segment, as well as increased corporate depreciation related to computer technology.

Income from Operations. Income from operations increased by \$28,560,000, or 945.1%, to \$31,582,000 for the year ended December 31, 2020, compared to \$3,022,000 for the year ended December 31, 2019. The increased income from operations was primarily due to an increase in gross profit of \$33,510,000, partially offset by an increase in selling, general and administrative expenses of \$4,823,000 and an increase in depreciation and amortization expense of \$127,000. Income from operations as a percentage of net sales for the year ended December 31, 2020 was 31.0%, compared to 6.5% for the same period of 2019.

Other Income. Other income increased by \$8,000, or 1.2%, to \$666,000 for the year ended December 31, 2020, from \$658,000 for the year ended December 31, 2019. The increase was primarily due to an increase in equity in income of unconsolidated affiliate of \$351,000, partially offset by a loss on marketable securities for the year ended December 31, 2020 compared to a gains on marketable securities during the year ended December 31, 2019, for a net change of \$293,000, and a decrease in interest income of \$50,000.

Other income consisted primarily of equity in income of unconsolidated affiliate of \$710,000, a loss on marketable securities of \$62,000 and interest income of \$18,000 for the year ended December 31, 2020. Other income consisted of equity in income of unconsolidated affiliate of \$359,000, a gain on marketable securities of \$231,000 and interest income of \$68,000 for the year ended December 31, 2019.

Income before Provision for Income Taxes. Income before provision for income taxes for the year ended December 31, 2020 was \$32,248,000, compared to income before provision for income taxes of \$3,680,000 for 2019, representing an increase of \$28,568,000, or 776.3%. This increase in income before provision for income taxes was due to an increase in income from operations of \$28,560,000 and an increase in other income of \$8,000.

Provision for Income Taxes. The provision for income taxes for the year ended December 31, 2020 was \$5,162,000, compared to \$680,000 for 2019. The provision for income taxes included an estimated nonrecurring tax benefit of \$2.0 million in the first quarter of 2020 as a result of the exercise of disqualified Incentive Stock Options and the exercise of Non-Qualified Stock Options. The estimated effective tax rate was 16.0% for the year ended December 31, 2020, compared to 18.5% for the year ended December 31, 2019. Excluding the estimated nonrecurring tax benefit of \$2.0 million, the estimated effective tax rate was 22.2% for the year ended December 31, 2020. The Company does not record a tax provision on equity in income of unconsolidated affiliate, which reduces the effective tax rate.

Net Income. Net income for the year ended December 31, 2020 was \$27,086,000, compared to net income of \$3,000,000 for the year ended December 31, 2019, representing an increase of \$24,086,000, or 8,028.7%. The increase in net income was largely associated with the COVID-19 pandemic. Net income for 2020 significantly exceeded the Company's previous net income record of \$9.0 million for the year ended December 31, 2009, which resulted primarily from increased sales due to the H1N1 pandemic. The net income increase comparing the years ended December 31, 2020 and 2019 was due to an increase in income before provision for income taxes of \$32,248,000, partially offset by an increase in provision for income taxes of \$4,482,000. As mentioned above, a tax benefit from stock options exercised positively impacted net income in the first quarter of 2020. Net income as a percentage of net sales for the year ended December 31, 2020 was 26.4%, and net income as a percentage of net sales for 2019 was 6.4%. Basic earnings per common share for the year ended December 31, 2020, and 2019 were \$2.01 and \$0.23, respectively. Diluted earnings per common share for the year ended December 31, 2020 and 2019 were \$1.94 and \$0.23, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2020, the Company had cash of \$23,292,000 and working capital of \$49,451,000. As of December 31, 2020, the Company's current ratio (current assets/current liabilities) was 9:1, compared to a current ratio of 11:1 as of December 31, 2019. Cash increased by 255.7%, or \$16,744,000, to \$23,292,000 as of December 31, 2020, compared to \$6,548,000 as of December 31, 2019, and working capital increased by \$25,689,000 from \$23,762,000 as of December 31, 2019. The increase in cash from December 31, 2019 was due to cash provided by operating activities of \$18,274,000, partially offset by cash used in investing activities of \$862,000 and cash used in financing activities of \$668,000.

We previously had a \$3,500,000 credit facility with Wells Fargo Bank, consisting of a line of credit with interest at prime plus 0.5%. This credit line expired in May 2020, and the Company decided not to renew. The Company has continued its relationship with Wells Fargo, with the exception of the line of credit. The Company determined that the credit line is not necessary at this time, as it had not been used in several years, and the Company currently has sufficient funding from operations.

Net cash provided by operating activities of \$18,274,000 for the year ended December 31, 2020 was due to net income of \$27,086,000, impacted primarily by the following: stock-based compensation expense of \$375,000, depreciation and amortization expense of \$729,000, loss on marketable securities of \$62,000, equity in income of unconsolidated affiliate of \$710,000, operating lease expense net of accretion of \$357,000, an increase in accounts receivable of \$4,745,000, an increase in prepaid expenses of \$2,638,000, an increase in inventory of \$5,446,000, an increase in accounts payable and accrued liabilities of \$3,355,000 and an increase in lease liabilities of \$367,000.

Accounts receivable increased by \$4,745,000, or 110.5%, to \$9,037,000 as of December 31, 2020, from \$4,292,000 as of December 31, 2019. The increase in accounts receivable was related to increased sales. The number of days that sales remained outstanding as of December 31, 2020, calculated by using an average of accounts receivable outstanding and annual revenue, was 34 days, the same as of December 31, 2019.

Inventory increased by \$5,446,000, or 48.2%, to \$16,749,000 as of December 31, 2020, from \$11,303,000 as of December 31, 2019. The increase was primarily due to an increase in inventory for the Disposable Protective Apparel segment of \$5,890,000, or 105.0%, to \$11,498,000, partially offset by a decrease in inventory for the Building Supply segment of \$444,000, or 7.8%, to \$5,250,000.

Prepaid expenses increased by \$2,638,000, or 73.5%, to \$6,225,000 as of December 31, 2020, from \$3,587,000 as of December 31, 2019. The increase was primarily due to prepayments for machinery and equipment for the Building Supply segment and, to a lesser extent for the Disposable Protective Apparel segment, as well as prepaid inventory.

Right-of-use assets as of December 31, 2020 increased by \$357,000 to \$3,535,000 from \$3,178,000 as of December 31, 2019 as a result of amortization of the balance.

Lease liabilities as of December 31, 2020 increased by \$367,000 to \$3,586,000 from \$3,219,000 as of December 31, 2019. The recording of the lease liabilities was the result of adopting ASC 842, Leases. The increase in the lease liabilities was primarily the result of renewing our Nogales, Arizona lease in December 2020 and the assumption we will continue to lease that facility for at least 5 years.

Accounts payable and accrued liabilities as of December 31, 2020 increased by \$3,355,000, or 236.1%, to \$4,776,000, from \$1,421,000 as of December 31, 2019. The increase was primarily due to an increase in accounts payable as a result of increased raw material purchases, an increase in accrued liabilities, and an increase in accrued bonuses.

Customer advance payment of orders as of December 31, 2020 was \$209,000, which was the result of customer deposits for future dated PPE orders in response to the COVID-19 pandemic. There were no advance payments of this nature as of December 31, 2019.

Net cash used in investing activities was \$862,000 for the year ended December 31, 2020, compared to net cash used in investing activities of \$1,142,000 for the same period of 2019. Investing activities for the year ended December 31, 2020 consisted of the purchase of property and equipment of \$1,135,000 for both the Building Supply segment and the Disposable Apparel Products segment and proceeds from the sale of marketable securities of \$273,000. Investing activities for the year ended December 31, 2019 consisted of the purchase of property and equipment of \$1,296,000 and proceeds from the sale of marketable securities of \$154,000.

Net cash used in financing activities was \$668,000 for the year ended December 31, 2020, compared to net cash used in financing activities of \$2,418,000 for the same period of 2019. Net cash used in financing activities for the year ended December 31, 2020 resulted from the payment of \$2,666,000 for the repurchase of common stock, mainly offset by proceeds of \$1,998,000 from the exercise of stock options. Net cash used in financing activities for the year ended December 31, 2019 resulted from the payment of \$2,548,000 for the repurchase of common stock, partially offset by proceeds of \$130,000 from the exercise of stock options.

As of December 31, 2020, we had \$4,486,000 available for additional stock purchases under our stock repurchase program. For the year ended December 31, 2020, we repurchased 223,100 shares of common stock at a cost of \$2,666,000. As of December 31, 2020, we had repurchased a total of 18,110,917 shares of common stock at a cost of \$38,034,000 through our repurchase program. We retire all stock upon 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 will be sufficient to satisfy our projected working capital and planned capital expenditures for the foreseeable future. We have made approximately \$4,000,000 in commitments for capital investments to increase our production capacity in our Building supply segment, of which \$ 1,191,000 has been made in deposits as of December 31, 2020.

Off- Balance Sheet Arrangements

None

Related Parties

During 2020, the Company had no related party transactions, other than the Company's transactions with its non-consolidated affiliate, Harmony. See Note 7 – "Equity Investments in Unconsolidated Affiliate" in the notes to our consolidated financial statements in Item 8 for more information on our relationship with our non-consolidated affiliated Harmony Plastics Private Limited.

New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those reporting periods, with early adoption permitted. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, Targeted Improvements to ASC 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, Leases, as the date of initial application of transition. Based on the effective date, we adopted this ASU beginning on January 1, 2019 and elected the transition option provided under ASU 2018-11. This standard had a material effect on our consolidated balance sheet with the recognition of new right-of-use assets and lease liabilities for all operating leases, as these leases typically have a non-cancelable lease term of greater than one year. Upon adoption, both assets and liabilities on our consolidated balance sheet increased by approximately \$3,455,000. We elected a package of transition practical expedients, which included not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs for existing leases. We also elected a practical expedient to not separate lease and non-lease components. We did not elect the practical expedient to use hindsight in determining the lease terms or assessing impairment of the ROU assets. See also Note 12 of these Notes to Consolidated Financial Statements in Item 8 for more information.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for public entities for the annual periods, including interim periods within those annual periods, beginning after December 15, 2019. This guidance is applicable to the Company's fiscal year beginning January 1, 2020. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. ASU 2018-07 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted but no earlier than an entity's adoption date of ASC Topic 606, Revenue from Contracts with Customers. The new guidance is required to be applied retrospectively with the cumulative effect recognized at the date of initial application. We adopted the provisions of this ASU in the first quarter of 2019. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

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

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

We subcontract the manufacturing of products in Sri Lanka, China and, to a lesser extent, in Mexico, and have a joint venture in India. In addition, our principal executive office, with 19 employees, is located in Canada. We do not believe that we have a material foreign currency exposure due to the fact that our purchase agreements with companies in Sri Lanka, China, India and Mexico are settled in U.S. dollars. In addition, all sales transactions are in U.S. dollars. In Canada, our foreign currency exposure is not material due to the fact that we do not conduct manufacturing operations in Canada. Our exposure is limited to payroll expenses in the Canadian branch office.

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

Alpha Pro Tech, Ltd.

Item 8. Financial Statements and Supplementary Data.

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

Alpha Pro Tech, Ltd.

Management's Report on Internal Control over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we assessed, as of December 31, 2020, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in accordance with the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Alpha Pro Tech, Ltd. and subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of comprehensive income, shareholders’ equity, and cash flows for each of the years in the two year period ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for each of the years in the two year period ended December 31, 2020 in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The Communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Evaluation of Sufficiency of Audit Evidence over Revenue

During the year ended December 31, 2020, the Company’s net sales increased from approximately \$47 million to approximately \$103 million as the result of increased sales driven by the COVID-19 pandemic. This large increase in sales included large sales to new customers and a significant change in product mix due to the increase in sales of disposable protective apparel. As a result of the significant increases in sales volume that occurred during 2020, we identified the evaluation of the sufficiency of audit evidence over revenue as a critical audit matter as it required especially subjective auditor judgment in determining the appropriate level of audit evidence to address the change in volume and nature of revenue transactions.

Our audit procedures over the Company’s revenue included, among others, sending confirmations to certain customers as third-party evidence regarding the existence of sales, detail

testing of a sample of transactions and reconciliation to underlying documents as well as performance of analytics over sales volume and gross margins.

/s/Tanner LLC

We have served as the Company's auditor since 2011.

Salt Lake City, Utah
March 10, 2021

Alpha Pro Tech, Ltd.

Consolidated Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,292,000	\$ 6,548,000
Investments	-	335,000
Accounts receivable, net of allowance for doubtful accounts of \$71,000 as of December 31, 2020 and \$53,000 as of December 31, 2019	8,132,000	3,568,000
Accounts receivable, related party	905,000	724,000
Inventories	16,749,000	11,303,000
Prepaid expenses	6,225,000	3,587,000
Total current assets	<u>55,303,000</u>	<u>26,065,000</u>
Property and equipment, net	4,353,000	3,943,000
Goodwill	55,000	55,000
Definite-lived intangible assets, net	7,000	11,000
Right-of-use assets	3,535,000	3,178,000
Equity investment in unconsolidated affiliate	5,549,000	4,839,000
Total assets	<u>\$ 68,802,000</u>	<u>\$ 38,091,000</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,983,000	\$ 501,000
Accrued liabilities	2,793,000	920,000
Customer advance payments of orders	209,000	-
Lease liabilities	867,000	882,000
Total current liabilities	<u>5,852,000</u>	<u>2,303,000</u>
Lease liabilities, net of current portion	2,719,000	2,337,000
Deferred income tax liabilities, net	211,000	224,000
Total liabilities	<u>8,782,000</u>	<u>4,864,000</u>
Commitments		
Shareholders' equity:		
Common stock, \$.01 par value: 50,000,000 shares authorized; 13,419,847 and 12,885,273 shares outstanding as of December 31, 2020 and December 31, 2019, respectively	135,000	129,000
Additional paid-in capital	409,000	708,000
Retained earnings	59,476,000	32,390,000
Total shareholders' equity	<u>60,020,000</u>	<u>33,227,000</u>
Total liabilities and shareholders' equity	<u>\$ 68,802,000</u>	<u>\$ 38,091,000</u>

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2020	2019
Net sales	\$ 102,700,000	\$ 46,665,000
Cost of goods sold, excluding depreciation and amortization	52,218,000	29,693,000
Gross profit	50,482,000	16,972,000
Operating expenses:		
Selling, general and administrative	18,171,000	13,348,000
Depreciation and amortization	729,000	602,000
Total operating expenses	18,900,000	13,950,000
Income from operations	31,582,000	3,022,000
Other income (expense):		
Equity in income of unconsolidated affiliate	710,000	359,000
Gain (loss) on marketable securities	(62,000)	231,000
Interest income, net	18,000	68,000
Total other income	666,000	658,000
Income before provision for income taxes	32,248,000	3,680,000
Provision for income taxes	5,162,000	680,000
Net income	\$ 27,086,000	\$ 3,000,000
Basic earnings per common share	\$ 2.01	\$ 0.23
Diluted earnings per common share	\$ 1.94	\$ 0.23
Basic weighted average common shares outstanding	13,449,987	13,142,872
Diluted weighted average common shares outstanding	13,972,145	13,168,725

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	
Balance as of December 31, 2018	13,502,684	135,000	2,669,000	29,390,000	32,194,000
Common stock repurchased and retired	(683,910)	(6,000)	(2,542,000)	-	(2,548,000)
Share-based compensation expense	-	-	451,000	-	451,000
Options exercised	66,499	-	130,000	-	130,000
Net income	-	-	-	3,000,000	3,000,000
Balance as of December 31, 2019	12,885,273	129,000	708,000	32,390,000	33,227,000
Common stock repurchased and retired	(223,100)	(2,000)	(2,664,000)	-	(2,666,000)
Share-based compensation expense	-	-	375,000	-	375,000
Options exercised	757,674	8,000	1,990,000	-	1,998,000
Net income	-	-	-	27,086,000	27,086,000
Balance as of December 31, 2020	<u>13,419,847</u>	<u>\$ 135,000</u>	<u>\$ 409,000</u>	<u>\$ 59,476,000</u>	<u>\$ 60,020,000</u>

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
Cash Flows From Operating Activities:		
Net income	\$ 27,086,000	\$ 3,000,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	375,000	451,000
Depreciation and amortization	729,000	602,000
(Gain) Loss on marketable securities	62,000	(231,000)
Equity in income of unconsolidated affiliate	(710,000)	(359,000)
Operating lease expense, net of accretion	(357,000)	704,000
Deferred income taxes	(13,000)	83,000
Changes in assets and liabilities:		
Accounts receivable, net	(4,564,000)	1,367,000
Accounts receivable, related party	(181,000)	(341,000)
Inventories	(5,446,000)	(1,425,000)
Prepaid expenses	(2,638,000)	412,000
Accounts payable and accrued liabilities	3,355,000	(500,000)
Customer advance payments of orders	209,000	-
Lease liabilities	367,000	(662,000)
Net cash provided by operating activities	<u>18,274,000</u>	<u>3,101,000</u>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(1,135,000)	(1,296,000)
Proceeds from sales of marketable securities	<u>273,000</u>	<u>154,000</u>
Net cash used in investing activities	<u>(862,000)</u>	<u>(1,142,000)</u>
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	1,998,000	130,000
Repurchase of common stock	<u>(2,666,000)</u>	<u>(2,548,000)</u>
Net cash used in financing activities	<u>(668,000)</u>	<u>(2,418,000)</u>
Increase (decrease) in cash and cash equivalents	16,744,000	(459,000)
Cash and cash equivalents, beginning of the year	<u>6,548,000</u>	<u>7,007,000</u>
Cash and cash equivalents, end of the year	<u>\$ 23,292,000</u>	<u>\$ 6,548,000</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 4,136,000</u>	<u>\$ 633,000</u>

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

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

1. The Company

Alpha Pro Tech, Ltd. (“Alpha Pro Tech,” the “Company,” “we,” “us” or “our”) 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 and a line of disposable protective apparel for the cleanroom, industrial, pharmaceutical, medical and dental markets.

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

The Disposable Protective Apparel segment consists of a complete line of disposable protective garments (shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats), face masks and face shields. Previously, face masks and face shields were included in a separate business segment called Infection Control. All of our disposable protective apparel products, including face masks and face shields, are sold through similar distribution channels, are single-use and disposable, have the purpose of protecting people, products and environments, and have to be produced in Food and Drug Administration (“FDA”) approved facilities, regardless of the market served. Based on these similarities, the Infection Control segment was combined with the Disposable Protective Apparel segment during the first quarter of 2019. The disclosures in these Notes to Consolidated Financial Statements reflect this current segmentation.

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

The ongoing novel coronavirus (COVID-19) pandemic has adversely affected global economies, financial markets and the overall environment in which we do business. The impact of the COVID-19 pandemic continues to unfold. Overall, the increase in sales of our Disposable Protective Apparel segment products resulting from the pandemic has had a positive impact on our 2020 year end results. The extent of the pandemic’s effect on our future operational and financial performance will depend in large part on future developments, which cannot be predicted with confidence at this time. Future developments include the duration, scope and severity of the pandemic, including the severity and transmission rate of COVID-19 variants the actions taken to contain or mitigate its impact, the impact on governmental programs and budgets, the development of treatments or vaccines and mass vaccinations efforts, and the resumption of widespread economic activity in certain sectors. Due to the inherent uncertainty of the unprecedented and rapidly evolving situation, we are unable to predict with any certainty the likely impact of the COVID-19 pandemic on our future operations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Events that occurred after December 31, 2020 through the date on which these financial statements were filed with the Securities and Exchange Commission (“SEC”) were considered in the preparation of these financial statements.

Use of Estimates

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

Periods Presented

All amounts have been rounded to the nearest thousand with the exception of the per share data. The Company qualified as a smaller reporting company at the measurement date for determining such qualification during 2020. According to the disclosure requirements for smaller reporting companies, the Company has included balance sheets as of the end of the two most recent years and statements of income, comprehensive income, shareholders’ equity and cash flows for each of the two most recent

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

years.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are classified as available-for-sale in accordance with U.S. GAAP. The Company does not have any investments in securities that are classified as held-to-maturity or trading. Available-for-sale investments are carried at their fair values using quoted prices in active markets for identical securities, with realized and unrealized gains and losses reported in net income. The cost of securities sold is based on the specific identification method. Investments that the Company intends to hold for more than one year are classified as long-term investments in the accompanying balance sheets.

Accounts Receivable

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

Inventories

Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost or net realizable value. Allowances are recorded for slow-moving, obsolete or unusable inventories. The Company assesses inventories for estimated obsolescence or unmarketable products and writes down the difference between the cost of the inventories and the estimated net realizable values based upon assumptions about future sales and supplies on-hand.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Costs to develop internal use software are charged to expense as incurred until the preliminary project stage has been completed and application development begins. The Company discontinues capitalization upon entering the post-implementation stage and expenses ongoing maintenance and support costs. Property and equipment are depreciated or amortized using the straight-line method over the shorter of the respective useful lives of the assets or the related lease terms as follows:

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

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

Goodwill and Intangible Assets

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

Fair Value of Financial Instruments

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

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

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

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in its business circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If it is determined that the undiscounted future net cash flows are not sufficient to recover the carrying values of the assets, an impairment loss is recognized for the excess of the carrying values over the fair values of the assets. The Company believes that the future undiscounted net cash flows to be received from its long-lived assets exceed the assets' carrying values and, accordingly, the Company has not recognized any impairment losses for the years ended December 31, 2020 and 2019.

Revenue Recognition

Net sales includes revenue from products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Our customer contracts have a single performance obligation: transfer control of products to customers. Revenue is measured as the amount of consideration that we expect to receive in exchange for transferring control of products. All revenue is recognized when we satisfy our performance obligations under the applicable contract. We recognize revenue in connection with transferring control of the promised products to the customer, with revenue being recognized at the point in time when the customer obtains control of the products, which is generally when title passes to the customer upon delivery to a third party carrier for FOB shipping point arrangements and to the customer for FOB destination arrangements, at which time a receivable is created for the invoice sent to the customer. Shipping and handling activities are performed prior to the customer obtaining control of the goods, and are accounted for as fulfillment activities and are not a promised good or service. Shipping and handling charges billed to customers are included in revenue. Shipping and handling costs, associated with the distribution of the Company's product to the customers, are recorded in cost of goods sold and are recognized when control of the product is transferred to the customer, which is generally when title passes to the customer upon delivery to a third party carrier for FOB shipping point arrangements and to the customer for FOB destination arrangements. We estimate product returns based on historical return rates and estimate rebates based on contractual agreements. Using probability assessments, we estimate sales incentives expected to be paid over the term of the contract. Sales taxes and value added taxes in foreign and domestic jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from net sales. The Company manufactures certain private label goods for customers and has determined that control does not pass to the customer at the time of manufacture, based upon the nature of the private labelling. The Company has determined as of December 31, 2020 that it had no material contract assets, and concluded that its contract liabilities (primarily rebates) had the right of offset against customer receivables. As of December 31, 2020, we had contract liabilities of \$209,000 as a result of customer advance payments of orders in connection with the COVID-19 pandemic. No such contract liabilities existed as of December 31, 2019. See Note 15 and Note 16 of these Notes to Consolidated Financial Statements for information on revenue disaggregated by type and by geographic region.

Shipping and Handling Costs

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

Stock-Based Compensation

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

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

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

For the year ended December 31, 2020 there were no stock options granted under the Company's stock option plan. For the year ended 2019, there were 370,000 stock options granted under the Company's option plan. The Company recognized \$375,000 and \$451,000 in share-based compensation expense for the years ended December 31, 2020 and 2019, respectively, related to outstanding options. For the year ended December 31, 2020, 8,912 restricted stock equity awards had been granted under the 2020 Incentive Plan, the compensation expense associated with the one year vest of these awards is \$6,000.

Income Taxes

The Company accounts for income taxes using the asset and liability method. A valuation allowance is recorded to reduce the carrying amounts of deferred income tax assets unless it is more likely than not that such assets will be realized. The Company's policy is to record any interest and penalties assessed by the Internal Revenue Service as a component of the provision for income taxes. The Company provides allowances for uncertain income tax positions when it is more likely than not that the position will not be sustained upon examination by the tax authority.

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

Earnings Per Common Share

The following table provides a reconciliation of both net income and the number of shares used in the computation of "basic" earnings per common share ("EPS"), which utilizes the weighted average number of common shares outstanding without regard to potential common shares, and "diluted" EPS, which includes all potential common shares which are dilutive for the years ended December 31, 2020 and 2019.

	Years Ended December 31,	
	2020	2019
Net income (numerator)	\$ 27,086,000	\$ 3,000,000
Shares (denominator):		
Basic weighted average common shares outstanding	13,449,987	13,142,872
Add: Dilutive effect of common stock options	522,158	25,853
Diluted weighted average common shares outstanding	13,972,145	13,168,725
Earnings per common share:		
Basic	\$ 2.01	\$ 0.23
Diluted	\$ 1.94	\$ 0.23

Translation of Foreign Currencies

Transactions in foreign currencies are translated into U.S. dollars at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in foreign currencies at each period end are translated at the exchange rate in effect at that date. Transaction gains or losses on foreign currencies are reflected in selling, general and administrative expenses and were not material for the years ended December 31, 2020 and 2019.

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

Research and Development Costs

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

Research and development costs are expensed as incurred and are included in selling, general and administrative expenses. Such costs were not material for the years ended December 31, 2020 and 2019.

Advertising Costs

The Company expenses advertising and promotional costs as incurred. These costs are included in selling, general and administrative expenses and were \$32,000 and \$16,000 for the years ended December 31, 2020 and 2019, respectively.

Loss Contingencies

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

Fair Value Measurements

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

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. The fair values of the Company's financial assets as of December 31, 2020 and 2019 were determined using the following levels of inputs:

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

	Fair Value Measurements as of December 31,			
	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities 2020	\$ -	\$ -	\$ -	\$ -
Marketable securities 2019	335,000	335,000	-	-

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

New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those reporting periods, with early adoption permitted. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, Targeted Improvements to ASC 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, Leases, as the date of initial application of transition. Based on the effective date, we adopted this ASU beginning on January 1, 2019 and elected the transition option provided under ASU 2018-11. This standard had a material effect on our consolidated balance sheet with the recognition of new right-of-use assets and lease liabilities for all operating leases, as these leases typically have a non-cancelable lease term of greater than one year. Upon adoption, both assets and liabilities on our consolidated balance sheet increased by approximately \$3,455,000. We elected a package of transition practical expedients, which included not reassessing whether any expired or existing contracts are or contain

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Notes to Consolidated Financial Statements

leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs for existing leases. We also elected a practical expedient to not separate lease and non-lease components. We did not elect the practical expedient to use hindsight in determining the lease terms or assessing impairment of the ROU assets. See also Note 12 of these Notes to Consolidated Financial Statements for more information.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for public entities for the annual periods, including interim periods within those annual periods, beginning after December 15, 2019. This guidance is applicable to the Company's fiscal year beginning January 1, 2020. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. ASU 2018-07 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted but no earlier than an entity's adoption date of ASC Topic 606 - Revenue from Contracts with Customers. The new guidance is required to be applied retrospectively with the cumulative effect recognized at the date of initial application. We adopted the provisions of this ASU in the first quarter of 2019. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

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

3. Investments

As of December 31, 2020 and 2019, investments totaled \$0 and \$335,000, respectively, which consisted of marketable securities. Certain marketable securities were sold during the years ended December 31, 2020 and 2019. The total loss on marketable securities during the year ended December 31, 2020 was \$62,000 and the total gain on marketable securities during the year ended December 31, 2019 was \$231,000. The loss for the year ended December 31, 2020 was due to an unrealized gain of \$98,000 and a realized loss of \$160,000. The gain for the year ended December 31, 2019 was due to an unrealized gain of \$170,000 and a realized gain of \$61,000.

4. Inventories

Inventories consisted of the following:

	December 31,	
	2020	2019
Raw materials	\$ 9,729,000	\$ 4,284,000
Work in process	2,003,000	2,559,000
Finished goods	5,017,000	4,460,000
Total inventory	<u>\$ 16,749,000</u>	<u>\$ 11,303,000</u>

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

5. Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2020	2019
Buildings	\$ 493,000	\$ 493,000
Machinery and equipment	13,039,000	12,227,000
Office furniture and equipment	2,076,000	1,390,000
Leasehold improvements	517,000	508,000
Software	3,000	438,000
	<u>16,128,000</u>	<u>15,056,000</u>
Less accumulated depreciation and amortization	<u>(11,775,000)</u>	<u>(11,113,000)</u>
Total net property and equipment	<u>\$ 4,353,000</u>	<u>\$ 3,943,000</u>

Depreciation and amortization expense for property and equipment was \$725,000 and \$597,000 for the years ended December 31, 2020 and 2019, respectively.

6. Goodwill and Intangible Assets

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

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

	December 31, 2020			December 31, 2019				
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Net Carrying Amount	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Net Carrying Amount		
Patents and Trademarks	3.0	<u>\$474,000</u>	<u>(\$467,000)</u>	<u>\$7,000</u>	3.0	<u>\$474,000</u>	<u>(\$463,000)</u>	<u>\$11,000</u>

Amortization expense for intangible assets was \$4,000 and \$5,000 for the years ended December 31, 2020 and 2019, respectively.

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

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Years ending December 31,

2021	3,000
2022	2,000
2023	1,000
2024	1,000
Total	<u>\$ 7,000</u>

7. Equity Investments in Unconsolidated Affiliate

In 2005, Alpha ProTech Engineered Products, Inc. (a subsidiary of Alpha Pro Tech, Ltd.) entered into a joint venture with a manufacturer in India, Maple Industries and associates, 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% owned by Alpha ProTech Engineered Products, Inc. and 58.34% owned 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 Company’s Disposable Protective Apparel segment.

The capital from the initial funding and a bank loan, which loan is guaranteed exclusively by the individual shareholders of Maple Industries and associates and collateralized by the assets of Harmony, were utilized to purchase the original manufacturing facility in India. Harmony currently has four facilities in India (three owned and one rented), consisting of: (1) a 113,000 square foot building for manufacturing building products; (2) a 73,000 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; and (4) a 93,000 square foot facility (rented) for manufacturing Building Supply segment products. All additions have been financed by Harmony with no guarantees from the Company.

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

The Company records its investment in Harmony as “equity investment in unconsolidated affiliate” in the accompanying 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 consolidated statements of income. The Company periodically reviews its investment in Harmony for impairment. Management has determined that no impairment was required as of December 31, 2020 or December 31, 2019.

For the years ended December 31, 2020 and 2019, the Company purchased \$18,623,000 and \$19,312,000 of inventories, respectively, from Harmony. For the years ended December 31, 2020 and 2019, the Company recorded equity in income of unconsolidated affiliate of \$710,000 and \$359,000, respectively. For the years ended December 31, 2020 and 2019, the Company sold \$1,087,000 and \$1,332,000 of inventories, respectively, to Harmony.

As of December 31, 2020, the Company’s investment in Harmony was \$5,549,000, which consisted of its original \$1,450,000 investment and cumulative equity in income of unconsolidated affiliate of \$5,118,000, less \$942,000 in repayments of an advance and payments of \$77,000 in dividends.

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

8. Accrued Liabilities

Accrued liabilities consisted of the following:

	December 31,	
	2020	2019
Payroll expenses and tax payable	\$ 123,000	\$ 299,000
Commission and bonuses payable and general accrued liabilities	2,670,000	621,000
Total accrued liabilities	<u>\$ 2,793,000</u>	<u>\$ 920,000</u>

Contract liabilities were \$2,263,000 and \$1,511,000 as of December 31, 2020 and 2019, respectively, which are netted against the related accounts receivable due to the legal right of offset.

9. Notes Payable

The Company previously maintained a \$3,500,000 credit facility with Wells Fargo Bank, which expired in May 2020, and which the Company decided not to renew. The Company has continued its relationship with Wells Fargo, with the exception of the credit facility. The Company determined that the credit line is not necessary at this time, as it had not been used in several years, and the Company currently had sufficient funding from operations. Pursuant to the terms of the credit facility, the Company had a borrowing capacity up to \$3,500,000 based on eligible accounts receivable and inventories and was collateralized by accounts receivable, inventories, trademarks, patents and property and equipment. Under the terms of the facility, the Company paid a 0.5% unused loan fee on a quarterly basis.

As of December 31, 2020, the Company had no outstanding borrowings and no other debt.

10. Shareholders' Equity

Repurchase Program

During the year ended December 31, 2020, the Company repurchased and retired 223,100 shares of its common stock for \$2,666,000. During the year ended December 31, 2019, the Company repurchased and retired 683,910 shares of its common stock for \$2,548,000. As of December 31, 2020, the Company had \$4,486,000 available to repurchase common shares under the repurchase program.

Option Activity

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

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

Under the 2004 Plan, approximately 5,009,750 options had been granted as of December 31, 2019. Under the 2004 Plan, option grants have a three-year vesting period and, since 2005, expire no later than the fifth anniversary from the date of grant. The exercise price of the options is determined based on the fair market value of the stock on the date of grant.

At the Company's 2020 Annual Meeting of Shareholders held on June 9, 2020, the Company's shareholders approved the Alpha Pro Tech, Ltd. 2020 Omnibus Incentive Plan (the "2020 Incentive Plan"). The 2020 Incentive Plan provides for the grant of incentive and nonqualified stock options, stock appreciation rights, awards of restricted stock and restricted stock units, performance share awards, cash awards and other equity-based awards to employees (including officers), consultants and non-

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

employee directors of the Company and its affiliates. A total of 1,800,000 shares of the Company's common stock are reserved for issuance under the 2020 Incentive Plan, plus the number of shares underlying any award granted under the 2004 Option Plan that expires, terminates or is cancelled or forfeited under the terms of the 2004 Option Plan. As a result of the approval of the 2020 Incentive Plan, no future equity awards will be made pursuant to the 2004 Option Plan. Although no new awards may be granted under the 2004 Option Plan, all previously granted awards under the 2004 Option Plan will continue to be governed by the terms of the 2004 Option Plan. As of December 31, 2020, 8,912 restricted stock equity awards had been granted under the 2020 Incentive Plan, the compensation expense associated with the one year vest of these awards is \$6,000. As of December 31, 2020, \$102,000 of total unrecognized compensation cost related to the restricted stock grants was expected to be recognized over a weighted-average remainder period of .942 years.

The following table summarizes option activity for the years ended December 31, 2020 and 2019:

	Shares	Weighted Average Exercise Price Per Option
Options outstanding, December 31, 2018	1,022,913	\$2.69
Granted to employees and directors	370,000	3.59
Exercised	(66,499)	1.96
Canceled/expired/forfeited	-	-
Options outstanding, December 31, 2019	<u>1,326,414</u>	2.86
Granted to employees and directors	-	-
Exercised	(757,674)	2.64
Canceled/expired/forfeited	-	-
Options outstanding, December 31, 2020	<u><u>568,740</u></u>	3.37
Options exercisable, December 31, 2020	<u><u>200,500</u></u>	3.48

Stock options to purchase 568,740 and 1,326,414 shares of common stock were outstanding as of December 31, 2020 and 2019, respectively. All of the stock options were included in the computation of the weighted-average number of dilutive common shares outstanding for the year ended December 31, 2020. All except 455,000 of the stock options, which were anti-dilutive, were included in the computation of the weighted-average number of dilutive common shares outstanding for the year ended December 31, 2019.

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

	Stock Options	
	For the Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
Exercise price	-	\$3.59
Risk-free interest rate	-	2.23 %
Expected volatility	-	32.17 %
Expected life in years	-	4.25
Black-Scholes fair value	-	\$1.06

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

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

The following table summarizes information about stock options as of December 31, 2020:

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (in years)	Aggregate Intrinsic Value	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (in years)	Aggregate Intrinsic Value
\$1.58-\$3.90	568,710	\$3.37	2.84	\$4,473,000	200,500	\$3.48	2.63	\$1,601,000

The intrinsic value is the amount by which the market value of the underlying common stock exceeds the exercise price of the respective stock options. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2020 and 2019 was \$10,772,000 and \$121,000, respectively.

As of December 31, 2020, \$227,000 of total unrecognized compensation cost related to stock options was expected to be recognized over a weighted-average remaining period of 1.16 years. Cash received from 757,674 options exercised for the year ended December 31, 2020 was \$1,998,000.

Dividends

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

11. Income Taxes

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

	For the Years Ended December 31,	
	2020	2019
Current	\$ 5,175,000	\$ 596,000
Deferred	(13,000)	84,000
Provision for income taxes	<u>\$ 5,162,000</u>	<u>\$ 680,000</u>

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

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

	December 31,	
	2020	2019
Temporary differences:		
Property and equipment	\$ (706,000)	\$ (646,000)
Intangible assets	(9,000)	(8,000)
Marketable securities	-	-
Inventory reserve	24,000	16,000
Accrued expenses and inventory	612,000	443,000
Basis difference in investments	35,000	19,000
Foreign exchange	(40,000)	(13,000)
AMT/Foreign tax credits	-	50,000
Other	(83,000)	(30,000)
State income taxes	(44,000)	(55,000)
Net deferred income tax assets (liabilities)	<u>\$ (211,000)</u>	<u>\$ (224,000)</u>

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

	For the Years Ended December 31,	
	2020	2019
Income taxes based on U.S. statutory rate of 21% and 34%, respectively	\$ 6,772,000	\$ 773,000
Non-deductible meals and entertainment	5,000	8,000
FDII deduction	(348,000)	(6,000)
Foreign taxes	(38,000)	(75,000)
State taxes	603,000	85,000
Other	(1,832,000)	(105,000)
Provision for income taxes	<u>\$ 5,162,000</u>	<u>\$ 680,000</u>

12. Leases

Operating Lease Commitments: The Company leases its facilities under non-cancelable operating leases expiring on various dates through January 1, 2024. The Company has operating leases for the Company's corporate office and manufacturing facilities, which expire at various dates through 2024. The Company's primary operating lease commitments at December 31, 2020 related to the Company's manufacturing facilities in Valdosta, Georgia, Nogales, Arizona and Salt Lake City, Utah, as well as the Company's corporate headquarters in Markham, Ontario, Canada.

As of December 31, 2020, the Company had operating lease right-of-use assets of \$3,535,000 and operating lease liabilities of \$3,586,000. As of December 31, 2020, we did not have any finance leases recorded on the Company's consolidated balance sheet. Operating lease expense was approximately \$1,154,000 and \$1,109,000 for the years ended December 31, 2020 and 2019, respectively.

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

The aggregate future minimum lease payments and reconciliation to lease liabilities as of December 31, 2020 were as follows:

	December 31, 2020
2021	\$ 1,009,000
2022	1,010,000
2023	1,017,000
2024	484,000
2025	<u>365,000</u>
Total future minimum lease payments	3,885,000
Less imputed interest	<u>(299,000)</u>
Total lease liabilities	<u>\$ 3,586,000</u>

As of December 31, 2020, the weighted average remaining lease term of the Company's operating leases was 4.00 years. During the year ended December 31, 2020, the weighted average discount rate with respect to these leases was 4.17%.

13. Legal

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.

14. Employee Benefit Plans

The Company has certain benefit plans. Under the plans, employees may contribute up to 12% of their gross earnings subject to certain limitations. The Company contributes an additional 0.5% of gross earnings for those employees contributing 1% of their gross earnings and contributes 1% of gross earnings for those employees contributing 2% to 12% of their gross earnings. The amounts contributed to the plans by the Company were \$45,000 and \$42,000 for the years ended December 31, 2020 and 2019, respectively.

The Company does not have any other significant pension, profit sharing or similar plans established for its employees. Pursuant to his employment agreement with the Company, Lloyd Hoffman, our President and Chief Executive Officer, is contractually entitled to receive from the Company at the conclusion of each fiscal year a cash bonus in an amount equal to 5% pre-tax profits of the Company, excluding bonus expense, as presented in the Company's audited consolidated statements of income for such fiscal year, subject to a maximum payment of \$1,000,000. The Company accrued \$1,000,000 for the year ended December 31, 2020, compared to \$194,000 for 2019, in connection with the bonus.

15. Activity of Business Segments

The Company operates through two business segments:

(1) **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.

(2) **Disposable Protective Apparel:** consisting of a complete line of disposable protective garments, including shoecovers (including the Aqua Trak® and spunbond shoecovers), bouffant caps, coveralls, frocks, lab coats, gowns and hoods, as well as face masks and face shields for the pharmaceutical, cleanroom, industrial, medical and dental 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.

Previously, face masks and face shields were included in a separate business segment called Infection Control. All of our disposable protective apparel, including face masks and face shields, are sold through similar distribution channels, are single-use

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

and disposable, have the purpose of protecting people, products and environments, and have to be produced in FDA approved facilities, regardless of the market served. Based on these similarities, we determined that it would be best to consolidate the Infection Control segment into the Disposable Protective Apparel segment beginning with the first quarter of 2019. The disclosures in these Notes to Consolidated Financial Statements reflect this current segmentation.

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

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

The following table presents net sales for each segment:

	Years Ended December 31,	
	2020	2019
Building Supply	\$ 30,580,000	\$ 26,576,000
Disposable Protective Apparel	72,120,000	20,089,000
Consolidated net sales	<u>\$ 102,700,000</u>	<u>\$ 46,665,000</u>

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

	Years Ended December 31,	
	2020	2019
Building Supply	\$ 5,396,000	\$ 3,491,000
Disposable Protective Apparel	33,501,000	3,856,000
Total segment income	38,897,000	7,347,000
Unallocated corporate overhead expenses	6,649,000	3,667,000
Provision for income taxes	5,162,000	680,000
Consolidated net income	<u>\$ 27,086,000</u>	<u>\$ 3,000,000</u>

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

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

	Years Ended December 31,	
	2020	2019
Net sales by geographic region		
United States	\$ 90,495,000	\$ 45,748,000
International	12,205,000	917,000
Consolidated net sales	<u>\$ 102,700,000</u>	<u>\$ 46,665,000</u>
	As of December 31,	
	2020	2019
Long-lived assets by geographic region		
United States	\$ 2,787,000	\$ 2,450,000
International	1,566,000	1,493,000
Consolidated total long-lived assets	<u>\$ 4,353,000</u>	<u>\$ 3,943,000</u>

Net sales by geographic region are based on the countries in which our customers are located. For the year ended December 31, 2020 the Company generated sales of approximately \$8,090,000 from Australia. No other single country other than the United States was significant to the Company's consolidated net sales. For the year ended December 31, 2019, the Company did not generate sales from any single country, other than the United States, that were significant to the Company's consolidated net sales.

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

	As of December 31,	
	2020	2019
Building Supply	\$ 1,806,000	\$ 1,867,000
Disposable Protective Apparel	1,432,000	1,087,000
Total segment assets	<u>3,238,000</u>	<u>2,954,000</u>
Unallocated corporate assets	<u>1,177,000</u>	<u>1,055,000</u>
Total consolidated assets	<u>\$ 4,415,000</u>	<u>\$ 4,009,000</u>

16. Concentration of Risk

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

The Company's investments in marketable securities were held in one publicly traded entity. The Company recognized a gain on investment in common stock warrants in a prior period and during 2020 recognized a realized loss of \$160,000 and an unrealized gain of \$98,000 in the consolidated statement of comprehensive income. During 2019, the Company recognized realized gain of \$61,000 and an unrealized loss of \$170,000 in the consolidated statement of comprehensive income. The Company was exposed to the fluctuation in the stock price of this investment when it held these securities. As of December 31, 2020 the Company no longer holds any investments in marketable securities.

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

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

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

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

The Company provides products to customers located primarily in the United States. Customers accounting for 10% or more of accounts receivable as of December 31, 2020 and 2019, and 10% or more of net sales for the years ended December 31, 2020 and 2019, were as follows:

	December 31,	
	2020	2019
Accounts Receivable:		
Customer A	11%	18%
Customer B	*	*
Customer C	*	10%
Customer D	18%	*
Net sales:		
Customer A	20%	20%
Customer B	12%	12%
Customer D	10%	*

* Customer's balance was below the 10% threshold for accounts receivable and/or net sales as of and for the year ended December 31, 2020 and December 31, 2019.

17. Employment Agreements

The Company has entered into an employment agreement with its current President and Chief Executive Officer, which has a term of approximately five years and which renews in accordance with its terms. The agreement provides that, if the officer's employment is terminated without cause, as defined in the agreements, the officer is entitled to receive certain severance payments. If termination occurs due to retirement, the officers will enter into a four-year consulting arrangement with the Company at a specified percentage of the officer's then current salary. Upon death or disability, the Company will also make certain payments to the officer or the officer's estate or beneficiary, as applicable.

The Company had entered into an employment agreement with its former President and Chairman. During the fourth quarter of 2017, the Company's former President and Chairman passed away, which resulted in a death benefit expense of \$619,000, in accordance with his employment agreement. There was no expense for the years ended December 31, 2020 and 2019. The related accrued liability as of December 31, 2020 and 2019 was \$0 and \$207,000, respectively.

18. Related Party Transactions

During 2021, the Company's only material related party transactions were the Company's transactions with its non-consolidated affiliate, Harmony. See Note 7.

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

19. Subsequent Events

The Company has reviewed and evaluated whether any additional material subsequent events have occurred from December 31, 2020 through the filing date of the Company's Annual Report on Form 10-K. All appropriate subsequent event disclosures have been made in the consolidated financial statements.

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our (i) President and Chief Executive Officer (principal executive officer) and (ii) Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2020 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. Disclosure controls and procedures include controls and procedures designed to ensure that information we are required to disclose is accumulated and communicated to the our management, including our principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosure.

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

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

Management's Report on Internal Control over Financial Reporting

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

Attestation Report of the Independent Registered Public Accounting Firm

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

Changes in Internal Control Over Financial Reporting

During the fourth quarter of the year ended December 31, 2020, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

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

Other information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2021.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2021.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes the securities that have been authorized for issuance as of December 31, 2020 under Alpha Pro Tech, Ltd. 2020 Omnibus Incentive Plan, which was previously approved by our shareholders at the 2020 Annual Meeting of Shareholders. The 2020 Incentive Plan is described in Note 10 to the financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	568,740	\$ 3.37	1,791,088(1)
Equity compensation plans not approved by shareholders	-	-	-
Total	568,740	\$ 3.37	1,791,088

(1) Represents 1,791,088 shares of common stock issuable pursuant to our 2020 Plan.

The other information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Stockholders will be filed with the SEC on or before April 30, 2021.

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

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2021.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference pursuant to General Instruction G(3) of Form 10-K from the Company's definitive Proxy Statement for the 2021 Annual Meeting of Shareholders to be filed with the SEC pursuant to Regulation 14A. The registrant's definitive Proxy Statement for the Annual Meeting of Shareholders will be filed with the SEC on or before April 30, 2021.

PART IV**Item 15. Exhibits and Financial Statement Schedules.****(a)(1) Financial Statements.**

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

- Management's Report on Internal Control over Financial Reporting;
- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets – December 31, 2020 and 2019;
- Consolidated Statements of Income – Years Ended December 31, 2020 and 2019;
- Consolidated Statements of Comprehensive Income – Years Ended December 31, 2020 and 2019;
- Consolidated Statements of Shareholders' Equity – Years Ended December 31, 2020 and 2019;
- Consolidated Statements of Cash Flows – Years Ended December 31, 2020 and 2019;
- Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules.

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

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

The following exhibits are filed with this report or incorporated by reference:

Item 16. Form 10-K Summary.

The Company has elected not to provide a summary of the information contained in this report at this time.

EXHIBIT INDEX
ITEM 15(a)(3)

<u>Exhibit No.</u>	<u>Description</u>
3.1.1	Certificate of Incorporation of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(f) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893) (P).
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) (P).
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) (P).
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) (P).
4.1	Description of securities registered pursuant to Section 12 of the Exchange Act, incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 2019, filed on March 10, 2020 (File No. 001-15725).
10.1A	Alpha Pro Tech, Ltd. 2004 Stock Option Plan (As Amended on June 7, 2010), incorporated by reference to Exhibit 10.1 to Form 8-K, filed on June 11, 2010.*
10.2	Non-Qualified Stock Option Agreement of John Ritota, incorporated by reference to Exhibit 4.4 to Form S-8, filed on December 13, 2004 (File No. 333-121184).*
10.3	Non-Qualified Stock Option Agreement of Russell Manock, incorporated by reference to Exhibit 4.5 to Form S-8, filed on December 13, 2004 (File No. 333-121184).*
10.5	Incentive Stock Option Agreement of Lloyd Hoffman, incorporated by reference to Exhibit 4.8 to Form S-8, filed on December 13, 2004 (File No. 333-121184).*
10.6	Employment Agreement between the Company and Alexander Millar, dated May 15, 2015, incorporated by reference to Exhibit 10.2 to Form 10-Q/A for the quarter ended June 30, 2015, filed on November 5, 2015 (File No. 001-15725).*
10.7	Employment Agreement between the Company and Lloyd Hoffman, dated August 31, 2016, incorporated by reference to Exhibit 10.1 to Form 8-K, filed on September 2, 2016 (File No. 001-15725).*
10.7A	Amendment One to Employment Agreement between the Company and Lloyd Hoffman, dated October 24, 2017, incorporated by reference to Exhibit 10.1 to Form 8-K, filed on October 26, 2017 (File No. 001-15725).*
10.8	Alpha Pro Tech, Ltd. 2020 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K, filed on June 15, 2020 (File No. 001-15725).
10.8A	First Amendment to the Alpha Pro Tech, Ltd. 2020 Omnibus Incentive Plan, filed herewith.
10.9	Form of Restricted Stock Award Agreement for Non-Employee Directors, filed herewith.
14	Alpha Pro Tech, Ltd. Code of Business Conduct and Ethics, incorporated by reference to Exhibit 10(r) to Form 10-K/A, filed on April 29, 2004 (File No. 001-15725).
21	Subsidiaries of Alpha Pro Tech, Ltd.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2	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 Chief Executive Officer.
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 Financial Officer.
101	Interactive Data Files.

Exhibit No. Description

* Indicates a management contract or compensatory plan or arrangement.
(P) Indicates a paper filing with the SEC.

SIGNATURES

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

ALPHA PRO TECH, LTD.

DATE: <u>March 10, 2021</u>	BY: <u><i>/s/ Lloyd Hoffman</i></u> Lloyd Hoffman President and Chief Executive Officer
DATE: <u>March 10, 2021</u>	BY: <u><i>/s/ Colleen McDonald</i></u> Colleen McDonald Chief Financial Officer

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

/s/ Lloyd Hoffman
Lloyd Hoffman, President and Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Colleen McDonald
Colleen McDonald, Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ Danny Montgomery
Danny Montgomery, Senior Vice President Manufacturing and Director

/s/ Donna Millar
Donna Millar, Investor Relations and Director

/s/ David Garcia
David Garcia, Director

/s/ Russ Manock
Russ Manock, Director

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

/s/ James Buchan
James Buchan, Director

SUBSIDIARIES OF ALPHA PRO TECH, LTD.

<u>Name of Subsidiary</u>	<u>State of Incorporation</u>
Alpha Pro Tech, Inc.	Oklahoma
Alpha ProTech Engineered Products, Inc.	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As an independent registered public accounting firm, we hereby consent to the incorporation by reference in the Registration Statements on Form S-8(No. 333-121184, No. 333-169056, and No. 333-249092) of our report dated March 10, 2021, relating to the consolidated financial statements of Alpha Pro Tech, Ltd. as of and for the years ended December 31, 2020 and 2019 included in the Annual Report on Form 10-K of Alpha Pro Tech, Ltd. for the year ended December 31, 2020.

/s/ Tanner LLC

Salt Lake City, Utah
March 10, 2021

Certification

I, Lloyd Hoffman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Alpha Pro Tech, Ltd;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: March 10, 2021

BY: */s/ Lloyd Hoffman*

Lloyd Hoffman
President and Chief Executive Officer
(Principal Executive Officer)

Certification

I, Colleen McDonald, certify that:

1. I have reviewed this Annual Report on Form 10-K of Alpha Pro Tech, Ltd;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: March 10, 2021

BY: */s/Colleen McDonald*

Colleen McDonald
Chief Financial Officer
(Principal Financial and Accounting Officer)

Alpha Pro Tech, Ltd.
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alpha Pro Tech, Ltd. on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lloyd Hoffman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATE: March 10, 2021

BY: */s/ Lloyd Hoffman*

Lloyd Hoffman
President and Chief Executive Officer

Alpha Pro Tech, Ltd.
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alpha Pro Tech, Ltd. on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Colleen McDonald, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATE: March 10, 2021

BY: _____

/s/ Colleen McDonald

Colleen McDonald
Chief Financial Officer