

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 10549

FORM 10-K

(Mark One)

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

Commission file number: 01-15725

ALPHA PRO TECH, LTD.

(exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**60 Centurian Drive, Suite 112,
Markham, Ontario**
Address of principal offices

63-1009183

(I.R.S. Employer Identification No.)

L3R 9R2
Zip Code

Edgar Filing: ALPHA PRO TECH LTD - Form 10-K

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

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

Common Shares Par Value \$.01 Per Share

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes 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 if disclosure of delinquent filers pursuant to Item 405 or Regulation S-K (Sec. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

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

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

Edgar Filing: ALPHA PRO TECH LTD - Form 10-K

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

Table of Contents

ALPHA PRO TECH, LTD.

INDEX TO ANNUAL REPORT ON FORM 10-K

PART I:

3

Cautionary Statements regarding Forward-Looking Information

3

Edgar Filing: ALPHA PRO TECH LTD - Form 10-K

<u>Item 1</u>	<u>Business</u>	3
	<u>General</u>	3
	<u>Business</u>	3
	<u>Products</u>	4
	<u>Markets</u>	5
	<u>Distribution</u>	6
	<u>Manufacturing</u>	6
	<u>Competition</u>	7
	<u>Regulatory Requirements</u>	7
	<u>Patents and Trademarks</u>	7
	<u>Employees</u>	8
	<u>Available Information</u>	8
<u>Item 1A</u>	<u>Risk Factors</u>	8
<u>Item 1B</u>	<u>Unresolved Staff Comments</u>	9
<u>Item 2</u>	<u>Properties</u>	9
<u>Item 3</u>	<u>Legal Proceedings</u>	9
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security-Holders</u>	9
<u>PART II:</u>		10
<u>Item 5</u>	<u>Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters</u>	10
<u>Item 6</u>	<u>Selected Financial Data</u>	12
<u>Item 7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	22
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u>	22
<u>Item 9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	22
<u>Item 9A</u>	<u>Controls and Procedures</u>	23
<u>PART III:</u>		24
<u>Item 14</u>	<u>Principal Accounting Fees and Services</u>	24
<u>PART IV:</u>		24
<u>Item 15</u>	<u>Exhibits, Financial Statement Schedules and Reports on Form 8-K</u>	24
<u>Item 16</u>	<u>Exhibits</u>	25
<u>Signatures</u>		27
Certification Under Exchange Act Rules 13a-14(b) and 15d-14(b)		

Table of Contents

PART I

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

Edgar Filing: ALPHA PRO TECH LTD - Form 10-K

This Annual Report on Form 10-K contains forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks, uncertainties and assumptions as described from time to time in registration statements, annual reports and other periodic reports and filings of the Company filed with the Securities and Exchange Commission. All statements, other than statements of historical facts, which address the Company's expectations of sources of capital or which express the Company's expectation for the future with respect to financial performance or operating strategies, can be identified as forward-looking statements. As a result, there can be no assurance that the Company's future results will not be materially different from those described herein as believed, anticipated, estimated or expected, which reflect the current views of the Company with respect to future events. We caution readers that these forward-looking statements speak only as of the date hereof. The Company hereby expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which such statement is based.

ITEM 1. BUSINESS

GENERAL

ALPHA PRO TECH, LTD. (the Company or Alpha Pro Tech, we, our or us) was incorporated in the State of Delaware on July 1, 1994 as a successor to a business that was organized in 1983. Our executive offices are located at 60 Centurian Drive, Suite 112, Markham, Ontario, Canada L3R 9R2, and our telephone number is (905) 479-0654. Our website is located at www.alphaprotech.com. Information contained on our website is not part of this report.

BUSINESS

Alpha Pro Tech is in the business of protecting people, products and environments. We accomplish this by developing, manufacturing and marketing a line of high-value disposable protective apparel and infection control products for the cleanroom, industrial, pharmaceutical, medical and dental markets. We also manufacture and market a line of construction weatherization products for the construction, building and re-roofing markets. As well, we manufacture and distribute a line of extended care products and a line of pet beds. Our products are sold both under the Alpha Pro Tech brand name as well as under private labels.

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

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

Table of Contents

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

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

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

PRODUCTS

Our principal product groups and products include the following:

Disposable Protective Apparel:

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

Engineered Products:

- House wrap
- Synthetic roof underlayment

Infection Control:

- Face masks
- Eye shields

Extended Care:

- Unreal Lambskin®
- Medi-Pads
- Hospital pads
- Wheelchair accessories
- Bedrail pads
- Pet beds

Disposable Protective Apparel

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

Table of Contents

Engineered Products

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

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

The usage of these two construction supply weatherization products offers great advantages in decreasing the time it takes to construct a home as well as offering cost reduction. The house wrap, REX Wrap , offers a weather resistive barrier and, to the home owner, years of lower energy consumption. The proprietary synthetic roof underlayment, REX Synfelt , has the ability to resist the environment, as opposed to conventional organic roofing underlayment that is prone to rapid degradation and mold growth.

Infection Control Products (Mask and Eye Shields)

Our face masks come in a wide variety of filtration efficiencies and styles. Our patented Positive Facial Lock® feature provides a custom fit to the face to prevent blow-by for better protection. The term blow-by is used to describe the potential for infectious material entering or escaping a facemask without going through the filter as a result of gaps or openings in the face mask. Our Magic Arch® feature holds the mask away from the nose and mouth, creating a comfortable breathing chamber. One of our masks that incorporates both the Positive Facial Lock® feature and the Magic Arch® feature is the N-95 Particulate Respirator facemask which was recommended by the Center for Disease Control to combat the spread of Severe Acute Respiratory Syndrome (SARS) during the outbreak of 2003.

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

Extended Care Products

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

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

MARKETS

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

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

Table of Contents

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

DISTRIBUTION

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

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

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

MANUFACTURING

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

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

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

Edgar Filing: ALPHA PRO TECH LTD - Form 10-K

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

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

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

Table of Contents

We have multiple suppliers of the materials used to produce our products. We currently have no problems, and do not anticipate any problems, with respect to the sources and availability of the materials needed to produce our products. Our business is not subject to significant seasonal considerations. It is necessary for us to have adequate raw material and finished inventory in stock.

COMPETITION

We face substantial competition from numerous companies, including many companies with greater marketing and financial resources. Our major competitor in the medical and dental markets is Kimberly Clark of Fort Worth, Texas. Other large competitors include 3M Company, Johnson & Johnson, Cardinal Health, Inc., and Medline Industries Inc. Our major competitors in the industrial and cleanroom market are Kimberly Clark, 3M Company, Kappler USA and DuPont. In the extended care market, Skil-care, Glenoit Mills and JT Posey Co. are our principal competitors, and in the pet products market, principal competitors include Flexmat Corporation and Lazy Pet Company. Our major competitors in the construction supply weatherization market are Dupont for house wrap and WR Grace and Interwrap for roof underlayment.

Cardinal Health, Inc. and Medline Industries Inc. are also distributors of our products.

REGULATORY REQUIREMENTS

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

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

PATENTS AND TRADEMARKS

Patents

Our policy is to protect our intellectual property rights, products, designs and processes through the filing of patents in the United States and where appropriate in Canada and other foreign countries. At present, we have 19 United States patents relating to several of our products. In addition, we have a United States patent on a method to fold and put on sterile garments. We believe that our patents may offer a competitive

Edgar Filing: ALPHA PRO TECH LTD - Form 10-K

advantage, but there can be no assurance that any patents, issued or in process, will not be circumvented or invalidated. We also rely on trade secrets and proprietary know-how to maintain and develop our commercial position.

The various United States patents issued have remaining durations of approximately 4 to 17 years before expiration.

Trademarks

Many of our products are sold under various trademarks and trade names, including Alpha Pro Tech. We believe that many of our trademarks and trade names have significant recognition in our principal markets and we take customary steps to register or otherwise protect our rights in our trademarks and trade names.

Table of Contents

EMPLOYEES

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

None of our employees are subject to collective bargaining agreements.

AVAILABLE INFORMATION

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

We make available free of charge on our Internet website (<http://www.alphaprotech.com>) our most recent Annual Report on Form 10-K, our most recent Quarterly Report on Form 10-Q, any current reports on Form 8-K furnished or filed since our most recent Annual Report on Form 10-K and any amendments to such reports as soon as reasonably practicable following the electronic filing of such report with the SEC. The past two years of news releases are also made available on our website. In addition, we provide electronic or paper copies of our filings free of charge upon request.

ITEM1A. RISK FACTORS

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

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

Edgar Filing: ALPHA PRO TECH LTD - Form 10-K

Unfavorable economic conditions, including the impact of recessions in the United States and throughout the world, may negatively affect the Company's business and financial results. These economic conditions could negatively impact (i) demand for our products, (ii) the mix of our products sales, (iii) our ability to collect accounts receivable on a timely basis from certain customers and (iv) the ability of certain suppliers to fill our orders for raw materials or other goods and services. A prolonged recession could result in decreased revenue, margins and earnings.

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

Our operating results depend upon revenue from a few larger customers. Our customers are not contractually obligated to purchase any fixed quantities of products, and they may stop placing orders with us at any time. We are subject to the risk of losing large customers or incurring significant reductions in sales to these customers.

Table of Contents

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings against the Company.

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

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

Table of Contents

PART II

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

Market Information

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

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

	Low	High
2007		
First Quarter	\$ 2.50	\$ 3.45
Second Quarter	2.31	3.28
Third Quarter	1.45	2.70
Fourth Quarter	1.52	1.77
2008		
First Quarter	\$ 1.14	\$