Veritiv Corp
Form 424B3
June 13, 2014
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Filed pursuant to Rule 424(b)(3)
Registration No. 333-193950

8,160,000 Shares

Veritiv Corporation

Common Stock

This prospectus is being furnished in connection with the planned distribution by International Paper Company (International Paper) on a pro rata basis to its shareholders of all the shares of common stock of its wholly-owned subsidiary Veritiv Corporation (SpinCo) outstanding prior to the Merger described below. SpinCo will own and operate xpedx, the business-to-business distribution business of International Paper (xpedx). We refer to such planned distribution as the Distribution or spin-off. Immediately following the Distribution, UWW Holdings, Inc. (UWWH) will merge with SpinCo, with SpinCo continuing as the surviving corporation (the Merger).

Each share of International Paper common stock outstanding as of 5:00 p.m., New York City time, on June 20, 2014, the record date for the Distribution (the record date), will entitle its holder to receive a number of SpinCo shares of common stock determined by a formula as described in this prospectus. We expect the distribution ratio to be approximately 0.0188 SpinCo shares of common stock for each share of International Paper common stock. The distribution of SpinCo common stock will be made in book-entry form. As a result of the Merger, the sole shareholder of UWWH will receive a number of shares of SpinCo common stock for each share of UWWH common stock that it holds at the time of the Merger in a private placement transaction that will result in International Paper s shareholders owning approximately 51%, and the sole shareholder of UWWH owning approximately 49%, of the shares of SpinCo common stock on a fully-diluted basis immediately following the Merger. On the distribution date, 8,160,000 shares of our common stock will be distributed to International Paper shareholders. We expect that the Distribution and the Merger will be tax-free to International Paper s shareholders for U.S. federal income tax purposes, except for gain or loss attributable to cash received in lieu of fractional shares in the Distribution. Immediately after the Transactions (as defined below), SpinCo will be an independent, publicly-traded company that will own and operate the combined businesses of xpedx and Unisource Worldwide, Inc. (UWW).

SpinCo has been approved to list its common stock on the New York Stock Exchange (the NYSE) under the symbol VRTV .

No action will be required of you to receive common stock of SpinCo, which means that:

- you will not be required to pay for our common stock that you receive in the Distribution;

- you do not need to surrender or exchange any of your International Paper common stock in order to receive SpinCo common stock, or take any other action in connection with the spin-off.

There is currently no trading market for our common stock. However, we expect that a limited market, commonly known as a when-issued trading market, for our common stock will develop on or shortly before the record date for the Distribution, and we expect regular way trading of our common stock will begin the first trading day after the completion of the Distribution.

You should carefully consider the matters described under Risk Factors beginning on page 39 of this prospectus for a discussion of factors that should be considered by recipients of our common stock.

Neither the Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities.

The date of this prospectus is June 13, 2014.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

This prospectus is being furnished solely to provide information to International Paper shareholders who will receive shares of SpinCo common stock in the Distribution. It is not to be construed as an inducement or encouragement to buy or sell any of our securities or any securities of International Paper. This prospectus describes our business, our relationship with International Paper, Unisource s business, and the Distribution and the Mergers, and provides other information to assist you in evaluating the benefits and risks of holding or disposing of our common stock that you will receive in the Distribution. You should be aware of certain risks

relating to the spin-off, our business, Unisource s business and ownership of our common stock, which are described under the heading Risk Factors.

You should not assume that the information contained in this prospectus is accurate as of any date other than the date set forth on the cover. Changes to the information contained in this prospectus may occur after that date, and we undertake no obligation to update the information, except in the normal course of our public disclosure obligations.

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SUPPLEMENTAL INFORMATION

In this prospectus:

ABL Facility has the meaning specified in Description of Material Indebtedness.

Bain Capital means Bain Capital Partners, LLC and investment funds advised or managed by it.

Closing Date means the date on which the Merger occurs pursuant to the Merger Agreement.

Code means the U.S. Internal Revenue Code of 1986, as amended.

combined company means SpinCo and its subsidiaries following and giving effect to the completion of the Transactions.

Contribution means the contribution by International Paper of xpedx to SpinCo pursuant to the terms of the Contribution and Distribution Agreement.

Contribution and Distribution Agreement means the Contribution and Distribution Agreement, dated January 28, 2014, as amended, among International Paper, SpinCo, UWWH and the UWWH Stockholder.

Consulting and Non-Competition Agreement means the Consulting and Non-Competition Agreement, dated as of January 28, 2014, between UWWH and Allan R. Dragone.

Debevoise means Debevoise & Plimpton LLP.

DGCL means the General Corporation Law of the State of Delaware.

Distribution means the pro rata distribution immediately prior to the consummation of the Merger of all the then outstanding shares of SpinCo to the shareholders of International Paper.

distribution agent means Computershare Inc., a Delaware corporation and its fully owned subsidiary, Computershare Trust Company, N.A., a national banking association, the distribution agent in connection with the Distribution.

distribution date means July 1, 2014, the expected date of the Distribution.

Employee Matters Agreement means the Employee Matters Agreement, dated as of January 28, 2014, as amended, among International Paper, SpinCo and UWWH.

Employment Agreement means the Employment Agreement, dated as of January 28, 2014, between SpinCo and Mary A. Laschinger.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Georgia-Pacific means Georgia-Pacific LLC or its predecessor, Georgia-Pacific Corporation.

Kirkland means Kirkland & Ellis LLP.

HSR Act   means the Hart-Scott-Rodino Antitrust Improvements Act of 1977.

International Paper   means International Paper Company, a New York corporation.

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IRS means the U.S. Internal Revenue Service.

IRS ruling means the private letter ruling from the IRS to the effect that the spin-off and certain related transactions will qualify as tax-free to SpinCo, International Paper and International Paper s shareholders for U.S. federal income tax purposes.

Merger means the merger of UWWH with and into SpinCo, with SpinCo continuing as the surviving company.

Mergers means the Merger and the Subsidiary Merger.

Merger Agreement means the Merger Agreement, dated January 28, 2014, as amended, among International Paper, SpinCo, xpedx Intermediate, xpedx LLC, the UWWH Stockholder, UWWH and UWW.

NYSE means the New York Stock Exchange.

record date means 5:00 p.m., New York City time, on June 20, 2014, the record date for the Distribution.

Sarbanes Oxley Act means the Sarbanes-Oxley Act of 2002.

SEC means the U.S. Securities and Exchange Commission.

SpinCo means Veritiv Corporation, a Delaware corporation.

Subsidiary Merger means the merger of xpedx Intermediate with and into UWW, with UWW continuing as the surviving company.

Tax Receivable Agreement means the Tax Receivable Agreement, to be dated as of the Closing Date, between SpinCo and the UWWH Stockholder.

Tax Matters Agreement means the Tax Matters Agreement, dated as of January 28, 2014, among International Paper, SpinCo and UWWH.

Transaction Agreements means the Contribution and Distribution Agreement, the Merger Agreement, the Tax Receivable Agreement, the Tax Matters Agreement, the Employee Matters Agreement, the Transition Services Agreement and the other agreements entered into by International Paper, UWWH and their respective affiliates in connection with the Transactions.

Transactions means the transactions contemplated by the Merger Agreement and the Contribution and Distribution Agreement which provide, among other things, for the Distribution and the Mergers, as described under the section The Transactions.

Transition Services Agreement means the Transition Services Agreement, to be dated as of the Closing Date, between International Paper and SpinCo.

Unisource means UWWH and its subsidiaries.

UWW means Unisource Worldwide, Inc., a Delaware corporation and a wholly-owned subsidiary of UWWH.

UWWH means UWW Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of the UWWH Stockholder.

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UWWH Stockholder means UWW Holdings, LLC, a Delaware limited liability company, the sole shareholder of UWW Holdings, Inc.

we, us and our refers to SpinCo and its subsidiaries and the xpedx business that will be contributed thereto for periods prior to the completion of the Transactions, and to SpinCo and its subsidiaries, including the combined businesses of xpedx and Unisource, after giving effect to the Transactions, unless the context otherwise requires or indicates.

xpedx or the xpedx business means the business-to-business printing, packaging and facility supplies and equipment distribution business of International Paper, as described in International Paper s public filings as its distribution segment.

xpedx Intermediate means xpedx Intermediate, LLC, a Delaware limited liability company and a wholly-owned subsidiary of International Paper (that will be a wholly-owned subsidiary of SpinCo at the time of the Distribution).

xpedx LLC means xpedx, LLC, a New York limited liability company and a wholly-owned subsidiary of International Paper (that will be a wholly-owned, indirect subsidiary of SpinCo at the time of the Distribution).

Throughout this prospectus, with respect to Unisource, references to December 31, 2013 or fiscal 2013 refers to the year ended December 31, 2013, references to December 31, 2012 or fiscal 2012 refers to the 52 weeks ended December 29, 2012, references to fiscal 2011 refers to the 52 weeks ended December 31, 2011, references to December 31, 2010 or fiscal 2010 refers to the 52 weeks ended January 1, 2011, references to December 31, 2009 or fiscal 2009 refers to the 52 weeks ended January 2, 2010 and references to December 31, 2008 or fiscal 2008 refers to the 52 weeks ended January 3, 2009. In addition, references to March 31, 2014 refer to the three months ended March 31, 2014 and references to March 31, 2013 refer to the 13 weeks ended March 30, 2013.

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INTRODUCTION

On April 22, 2013, International Paper announced that it had entered into a letter of intent with UWWH regarding a proposed business combination of xpedx, its business-to-business printing, packaging and facility supplies and equipment distribution business, and Unisource in a transaction structured as a Reverse Morris Trust, in which a newly-formed entity holding the xpedx business would be spun off and merged with UWWH, creating an independent, publicly-traded company. A Reverse Morris Trust, or RMT, transaction is a spin-off structure in which, as part of a plan, a merger partner, here UWWH, merges with the spun-off subsidiary, here SpinCo, in a transaction intended to be tax-free to the distributing parent and the distributing parent s shareholders. See The Transactions Background of the Distribution and the Merger. International Paper will effect the spin-off through a pro rata distribution to International Paper shareholders of all of the shares of common stock of SpinCo outstanding prior to the Merger. SpinCo will hold, through its subsidiaries, all of the assets and liabilities of xpedx. The Distribution will occur pursuant to a Contribution and Distribution Agreement, which International Paper, SpinCo, UWWH and the UWWH Stockholder entered into on January 28, 2014.

On January 28, 2014, International Paper announced that it, SpinCo, xpedx Intermediate and xpedx LLC had entered into an Agreement and Plan of Merger with UWWH, the UWWH Stockholder and UWW (the Merger Agreement), providing that sequentially and immediately following the Distribution and on the terms and subject to the other conditions of the Merger Agreement, UWWH will merge with and into SpinCo, with SpinCo continuing as the surviving corporation. Immediately thereafter, a wholly-owned subsidiary of SpinCo (xpedx Intermediate) will merge with and into UWW, a wholly-owned subsidiary of UWWH, with UWW surviving such merger as a wholly-owned subsidiary of SpinCo (the Subsidiary Merger). The Merger and the Subsidiary Merger are collectively referred to as the Mergers.

On July 1, 2014, the expected date of the Distribution (the distribution date), each holder of International Paper common stock as of the record date will receive a number of shares of SpinCo common stock determined by a formula based on the number of International Paper shares of common stock outstanding at 5:00 p.m., New York City time, on the record date. Each such holder will receive a number of SpinCo shares of common stock equal to the percentage of the total number of SpinCo shares of common stock outstanding as of the time of the Distribution as is equal to a fraction, (a) the numerator of which is the total number of issued and outstanding International Paper shares of common stock held by such holder as of the record date and (b) the denominator of which is the total number of International Paper shares of common stock issued and outstanding as of the record date (excluding treasury shares held by International Paper and any other International Paper shares otherwise held by International Paper or one of its subsidiaries). Based on the number of International Paper shares of common stock outstanding as of June 9, 2014, we expect the distribution ratio to be approximately 0.0188 SpinCo shares of common stock for each International Paper share of common stock. As a result of the Merger, the UWWH Stockholder will receive a number of newly issued shares of SpinCo common stock for each share of UWWH common stock that it holds at the time of the Merger, in a private placement transaction, equal to (i) the aggregate number of SpinCo shares issued and outstanding after the Distribution, but prior to the Merger, divided by (ii) 0.51, multiplied by (iii) 0.49. Although the number of International Paper shares of common stock outstanding may increase or decrease prior to the record date and as a result the distribution ratio may change, it will nonetheless result in International Paper shareholders owning approximately 51%, and the UWWH Stockholder owning approximately 49%, of the shares of SpinCo common stock on a fully-diluted basis immediately following the Merger. Immediately following the Distribution, but prior to the Merger, International Paper s shareholders will own all of the shares of common stock of SpinCo outstanding. You will not be required to make any payment, surrender or exchange your International Paper common stock or take any other action to receive your shares of SpinCo common stock. In lieu of fractional shares of SpinCo, shareholders will receive a cash payment. To that end, the distribution agent will sell whole shares that otherwise would have been distributed as fractional shares of SpinCo in the open market at prevailing market prices and distribute the aggregate cash proceeds of the sales, net of brokerage fees and similar costs, pro rata to each International Paper shareholder who would otherwise have been entitled to receive a fractional share of SpinCo, as applicable, in the Distribution.

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We expect that the Distribution and the Merger will be tax-free to International Paper s shareholders for U.S. federal income tax purposes, except for any gain or loss attributable to cash received in lieu of a fractional share in the Distribution. Immediately after the Transactions, we will be an independent, publicly-traded company that will own and operate the combined businesses of xpedx and Unisource.

You may contact International Paper with any questions. International Paper s contact information is:

International Paper Company

Attn: Investor Relations

6400 Poplar Ave.

Memphis, TN 38197

Tel: (901) 419-4352

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QUESTIONS AND ANSWERS ABOUT THE TRANSACTIONS

Set forth below are commonly asked questions and answers about the Distribution, the Merger and the transactions contemplated thereby. You should read the sections entitled The Transactions, The Merger Agreement and The Contribution and Distribution Agreement and the Ancillary Agreements of this prospectus for a more detailed description of the matters described below.

Q: What are the Transactions?

A: The Distribution is the final step in the separation of the xpedx business from International Paper, which will be accomplished through a series of transactions that will result in International Paper s shareholders owning approximately 51% of the shares of common stock of SpinCo, with SpinCo in turn holding the xpedx business, which is currently operated by International Paper. The Distribution will be a pro rata distribution immediately prior to the consummation of the Merger of all the then outstanding shares of common stock of SpinCo by International Paper to holders of International Paper common stock. Under the terms of the Merger Agreement, immediately following the Distribution, UWWH will merge with and into SpinCo, with SpinCo continuing as the surviving corporation, and xpedx Intermediate will merge with and into UWW, with UWW surviving the merger as a wholly-owned subsidiary of SpinCo. As a result of the Merger, the UWWH Stockholder will receive a number of shares of SpinCo common stock for each share of UWWH common stock that it holds at the time of the Merger in a private placement transaction. This will result in International Paper s shareholders owning approximately 51%, and the UWWH Stockholder owning approximately 49%, of the common stock of SpinCo on a fully-diluted basis immediately following the Merger.

Q: What is SpinCo?

A: SpinCo is a wholly-owned subsidiary of International Paper incorporated under the laws of Delaware. Following the Transactions, SpinCo will be an independent, publicly-traded company operating through its subsidiaries what was formerly International Paper s xpedx business and Unisource s business.

Q: What is the reason for the Transactions?

A: International Paper determined that the Transactions would be in the best interests of International Paper and its shareholders because the Transactions would provide a number of key benefits, including primarily: (i) greater strategic focus of resources and management s efforts for each of International Paper and for the combined company, (ii) the special payment, (iii) direct and differentiated access by each of International Paper and the combined company to capital resources and (iv) increased value to International Paper s shareholders, in particular the combined company s anticipated value on a stand-alone basis. In assessing and approving the Transactions, International Paper considered the unavailability of alternative transactions that would produce similar or better results for International Paper and its shareholders, and the spinoff s facilitating the strategic combination of the xpedx and Unisource businesses. See The Transactions International Paper s Reasons for the Transactions.

Q: Why did International Paper decide not to separate SpinCo into a stand-alone public company and instead engage in the Transactions with Unisource?

A: International Paper decided to pursue the Transactions with Unisource rather than a stand-alone spin-off or split-off transaction involving the xpedx business because it determined that the expected value to International Paper and its shareholders from pursuing the Transactions was greater than the value to International Paper and its shareholders of a stand-alone spin-off or split-off of the xpedx business. The principal factor considered by International Paper in reaching this decision, in addition to the factors noted above, was Unisource s business and prospects, after giving effect to the proposed acquisition by SpinCo, including expected synergies to be realized as a result of a combination of xpedx and Unisource.

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The principal countervailing factors considered by International Paper in its deliberations concerning the Transactions were:

- the fact that the Unisource transaction necessarily involved another party and therefore presented execution risks that would not be present in a single party transaction like a spin-off or split-off;

- the possibility that the Unisource business will not perform in the anticipated manner; and

- risks relating to integrating the xpedx business with Unisource s current operations and the potential effects on the value of SpinCo common stock to be received in the Transactions.

After consideration of the above factors and based on information furnished by Unisource to International Paper, particularly in respect of synergies SpinCo expected to realize in the Transactions, and the terms of the Transaction Agreements as finally negotiated by International Paper, International Paper concluded that the expected value to International Paper and its shareholders from pursuing the Transactions was greater than the value to International Paper and its shareholders of a stand-alone spin-off or split-off of the xpedx business. See The Transactions.

Q: What will I receive in the Transactions?

A: Each share of International Paper common stock outstanding as of the record date will entitle its holder to receive a number of shares of SpinCo common stock, as determined by a formula based on the number of International Paper shares of common stock outstanding at 5:00 p.m., New York City time, on the record date. Each such holder will receive a number of SpinCo shares of common stock equal to the percentage of the total number of SpinCo shares of common stock outstanding as of the time of the Distribution as is equal to a fraction, (a) the numerator of which is the total number of issued and outstanding International Paper shares of common stock held by such holder as of the record date and (b) the denominator of which is the total number of International Paper shares of common stock issued and outstanding as of the record date (excluding treasury shares held by International Paper and any other International Paper shares otherwise held by International Paper or one of its subsidiaries). Based on the number of International Paper shares of common stock outstanding as of June 9, 2014, we expect the distribution ratio to be approximately 0.0188 SpinCo shares for each International Paper share of common stock. Although the number of International Paper shares of common stock outstanding may increase or decrease prior to the record date and as a result this distribution ratio may change, it will nonetheless result in International Paper shareholders owning approximately 51%, and the UWWH Stockholder owning approximately 49%, of the common stock of SpinCo on a fully-diluted basis immediately following the Merger. International Paper shareholders will not receive any new shares of common stock of SpinCo in the Merger and will continue to hold the SpinCo shares they received in the Distribution.

Q: What International Paper shareholder approvals are required?

A: None. No International Paper shareholder approvals are required for the Transactions. International Paper, as the sole shareholder of SpinCo and the sole member of xpedx Intermediate, must approve the Merger and the Subsidiary Merger, the UWWH Stockholder must approve the Merger and UWW s sole shareholder must approve the Subsidiary Merger, which each of them did promptly after the Merger Agreement was signed. International Paper shareholders are not required to take any action to approve the Distribution or the Merger. After the Merger, SpinCo will mail to the holders of International Paper common stock who are entitled to receive shares of SpinCo common stock book-entry statements evidencing their ownership of SpinCo common stock, cash payments in lieu of fractional shares (if any) and related tax information, and other information regarding their receipt of SpinCo common stock.

No International Paper shareholder will be required to pay any cash or other consideration for shares of SpinCo common stock received in the Distribution, or to surrender or exchange International Paper shares in order to receive shares of SpinCo common stock and they should not return their International Paper stock certificates. The Transactions will not result in any changes in International Paper shareholders ownership of

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International Paper common stock. No vote of International Paper shareholders is required or sought in connection with the Distribution or Merger, and International Paper shareholders will have no appraisal rights in connection with the Transactions.

Q: How will International Paper distribute SpinCo shares of common stock?

A: Holders of International Paper common stock as of the record date will receive shares of SpinCo common stock in book-entry form. See The Transactions.

Q: What is the record date for the Distribution?

A: Record ownership will be determined as of 5:00 p.m., New York City time, on June 20, 2014, which we refer to as the record date.

Q: When will the Transactions occur?

A: The date of the Distribution is expected to be on or about July 1, 2014, which we refer to as the distribution date. The Merger will occur immediately thereafter, and the Subsidiary Merger will occur immediately after the Merger. We expect that it will take the distribution agent, acting on behalf of International Paper, up to three business days after the distribution date to fully distribute our common stock to International Paper shareholders.

Q: Are there any conditions to the consummation of the Transactions?

A: Yes, the consummation of the Transactions is subject to the satisfaction or waiver (to the extent permitted by applicable law) of a number of conditions, including (i) SpinCo s receipt of the proceeds from the special payment financing in an amount sufficient to pay the special payment, and International Paper s receipt of the special payment from SpinCo, (ii) receipt of the IRS ruling by International Paper, (iii) the International Paper board of directors receipt of a solvency opinion with respect to International Paper and SpinCo, (iv) this registration statement having been declared effective and the approval for listing on the New York Stock Exchange of SpinCo common stock to be issued in the Merger, (v) subject to certain exceptions, the accuracy of representations and warranties in the Merger Agreement, (vi) receipt of customary tax opinions and (vii) the absence of a material adverse effect on xpedx and Unisource since June 30, 2013. In addition, the consummation of the Merger is subject to the Contribution and Distribution having occurred pursuant to the terms of the Contribution and Distribution Agreement. This prospectus describes these conditions in more detail in The Merger Agreement Conditions to Consummation of the Merger and The Contribution and Distribution Agreement and the Ancillary Agreements Contribution and Distribution Agreement Conditions to the Completion of the Spin-off and Termination.

Q: What will happen to the listing of my International Paper common stock?

A: Nothing. International Paper common stock will continue to be traded on the NYSE under the symbol IP .

Q: Will the spin-off affect the trading of my International Paper common stock?

A: Until the market has fully analyzed the value of International Paper without the xpedx business, the price of International Paper common stock may fluctuate. In addition, it is anticipated that shortly before the record date and through the distribution date, there will be two markets in International Paper common stock: a regular way market and an ex-distribution market. International Paper common stock that will trade on the regular way market will trade with an entitlement to SpinCo common stock distributed pursuant to the Distribution. Stock that trades on the ex-distribution market will trade without an entitlement to SpinCo common stock distributed pursuant to the Distribution. See The Transactions Listing and Trading of Our Common Stock.

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Q: What if I want to sell my International Paper common stock or my SpinCo common stock?

A: You should consult with your financial advisors, such as your stockbroker, bank or tax advisor. Neither International Paper nor SpinCo makes any recommendations on the purchase, retention or sale of International Paper common stock or the SpinCo common stock to be distributed in the Distribution.

If you decide to sell any stock before the Distribution, you should make sure your stockbroker, bank or other nominee understands whether you want to sell your International Paper common stock or the SpinCo common stock you will receive in the Distribution or both. If you sell your International Paper common stock in the regular way market up to and including the distribution date, you will be selling your right to receive SpinCo common stock in the Distribution. However, if you own International Paper common stock as of 5:00 p.m., New York City time, on the record date and sell those shares in the ex-distribution market up to and including the distribution date, you will still receive the SpinCo common stock that you would be entitled to receive in respect of the International Paper common stock you owned as of 5:00 p.m., New York City time, on the record date. See The Transactions Listing and Trading of our Common Stock.

Q: How will fractional shares be treated in the spin-off?

A: Holders of International Paper common stock will not receive fractional shares in connection with the spin-off. Instead, the distribution agent will sell whole shares that otherwise would have been distributed as fractional shares of SpinCo in the open market at prevailing market prices and distribute the aggregate cash proceeds of the sales, net of brokerage fees and similar costs, pro rata to each International Paper shareholder who would otherwise have been entitled to receive a fractional share in the Distribution. The receipt of cash in lieu of fractional shares will generally be taxable to the recipient shareholder. See The Transactions Manner of Effecting the Distribution.

Q: Who will serve on the board of directors of the combined company?

A: Pursuant to the terms of the Contribution and Distribution Agreement, immediately prior to the distribution date, International Paper will cause to be elected the following individuals who have been agreed upon by International Paper and the UWWH Stockholder as the initial members of SpinCo s board of directors: Allan R. Dragone, Jr., Daniel T. Henry, Mary A. Laschinger, Tracy A. Leinbach, Seth A. Meisel, William E. Mitchell, Michael P. Muldowney, Charles G. Ward, III and John J. Zillmer. Pursuant to the terms of the Merger Agreement, these individuals will constitute the board of directors of SpinCo following the Merger, and the majority of SpinCo s directors will be independent, as determined in accordance with the criteria for independence required by the NYSE. See Management of SpinCo Following the Transactions Directors.

Q: Who will manage the business of the combined company following the Merger?

A: Following the Merger, the business of the combined company will be managed by Mary A. Laschinger, a current Senior Vice President of International Paper and President of xpedx who will be Chief Executive Officer and Chairman of the combined company. The senior management of the combined company will also include Stephen J. Smith, Senior Vice President and Chief Financial Officer; Charles B. Henry, Senior Vice President Integration and Change Management; Mark W. Hianik, Senior Vice President, General Counsel and Corporate Secretary; Timothy D. Kutz, Senior Vice President Supply Chain; Thomas S. Lazzaro, Senior Vice President Field Sales and Operations; Joseph B. Myers, Senior Vice President Facility Solutions, Strategy and Commercial Excellence; Barry R. Nelson, Senior Vice President Publishing and Print Management; Elizabeth Patrick, Senior Vice President and Chief Human Resources Officer; Neil Russell, Senior Vice President Corporate Affairs; Darin W. Tang, Senior Vice President Packaging; and Daniel J. Watkoske, Senior Vice President Print. See Management of SpinCo Following the

Transactions Executive Officers.

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Q: What will be the indebtedness of the combined company following completion of the Transactions?

A: In connection with the Transactions, assuming the closing of the Transactions as of March 31, 2014, subsidiaries of SpinCo will incur an amount of indebtedness equal to approximately $698.9 million. This indebtedness will consist of borrowings under the ABL Facility, which will be used to fund the special payment to International Paper, described below, to repay certain outstanding indebtedness of Unisource and to pay related fees and expenses. Based upon Unisource s outstanding indebtedness as of March 31, 2014, assuming the closing of the Transactions as of March 31, 2014, we expect that, immediately following the Merger, the combined company will have approximately $791.6 million in total indebtedness, including the new borrowings of $698.9 million under the ABL Facility, $70.5 million of capital lease obligations (exclusive of the non-monetary portion) and $22.2 million of Unisource Canadian bank overdrafts. See Capitalization.

Q: What is the current relationship between SpinCo and both International Paper and Unisource?

A: SpinCo is currently a wholly-owned subsidiary of International Paper and was incorporated as a Delaware corporation in order to effect the separation of the xpedx business from International Paper. Other than in connection with the Transactions, there is currently no relationship between SpinCo and Unisource. After the Transactions, SpinCo or its subsidiaries will be a party to certain commercial arrangements with International Paper and Georgia-Pacific.

Q: How will the rights of shareholders of SpinCo and International Paper change after the Merger?

A: The rights of shareholders of SpinCo will not change as a result of the Merger. The rights of shareholders of International Paper will also remain the same as prior to the Merger, except that shareholders of International Paper will also receive shares of SpinCo common stock and cash paid in lieu of fractional shares in the Transactions.

Following the Transactions, International Paper shareholders will continue to own all of their shares of International Paper common stock. Their rights as International Paper shareholders will not change, except that their shares of International Paper common stock will represent an interest in International Paper that no longer includes the ownership and operation of the xpedx business (but will include receipt by International Paper of the special payment). International Paper shareholders will also separately own stock of the combined company, which will include the combined business operations of Unisource and xpedx.

Q: Will the Transactions affect employees and former employees of International Paper who hold International Paper stock options and other stock-based awards?

A: International Paper granted stock options in 2004, which have expiration dates of May 10, 2014 and October 11, 2014. These options are currently fully vested. Employees of International Paper who hold International Paper options will retain the options and will not be granted SpinCo options (as replacement for such International Paper options) in connection with the Transactions. No adjustment to International Paper options or exercise prices will be made by reason of the Transactions. Any outstanding options held by employees of International Paper who will be employed by SpinCo following the closing of the Transactions will be treated by International Paper in accordance with the terms of the relevant International Paper equity incentive plan as though each employee incurred a termination of employment without cause from International Paper as of the closing of the Transactions.

Certain International Paper employees hold International Paper Performance Share Plan (PSP) awards pursuant to which an employee has been granted units that are paid in International Paper common stock at the end of a three-year period. The amounts earned under the PSP fluctuate based on the performance of International Paper, measured at the end of each year in the three-year period. No adjustment to the performance metrics of the PSP awards by reason of the Transactions is currently contemplated. International Paper

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employees who will be employed by SpinCo following the Transactions will continue to hold the 2012, 2013, and 2014 grants through the remainder of the performance period. The amounts to which these individuals will be entitled will be based on International Paper s actual performance during the performance period but will be prorated based on the period of time from the grant date through the occurrence of the Transactions. Payments in respect of these awards will be paid in February of the year following the end of the relevant three-year period (e.g., the employee s pro rata portion of the 2012 grant will be paid in February 2015).

Certain employees of International Paper also hold restricted shares of International Paper common stock. No SpinCo shares will be received by holders of restricted shares, nor will there be any adjustment to International Paper restricted stock made for the value of SpinCo. Other than Mary A. Laschinger, Chief Executive Officer of SpinCo, no employee of the xpedx business currently holds International Paper restricted stock awards. The awards of restricted stock currently held by Ms. Laschinger will vest by reason of the Transactions.

Q: Will there be any payments by SpinCo to International Paper in connection with the Distribution?

A: Yes, pursuant to the Contribution and Distribution Agreement, SpinCo is required to make a special payment to International Paper of $400 million, subject to adjustment based on estimates of changes in the net working capital and net indebtedness of the xpedx business and Unisource, and the transaction expenses of Unisource. If the sum of the changes in net working capital and net indebtedness of the xpedx business represents a positive change in the value of the xpedx business, the special payment to International Paper will be increased by such amount. If that amount represents a negative change in the value of the xpedx business, the special payment to International Paper will be reduced by such amount. Pursuant to the Contribution and Distribution Agreement and the Merger Agreement, if the sum of the Unisource transaction expenses in excess of $15 million and changes in the net working capital and net indebtedness of Unisource represents a positive change in the value of Unisource, SpinCo will pay such amount to the UWWH Stockholder. If that amount represents a negative change in the value of Unisource, the special payment to International Paper will be increased by a corresponding amount. See The Contribution and Distribution Agreement and the Ancillary Agreements Contribution and Distribution Agreement Working Capital and Net Indebtedness Adjustments.

Q: Will there be post-closing adjustments in connection with the Distribution?

A: Yes, pursuant to the Contribution and Distribution Agreement and the Merger Agreement, after the Merger, the parties will determine the actual amount of Unisource transaction expenses, net working capital and net indebtedness and, if such actual amounts differ from the estimated amounts, a corresponding payment will be made to the applicable party. See The Contribution and Distribution Agreement and the Ancillary Agreements Contribution and Distribution Agreement Working Capital and Net Indebtedness Adjustments.

Q: What are the U.S. federal income tax consequences to me of the Distribution?

A: International Paper has received the IRS ruling to the effect that the Distribution will qualify as tax-free under Sections 355 and 361 of the Code. The IRS ruling also provides that the Merger, the Subsidiary Merger and certain internal transactions undertaken in anticipation of the Distribution will qualify for tax-free treatment under the Code. In addition to obtaining the IRS ruling, International Paper expects to receive an opinion from Debevoise confirming the tax-free status of the Distribution for U.S. federal income tax purposes, which opinion will rely on the IRS ruling as to matters covered by the IRS ruling. The IRS ruling and such opinion will rely on certain facts and assumptions, and certain representations and undertakings, provided by us, International Paper and Unisource regarding the past and future conduct of our business and other matters.

Assuming that the Distribution qualifies as tax-free under Section 355 of the Code, for U.S. federal income tax purposes no gain or loss will be recognized by an International Paper shareholder upon the receipt of our common stock pursuant to the Distribution, except for any gain or loss attributable to cash received in lieu of a fractional share. International Paper shareholders will not recognize any gain or loss for U.S. federal income tax purposes as a result of the Merger.

See The Transactions Material U.S. Federal Income Tax Consequences of the Transactions and Risk Factors Risks Relating to the Transactions If the spin-off does not qualify as a tax-free spin-off under Section 355 of the Code, including as a result of subsequent acquisitions of stock of International Paper or SpinCo, then International Paper and/or the International Paper shareholders may be required to pay substantial U.S. federal income taxes.

Each International Paper shareholder is urged to consult his, her or its tax advisor as to the specific tax consequences of the Distribution or the Merger to that shareholder, including the effect of any state, local or non-U.S. tax laws and of changes in applicable tax laws.

Q: How will I determine the tax basis I will have in the SpinCo shares of common stock I receive in this distribution?

A: Generally, for U.S. federal income tax purposes, your aggregate basis in the shares of common stock you hold in International Paper and the new shares of SpinCo common stock received in the Distribution (including any fractional shares in SpinCo for which cash is received) will equal the aggregate basis of International Paper common stock held by you immediately before the Distribution. This aggregate basis will be allocated among your International Paper common stock and the SpinCo common stock you receive in the Distribution (including any fractional shares in SpinCo for which cash is received), in proportion to the relative fair market value of each immediately following the Distribution. See The Transactions Material U.S. Federal Income Tax Consequences of the Transactions for more information.

Q: Does SpinCo intend to pay cash dividends?

A: No, we do not currently expect to declare or pay dividends on our common stock for the foreseeable future. See Dividend Policy. Furthermore, we are restricted under the Contribution and Distribution Agreement from declaring or paying special dividends through the second anniversary of the Closing Date (or, in certain circumstances, January 1, 2016). See The Contribution and Distribution Agreement and The Ancillary Agreements Contribution and Distribution Agreement Additional Post-Closing Covenants.

Q: How will SpinCo shares trade?

A: Currently, there is no public market for our common stock. We have been approved to list our common stock on the NYSE under the symbol VRTV .

We anticipate that trading will commence on a when-issued basis on or shortly prior to the record date and before the distribution date. When-issued trading in the context of a spin-off refers to a sale or purchase of securities effected on or before the distribution date and made conditionally because the securities of the spun-off entity have not yet been distributed. When-issued trades generally settle within four trading days of the distribution date. On the first trading day following the distribution date, any when-issued trading in respect of SpinCo common stock will end and regular-way trading will begin. Regular-way trading refers to trading after the security has been distributed and typically involves a trade that settles on the third full trading day following the date of the sale transactions. See The Transactions Listing and Trading of Our Common Stock.

Q: Do I have appraisal rights?

A: No. Holders of International Paper common stock are not entitled to appraisal rights in connection with the Transactions.

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Q: Who will be the transfer agent for SpinCo shares?

A: Computershare Inc. will be the transfer agent for SpinCo shares.

Q: Are there risks associated with owning SpinCo common stock upon consummation of the Transactions?

A: Our business is subject to both general and specific risks and uncertainties relating to the xpedx business and Unisource s business. Our business is also subject to risks relating to the Transactions. Accordingly, you should read carefully the information set forth in the section entitled Risk Factors.

Q: Where can I get more information?

A: If you have any questions relating to the mechanics of the Distribution, you should contact the distribution agent at:

Computershare Inc.

250 Royall Street

Canton, MA 02021

Tel: (800) 522-6645

Before the Distribution and the Merger, if you have any questions relating to the Distribution or the Merger, you should contact International Paper at:

International Paper Company

Attn: Investor Relations

6400 Poplar Ave.

Memphis, TN 38197

Tel: (901) 419-4352

www.internationalpaper.com

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus relating to the Transactions. You should read this entire prospectus including the risk factors, our and Unisource s management s discussion and analysis of financial condition and results of operations, our and Unisource s historical financial statements, and our unaudited pro forma condensed combined financial statements and the respective notes to those historical and pro forma financial statements.

Our historical combined financial data have been prepared on a carve-out basis to reflect the operations, financial condition and cash flows specifically allocable to the xpedx business of International Paper during all periods shown. Our pro forma combined financial data adjust our historical combined financial data to give effect to the Transactions and our anticipated post-Transactions capital structure.

Except as otherwise indicated or the context otherwise requires, the information included in this prospectus assumes the completion of the Transactions.

The Companies

xpedx

xpedx is a leading business-to-business printing, packaging and facility supplies and equipment distribution business. Through its three operating segments, Print, Packaging and Facility Solutions, xpedx offers an extensive portfolio of nationally recognized, high quality public and private brands of paper, graphics, packaging and facility supplies primarily in the United States and Mexico.

The Print segment includes the sale and distribution of printing and communication papers, publishing papers, digital papers, specialty papers, graphics consumables, wide format papers and substrates, graphics equipment and related equipment installation and service. The Packaging segment includes the design, sourcing, sale and distribution of customized packaging and packing equipment and the sale and distribution of custom and standard corrugated boxes, shrink and stretch films, tape, strapping, cushioning, labels, bags, mailers, molded fiber, bio-polymer and plastics and packaging equipment and related equipment installation and service. The packaging segment also includes fulfillment and contract packaging services. The Facility Solutions segment markets and sells products necessary to maintain large public facilities, including hand towel and bathroom tissue, cleaning chemicals, disinfectants, skin care products, safety and hazard products, trash bags and receptacles, sanitary maintenance supplies, facilities maintenance equipment and related equipment installation and service.

Products and equipment are sourced from approximately 6,000 vendors in the United States and approximately 600 vendors in Mexico as of December 31, 2013, with xpedx serving as an important distribution channel for these vendors. As of December 31, 2013, the xpedx network consists of 86 strategically located distribution centers in 39 states and Mexico and a fleet of approximately 1,500 trucks and trailers travelling approximately 32 million miles annually in the United States. xpedx markets and distributed these supplies, products and services to more than 58,000 customer locations as of December 31, 2013, including printers, publishers, data centers, manufacturers, higher education institutions, contract packaging/fulfillment providers, healthcare facilities, print design agencies, sporting and performance arenas, retail stores, government agencies, property managers and building service contractors, through more than 1,150 sales professionals, equipment representatives and service technicians.

Unisource

Unisource is a leading distributor of printing and business paper products, packaging supplies and equipment, and facility supplies and equipment, primarily in the United States and Canada, with additional international operations in Europe, Asia and Latin America. Through its six business units, U.S. Distribution, Canada Distribution, Graphic Communications, Rollsource, PaperPlus and Unisource Global Solutions, Unisource operates in four primary product categories: Print, Packaging, Facility Supplies and Other.

The Print product category includes the sale and distribution of high-quality commercial printing, writing, copying and digital printing paper to commercial printers, retailers, publishers, business form manufacturers, direct mail firms and the digital printing industry, as well as corporate and retail copy centers, in-plant print facilities, government institutions and other paper-intensive businesses. The Packaging product category includes the sale and distribution of consumer goods packaging, packaging for industrial or manufacturing components and point-of-sale displays, as well as the sale and distribution of single function or fully automated packaging machines. The Facility Supplies product category includes the sale and distribution of products such as towels, tissues, wipers and dispensers, can liners, commercial cleaning chemicals, soaps and sanitizers, sanitary maintenance supplies and equipment, safety and hazard supplies, and shampoos and amenities from leading manufacturers. In the Other category, Unisource provides third-party logistics services, which includes freight brokerage, material handling, warehousing and kitting.

Products and equipment are sourced in North America, Europe and Asia from approximately 2,800 vendors in the United States, approximately 600 vendors in Canada and approximately 100 vendors in Europe and Asia, with Unisource serving as an important North American distribution channel for many of these vendors. Unisource sells its products to a diverse customer base of approximately 48,000 customers, based on customer bill-to locations, including building service contractors, catalog and direct mail providers, commercial printers, consumer goods providers, cruise lines, food processors, healthcare providers, higher education institutions, government agencies, fulfillment, hotels and resorts, manufacturers and property managers, through approximately 760 sales representatives. Unisource provides supply chain management through its 93 distribution centers, providing next-day services to most major metropolitan areas in the United States and Canada.

Transaction Rationale

Size and Scale

By combining two well-established businesses, we anticipate that the Transactions will create a North American business-to-business distribution company with a broad geographic reach, extensive product offerings and a differentiated and leading service platform. On a combined basis, the two companies conduct business with more than half of the Fortune 500 companies and their subsidiaries in the United States and Canada. We expect the Transactions to strengthen the combined company s relationships with suppliers and customers by:

- expanding our reach to multi-location customers that value a broader, national footprint;
- enhancing our supply chain capabilities with greater scale; and
- providing greater sourcing strategies.

Expertise

We anticipate that the combined company will be able to deliver a greater breadth of expertise in the following:

Print a fully integrated national distributor with expertise in paper, graphics, equipment and print management. On a combined basis, management estimates that coated paper, uncoated paper, text, cover and writing, coated board and carbonless would have been the combined company s top five product categories in the print market in 2013 and would have represented approximately 49%, 29%, 9%, 3% and 3% of sales, respectively;

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Packaging a full service platform for designing, sourcing and delivering commodity and specialty packaging, which we believe will enable the combined company to provide solutions to customers at every point in the packaging process, including design, engineering, materials, equipment, workflow and logistics. On a combined basis, management estimates corrugated, support materials, films, cushioning and tapes would have been the combined company s top five product categories in the packaging market in 2013 and would have represented approximately 24%, 24%, 18%, 9% and 9% of sales, respectively;

Facility Solutions a comprehensive facility solution to help customers maintain a safe, clean, healthy and productive environment. On a combined basis, management estimates towels, tissues and wipes, food service, chemicals (cleaning), can liners and office and school supplies would have been the combined company s top five product categories in the facilities solutions market in 2013 and would have represented approximately 33%, 21%, 9%, 8% and 8% of sales, respectively; and

Other a third-party logistics service, including supply chain solutions, freight brokerage, warehousing and kitting.

Synergies

We expect that the Merger will provide significant opportunities for the combined company to capture cost savings and other synergies. We are targeting annual cost savings and other synergies in the range of approximately $150 million to $225 million, which we anticipate will be fully realized by the end of 2018. We anticipate cost savings and other synergies in the following areas: overhead, strategic sourcing, supply chain efficiencies, optimizing the ability to service customers and reduction of fixed costs (e.g. warehouse rationalization). We currently expect the one-time costs associated with achieving these cost savings and other synergies to be approximately $225 million over a five-year period. We currently expect to realize 15-25% of the net synergies from this transaction in fiscal 2015, 50-60% in fiscal 2016 and 80-90% in fiscal 2017.

Stable Platform with Improved Strategic Prospects

We expect that the combination of xpedx and Unisource will strengthen the combined company s overall business platform and provide improved opportunities for strategic options as a combined enterprise. Additional advantages to the combination include:

xpedx s and Unisource s complementary businesses;

minimal customer overlap between the businesses;

strong relationships with each company s customers and suppliers;

better positioning the combined company to manage through the secular decline in the print segment; and an enterprise better able to take advantage of strategic opportunities, including acquisitions.

Strategies

Following the completion of the Transactions, we intend to enhance the combined company s strong market position by implementing the following key elements of our business strategy:

Continue to Pursue Distribution Excellence

We believe the combined company s supply chain and enterprise capabilities will enhance its customer and supplier relationships and enable it to maintain the strong market positions that the xpedx and Unisource businesses enjoy in the print, packaging and facilities solutions markets. The combined company intends to foster a culture of continuous improvement to drive its employees to provide exceptional value to customers and suppliers.

Capitalize on Growth Opportunities to Maintain Leadership Position

Print: We expect the combined company to leverage its scale and leading market position to continue to offer a comprehensive selection of paper products to its customers and to seek operational efficiencies.

Packaging: We expect that the combined company will focus on providing value-added services to its customers, including kitting and packaging design. The combined company expects to expand its packaging design capabilities through design centers which allow customers to design custom packaging, environmentally-friendly products and molded fiber solutions. The combined company also plans to increase the number of sales professionals to help accelerate growth in this business segment as demand for packaging expands. The combined company believes its national footprint will allow it to effectively serve its customers.

Facility Solutions: The facilities solutions businesses of both xpedx and Unisource have historically provided customers with a wide range of products, including products under private label brands, a higher margin business that we expect the combined company will seek to grow. We also believe the facility solutions segment will provide opportunities for the combined company to cross-sell its products to Packaging customers and leverage its national footprint to serve large customers.

Maintain Sales and Improve Profitability

The combined company expects to focus on achieving the cost savings and synergies presented by combining the xpedx and Unisource businesses, including streamlining the combined company to eliminate redundancies. While we expect that sales for the combined company will be relatively flat over the next few years with some variation within the segments, we anticipate the combined company will concentrate on opportunities to grow its sales and improve profitability. Management of the combined company further expects that Adjusted EBITDA in 2014 for the combined business will be approximately $135 million to $145 million, and expects incremental annual improvements in Adjusted EBITDA over the next few years, with an expected improvement of approximately $100 million by the end of 2017, driven primarily by anticipated realization of cost savings and synergies. No assurances can be given that the combined company will achieve these results. See Risk Factors Risks Relating to the Transactions Actual results may be materially lower than the financial forecasts contained in this prospectus.

Industry Overview

We expect that the consummation of the Transactions will create a North American market leader by combining two leaders of the printing, packaging and facility supplies and equipment distribution business. We believe over the next several years the packaging and facilities solutions markets will experience moderate growth while the print market will remain flat or decline, triggering a shift in business mix to higher margin growth segments. The markets we serve are highly fragmented, which we believe will allow the combined company to leverage its scale to expand.

Print

The print market has declined over the last few years as demand for paper and related products has waned due to the widespread use of email and permanent product substitution. Despite these challenges, we expect the combined company to capitalize on emerging trends, including wide format printing, synthetic substrates, direct sales to corporate end users and the demand from retail and small order printers. In addition, we expect the combined company will have a leading market position in the fragmented print market. The combined company would have accounted for more than one-third of the distributor-served print market in the United States and Canada in 2013, based on industry data from the American Forest and Paper Association, and RISI and internal management estimates of revenue and volume. Management believes that the combined company s

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approximate 20% to 30% market share of the wider print market (excluding newsprint), inclusive of both distributor-served and direct-from-manufacturer represents an opportunity to grow share in underserved channels. Management estimates that on a combined basis, printing and publishing, retail trade, manufacturing, distribution and graphic design and advertising would have been the combined company s top five end markets in the print market in fiscal 2013 and would have represented approximately 46%, 14%, 4%, 4% and 4% of sales, respectively.

Packaging

The packaging market includes, among other products and services, the design, sourcing, sale and distribution of customized multi-substrate packaging and packaging equipment and the sale and distribution of custom and standard corrugated boxes. Packaging consumption in North America in 2012 was estimated to be valued at more than $170 billion. Of that, paperboard, flexible packaging and other packaging materials was valued at more than $90 billion, giving the combined company an estimated market share of less than 3%. The distributor-served share of the packaging market is low, giving a market participant that brings high levels of value and service, along with access to many manufacturers and substrates, an opportunity to increase its share.

The paperboard packaging market is dominated by corrugated packaging. Based on management s estimates, the North American market for corrugated packaging was worth more than $35 billion in 2012, giving the combined company an estimated market share of less than 2%. Demand for corrugated packaging is expected to increase over the next five years, according to industry sources. Management estimates that on a combined basis, manufacturing, retail trade, food manufacturing, distribution and transporting and warehousing would have been the combined company s top five end markets in the packaging market in fiscal 2013 and would have represented approximately 24%, 12%, 10%, 10% and 8% of sales, respectively.

Facility Solutions

The downstream markets that have driven, and which we expect will continue to drive, growth in the facility solutions distribution industry, include janitorial/building services, higher education and healthcare. Increased enrollment in higher education and the aging United States population has led to increased demand for janitorial supplies in these institutional environments. We expect that the combined company s vast product catalog, customized site surveys for higher education environments and team of healthcare facility advisors, combined with its approximate 6% market share in the United States and Canada in 2012, position it to be a leader in the growing facilities solutions market. Management estimates that on a combined basis, retail trade, distribution, entertainment and hospitality, manufacturing and healthcare would have been the combined company s top five end markets in the facilities solutions market in fiscal 2013 and would have represented approximately 23%, 14%, 9%, 8% and 7% of sales, respectively.

Risk Factors

We face numerous risks related to, among other things, our business operations, our strategies, general economic conditions, competitive dynamics of the industry, our level of indebtedness, the legal and regulatory environment in which we operate, and our status as an independent public company following the Transactions. These risks are set forth in detail under the heading Risk Factors. If any of these risks should materialize, they could have a material adverse effect on our business, financial condition, results of operations or cash flows. We encourage you to review these risk factors carefully. Furthermore, this prospectus contains forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those under the headings Risk Factors and Note Regarding Forward-Looking Statements and Information.

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Summary of the Transactions

We provide below a summary of the Transactions. See The Transactions for a more detailed description.

The following chart illustrates our organizational structure following the Transactions.

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The Distribution

Distributing company	International Paper Company. After the Distribution, International Paper will not own any shares of SpinCo.
Distributed company	Veritiv Corporation, referred to herein as SpinCo.
Record date	Record ownership will be determined as of 5:00 p.m., New York City time, on June 20, 2014.
Distribution date	The distribution date is expected to be on or about July 1, 2014.
Distribution ratio	Each share of International Paper common stock outstanding as of the record date will entitle its holder to receive a number of shares of SpinCo common stock determined by a formula based on the number of International Paper shares of common stock outstanding at 5:00 p.m. New York City time, on the record date. Each such holder will receive a number of SpinCo shares of common stock equal to the percentage of the total number of SpinCo shares of common stock outstanding as of the time of the Distribution as is equal to a fraction, (a) the numerator of which is the total number of issued and outstanding International Paper shares of common stock held by such holder as of the record date and (b) the denominator of which is the total number of International Paper shares of common stock issued and outstanding as of the record date (excluding treasury shares held by International Paper and any other International Paper shares otherwise held by International Paper or one of its subsidiaries). Based on the number of International Paper shares of common stock outstanding as of June 9, 2014, we expect the distribution ratio to be approximately 0.0188 shares of SpinCo common stock for each share of International Paper common stock. Promptly after the record date, we will issue a press release disclosing the actual distribution ratio. Although the number of International Paper shares of common stock outstanding may increase or decrease prior to the record date and as a result the distribution ratio may change, it will nonetheless result in International Paper shareholders as of the record date and their transferees owning approximately 51%, and the UWWH Stockholder owning approximately 49%, of the shares of SpinCo common stock on a fully-diluted basis immediately following the Merger.
Securities to be distributed	All of the shares of common stock of SpinCo outstanding immediately prior to the Merger will be distributed pro rata to International Paper

shareholders who hold International Paper common stock as of the record date. On the distribution date, 8,160,000 shares of our common stock will be distributed to International Paper shareholders. The number of SpinCo shares that International Paper will ultimately distribute to its shareholders will be reduced11.

The material coating and automated shoecover facility associated with the Disposable Protective Apparel segment is located at 2224 Cypress Street, Valdosta, Georgia. The monthly rent is $4,000 for 35,000 square feet. This lease expired in February 2011, at which time we consolidated this operation into the Building Supply segment manufacturing facility.

The Building Supply segment manufacturing facility is located at 301 South Blanchard Street, Valdosta, Georgia. The monthly rent is $36,000 for 165,400 square feet. The new lease will expire in 2020. The addition of 114,600 square feet was completed in the fourth quarter of 2010.

The Company manufactures 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, 2013. The Company also subleases a 26,000 square foot warehouse for $5,000 per month at 1730 South 4650 West, Salt Lake City, Utah. This sublease is month to month.

The Company s medical bed pad and pet bed manufacturing facility is located at 951 Todd Drive, Janesville, Wisconsin. This 18,000 square foot facility is leased for $8,000 per month, which includes taxes and utilities. This lease expires on August 31, 2011.

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

Item 3. Legal Proceedings.

There are no pending legal proceedings against the Company.

Item 4. Removed and Reserved.

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 AMEX LLC (formerly the American Stock Exchange) (the NYSE Amex) under the symbol APT .

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The following table sets forth the low and high sales prices of the Company s common stock for the periods indicated, as reported by the NYSE Amex.

	Low		High	
2009				
First Quarter	$	0.75	$	1.04
Second Quarter		0.98		2.22
Third Quarter		2.00		6.10
Fourth Quarter		3.90		7.60
2010				
First Quarter	$	2.30	$	4.72
Second Quarter		1.75		2.51
Third Quarter		1.42		2.10
Fourth Quarter		1.50		2.02
2011				
First Quarter	$	1.42	$	1.89
(Through March 10, 2011)				

As of March 10, 2011, there were 244 shareholders of record, and approximately 7,287 beneficial owners.

DIVIDEND POLICY

The holders of the Company s common stock are entitled to receive such dividends as may be declared by the Board of Directors of the Company from time to time to the extent that funds are legally available for payment thereof. The Company has never declared or paid any dividends on any of its outstanding shares of common stock. It is the current policy of the Board of Directors to retain any earnings to provide for the development and growth of the Company. Consequently, the Company has no intention to pay cash dividends in the foreseeable future.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth purchases made by or on behalf of the Company or any affiliated purchaser , as defined in Rule 10b-18 (a)(3) of the Securities Exchange Act of 1934 (the Exchange Act), during the fourth quarter of 2010.

Issuer Purchases of Equity Securities

Period

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs (1)
October 1-31, 2010				$ 2,862,000
November 1-30, 2010				$ 2,862,000
December 1-31, 2010				$ 2,862,000
Total				$ 2,862,000

(1) On February 8, 2010, the Company announced that the Board of Directors had authorized a $2.0 million expansion of the Company s existing share repurchase program. Under the share repurchase program, the Company is authorized to repurchase up to a total of $10,520,000 of common stock.

UNREGISTERED SALES OF EQUITY AND SECURITIES AND USE OF PROCEEDS

We did not sell any unregistered equity securities during the period covered by this Form 10-K.

Item 6. Selected Financial Data

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

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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 variat such words or similar expressions are intended to identify forward-looking statements. We may make additional forward-looking statements from time to time. All forward-looking statements, whether written or oral and whether made by us or on our behalf, also are expressly qualified by this special note.

Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors . These and many other factors could affect Alpha Pro Tech 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 Alpha Pro Tech, Ltd. or on its behalf.

Special Note Regarding Smaller Reporting Company Status

We are filing this Annual Report on Form 10-K as a smaller reporting company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended) because our public float (the aggregate market value of our common equity held by non-affiliates of the Company) was below the required threshold as of the last business day of our second fiscal quarter of 2010. As a result of being a smaller reporting company, we are allowed and have elected to omit certain information from this Management s Discussion and Analysis of Financial Condition and Results of Operations; however, we have provided all information for the periods presented that we believe to be appropriate

Critical Accounting Policies

The Financial Accounting Standards Board (FASB) recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release on July 1, 2009 of the *FASB Accounting Standards Codification* TM (the FASB ASC), which is also sometimes referred to as the Codification or the ASC . The Codification does not change how the Company accounts for its transactions or the nature of related disclosures made. To the Company, this means instead of following the rules in Statement of Financial Accounting Standard No. 123(R) (SFAS No. 123(R)), *Share-Based Payment*, we will follow the guidance in ASC 718, *Stock Compensation*. References to generally accepted accounting principles (GAAP) issued by the FASB, within Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements included elsewhere in this report are to the Codification. The FASB finalized the Codification effective for periods ending on or after September 15, 2009. Prior FASB standards like SFAS No. 123(R), *Share-Based Payment*, are no longer being issued by the FASB.

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America (United States) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the reported periods. We base estimates on past experience and on various other assumptions that are believed to be reasonable under the circumstances. The application of these accounting policies on a consistent basis enables us to provide timely and reliable financial information. Our critical accounting polices include the following:

Inventories: Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost (computed on a standard cost basis, which approximates average cost) or market. Provision is made for slow-moving, obsolete or unusable inventory. We assess our inventory for estimated obsolescence or unmarketable inventory and write down the difference between the cost of inventory and the estimated market value based upon assumptions about future sales and supply on-hand, if necessary. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Accounts Receivable: Accounts receivable are recorded at the invoice amount and do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. The Company determines the allowance based upon historical write-off experience and known conditions about customers current ability to

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pay. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

Revenue Recognition: For sales transactions, we comply with the provisions of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 104, *Revenue Recognition*, which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) title transfers and the customer assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. These criteria are satisfied upon shipment of product and revenues are recognized accordingly.

Sales Returns, 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 accrued monthly.

Stock Based Compensation: Alpha Pro Tech accounts for stock based awards using FASB 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-Merton option pricing model and are based on the following assumptions: expected stock price volatility based on historical data and management s expectations of future volatility, risk-free interest rates from published sources, years to maturity based on historical data and no dividend yield, as management currently has no intention to pay dividends in the near future. The Black-Scholes-Merton option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. In addition, the option valuation model requires the input of highly subjective assumptions, including expected stock price volatility. Our stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect their fair value.

OVERVIEW

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

Our products are grouped into three business segments: the Disposable Protective Apparel segment, consisting of disposable protective apparel; the Building Supply segment, consisting of construction weatherization products, such as housewrap and synthetic roof underlayment; and the Infection Control segment, consisting of face masks, eye shields and medical bed pads, as well as a line of pet beds. All financial information presented herein reflects the current segmentation.

As previously mentioned, on February 8, 2011, the Company entered into an asset purchase agreement with an Oklahoma limited liability company to sell its line of pet beds. As consideration for the acquired assets, the Company sold its inventory at cost, plus additional compensation for goodwill. In addition, the Company signed a three year non-compete agreement.

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, pet 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.

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RESULTS OF OPERATIONS

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

	2010	2009
Net sales	100.0%	100.0%
Gross profit	39.2%	48.4%
Selling, general and administrative expenses	33.0%	24.6%
Income from operations	4.2%	22.6%
Income before provision for income taxes	5.0%	23.2%
Net income	3.1%	15.1%

Fiscal 2010 Compared to Fiscal 2009

Sales. Consolidated sales for the twelve months ended December 31, 2010 decreased to $41,890,000, from $59,697,000, for the twelve months ended December 31, 2009, representing a decrease of $17,807,000, or 29.8%. This decrease consisted of decreased sales in the Disposable Protective Apparel segment of $6,239,000 and decreased sales in the Infection Control segment of $15,658,000, partially offset by increased sales in the Building Supply segment of $4,090,000.

Sales for the Disposable Protective Apparel segment for the twelve months ended December 31, 2010 decreased by $6,239,000, or 27.5%, to $16,462,000, compared to $22,701,000 for the same period of 2009. The decrease was primarily due to a decline in sales of disposable protective apparel to our former largest distributor. Alpha Pro Tech was informed in the first quarter of 2010 that this distributor had decided to launch its own, potentially competing, private label line of disposable protective apparel, and has made a business decision to transition away from selling Alpha Pro Tech s disposable garments to its own brand of apparel. Accordingly, we have decided to shift away from our former largest distributor as the sole distributor of our Critical Cover® protective apparel product line and to utilize a more diversified, broader, global distribution strategy. We have sold and continue to expect to sell our apparel line to our former largest distributor but at lower than current levels. This year s decrease was partially offset by increased sales to a broad base distribution network in particular to a major international supply chain partner with which we have achieved a preferred vendor status and from whom the Company received an award for Outstanding Sales Growth Results for 2010 in our category. Alpha Pro Tech is a repeat winner in this category, as the Company also won this award for our performance in 2009. Also from this major strategic channel partner, the Company received an award for Outstanding Delivery Quality for our aggregate service level performance in 2010. Alpha Pro Tech was also a finalist for Overall Supplier of the Year for 2010 across all categories. As compared to 2009, Alpha Pro Tech s sales to this same major strategic channel partner nearly doubled in 2010. As a result of our broader channel platform strategy that was launched in April of 2010, we believe that we will continue to see decreased sales from our former largest distributor, but we have aggressively grown other channels in our market space. We anticipate that this trend will continue going forward in 2011 and will be beneficial to the Company long term.

Building Supply segment sales for the twelve months ended December 31, 2010 increased by $4,090,000, or 26.8%, to $19,376,000, as compared to $15,286,000 for the same period of 2009. The segment increase of 26.8% was primarily due to a 40.4% increase in sales of REX Wrap housewrap and a 21.2% increase in sales of REX SynFelt synthetic roof underlayment. The sales mix of the Building Supply segment for the twelve months ended December 31, 2010 was 69% for synthetic roof underlayment and 31% for housewrap. This compared to 72% for synthetic roof underlayment and 28% for housewrap for the twelve months ended December 31, 2009.

Our REX SynFelt synthetic roof underlayment, we believe, is perceived as an industry leader in terms of quality and that as the market evolves from felt paper to synthetic roof underlayment, we are in a strong position to capitalize on significant growth opportunities. REX Wrap housewrap, our high-quality, multi-color printed housewrap, we believe, gives us a distinct competitive advantage in the marketplace and as a result, our market share is growing even during this weak building market and economic downturn. Discussions with potential and existing distributors have been very encouraging and we increased our Building Supply segment sales team in 2010 in anticipation of growth in the coming periods.

In addition to growth opportunities with existing products, we are also excited about the launch of our new REX Wrap Fortis housewrap; our ICC-ES approved non-perforated breathable housewrap. The non-perforated breathable housewrap market accounts for the majority of the total housewrap market, so our REX Wrap Fortis housewrap should increase our housewrap market share. Sales of the REX Wrap Fortis housewrap commenced in the fourth quarter of 2010 and should contribute to our growth in 2011 and beyond. We remain optimistic about the future of the Building Supply segment, as our distribution channel strategy continues to strengthen each quarter.

Infection Control segment sales for the twelve months ended December 31, 2010 decreased by $15,658,000, or 72.1%, to $6,052,000, compared to $21,710,000 for the same period of 2009. Mask sales were down by 76.9%, or $13,352,000, to $4,002,000, shield sales were down by 62.8%, or $2,386,000, to $1,416,000, and medical bed pad and pet bed sales were up by 14.5%, or $80,000, to $634,000, compared to the twelve months ended December 31, 2009.

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The overall mask sales decrease for 2010 is primarily due to the surge in N-95 Particulate respirator face mask sales that commenced in the second quarter of 2009 due to concerns regarding an outbreak of the H1N1 Influenza A virus. The demand for the N-95 Particulate respirator face masks decreased significantly during 2010. Shield sales were down primarily due to approximately $1.3 million in shields being shipped in 2009 from a non-recurring shield order and also due to the H1N1 Influenza A pandemic in 2009.

Gross Profit. Gross profit decreased by $12,452,000, or 43.1%, to $16,422,000 for the twelve months ended December 31, 2010 from $28,874,000 for the same period in 2009. The gross profit margin was 39.2% for the twelve months ended December 31, 2010, compared to 48.4% for the same period of 2009.

Gross profit margin for 2010 was negatively affected by the change in product mix in which Building Supply segment sales, which have lower margins, increased as a percentage of total sales and Infection Control segment sales, which have higher margins, decreased as a percentage of total sales. Building Supply segment sales comprised 46.3% of total sales for the twelve months ended December 31, 2010, compared to 25.6% for the same period of 2009. Building Supply segment sales are expected to continue to grow as a percentage of total sales in the coming periods. Infection Control segment sales comprised 14.4% of total sales for the twelve months ended December 31, 2010, as compared to 36.4% for the same period of 2009, during which we experienced significant sales of our N-95 Particulate respirator face mask due to the H1N1 Influenza A pandemic.

Gross profit margin in the Disposable Protective Apparel segment was down in the last three quarters of 2010, as compared to the same period of 2009. Our gross profit in those quarters was affected by the higher cost of inventory acquired from alternative suppliers due to our strategy of increasing inventory levels to strengthen our position in the marketplace. We do not expect to incur these higher acquisition costs on a going forward basis, but it will take us into next year to turn this inventory.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by $862,000, or 5.9%, to $13,839,000 for the twelve months ended December 31, 2010 from $14,701,000 for the twelve months ended December 31, 2009. As a percentage of net sales, selling, general and administrative expenses increased to 33.0% for the twelve months ended December 31, 2010 from 24.6% for the same period in 2009.

The decrease of $862,000 in expenses was primarily due to a $225,000 severance agreement for our previous Senior Vice President of Marketing, which was expensed during the first quarter of 2009, a decrease of $1,540,000 in executive bonuses, as discussed below, a decrease in industrial sales commissions of $200,000 and decreased general expenses of $42,000, partially offset by an increase in Building Supply segment expenses of $878,000, increased professional fees and public company expenses of $92,000, increased rent and utilities of $130,000 and increased industrial marketing expenses of $45,000. Although Building Supply segment expenses increased, as a percentage of sales they remained flat compared to last year

The Chief Executive Officer and President are each entitled to a bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense. The Chief Executive Officer and President voluntarily decided to forgo their bonuses for 2010. No executive bonuses were accrued for the twelve months ended December 31, 2010, as compared to $1,540,000 for the same period of 2009.

Depreciation and Amortization. Depreciation and amortization expense increased by $179,000, or 26.9%, to $844,000 for the twelve months ended December 31, 2010 from $665,000 for the same period in 2009. The increase for the year was primarily attributable to increased depreciation related to capital expenditures for the Building Supply segment.

Income from Operations. Income from operations decreased by $11,769,000, or 87.1%, to $1,739,000 for the twelve months ended December 31, 2010, as compared to income from operations of $13,508,000 for the twelve months ended December 31, 2009. The decrease in income from operations was due to a decrease in gross profit of $12,452,000 and an increase in depreciation and amortization of $179,000, partially offset by a decrease in selling, general and administrative expenses of $862,000.

Equity in Income of Unconsolidated Affiliates. For the twelve months ended December 31, 2010, we recorded equity in income of unconsolidated affiliates of $317,000, as compared to $333,000 for the same period of 2009.

Net Interest. For the twelve months ended December 31, 2010, net interest income was $25,000, compared to net interest income of $17,000 for the twelve months ended December 31, 2009. Interest income was $25,000 for both 2010 and 2009. Interest expense decreased to $0 for the twelve months ended December 31, 2010, compared to $8,000 for the same period of 2009.

Income before Provision for Income Taxes. Income before provision for income taxes for the twelve months ended December 31, 2010 was $2,081,000, compared to $13,858,000 for the twelve months ended December 31, 2009, representing a decrease of $11,777,000, or 85.0%. The decrease in income before provision for income taxes was due primarily to a decrease in income from operations of $11,769,000 and a decrease of $16,000 in equity in income of unconsolidated affiliates, partially offset by an increase in net interest income of $8,000.

Provision for Income Taxes. The provision for income taxes for the twelve months ended December 31, 2010 was $780,000, compared to $4,817,000 for the same period of 2009. The estimated effective tax rate was 37.5% for the twelve months ended December 31, 2010, compared to 34.8% for the same period in 2009. Management expects the effective tax rate to be in the 37% range going forward.

Net Income. Net income for the twelve months ended December 31, 2010 was $1,301,000, compared to net income of $9,041,000 for the twelve months ended December 31, 2009, a decrease of $7,740,000, or 85.6%. The net income decrease was primarily due to a decrease in income before provision for income taxes of $11,777,000, partially offset by a decrease in income taxes of $4,037,000. Net income as

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a percentage of sales for the twelve months ended December 31, 2010 and 2009 was 3.1% and 15.1%, respectively. Basic income per share for the years ended December 31, 2010 and 2009 was $0.06 and $0.40, respectively. Diluted income per share for the years ended December 31, 2010 and 2009 was $0.06 and $0.39, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2010, we had cash and cash equivalents of $5,316,000 and working capital of $29,829,000, representing an increase in working capital of 2.9%, or $835,000, since December 31, 2009. As of December 31, 2010, our current ratio was 39:1, compared to 6:1 as of December 31, 2009. Cash and cash equivalents decreased by 45.5%, or $4,437,000, to $5,316,000 as of December 31, 2010, compared to $9,753,000 as of December 31, 2009. The decrease in cash and cash equivalents was due to cash used in operating activities of $3,441,000 and cash used in investing activities of $1,143,000 for the aggregate purchase of property and equipment and intangible assets, offset by cash provided by financing activities of $147,000.

The decrease in cash and cash equivalents for the year ended December 31, 2010 was primarily due to an increase in our inventory levels by $4,224,000, a decrease in accounts payable of $2,476,000 and our pay down of accrued liabilities of approximately $2,436,000 primarily in the first quarter of 2010, partially offset by a decrease in accounts receivable of $4,777,000.

We have a $3,500,000 credit facility with Wells Fargo Bank, consisting of a line of credit with interest at prime plus 0.5%. As of December 31, 2010, the prime interest rate was 3.25%. This credit line was renewed in May 2009 and expires in May 2011. Our borrowing capacity on the line of credit was $3,500,000 as of December 31, 2010. The available line of credit is based on a formula of eligible accounts receivable and inventories. As of December 31, 2010, we did not have any borrowings under this credit facility.

Net cash used in operating activities was $3,441,000 for the twelve months ended December 31, 2010, compared to $7,543,000 net cash provided by operating activities for the twelve months ended December 31, 2009. The net cash used in operating activities of $3,441,000 for the twelve months ended December 31, 2010 was due to net income of $1,301,000, adjusted by the following: a decrease in amortization of share-based compensation expense to $193,000, proceeds from dividends from equity investments in unconsolidated affiliates of $77,000, an increase of depreciation and amortization to $844,000, a decrease in deferred income taxes of $253,000, an increase in equity in income of unconsolidated affiliates to $317,000, a decrease in accounts receivable of $4,777,000, an increase in inventory of $4,224,000, an increase in prepaid expenses and other current assets of $927,000 and a decrease in accounts payable and accrued liabilities of $4,912,000.

Accounts receivable decreased by $4,777,000, or 55.6%, to $3,816,000 as of December 31, 2010 from $8,593,000 as of December 31, 2009. The decrease in accounts receivable was primarily related to the decrease in sales relative to the fourth quarter of 2009. The number of days of sales outstanding as of December 31, 2010 was 33 days, compared to 53 days as of December 31, 2009.

Inventory increased by $4,224,000, or 32.3%, to $17,318,000 as of December 31, 2010 from $13,094,000 as of December 31, 2009. The increase was primary due to an increase in inventory for the Disposable Protective Apparel segment of $1,290,000, or 23.6%, to $6,758,000 as of December 31, 2010 due to our strategy of having a strong inventory position to compete in the marketplace. Inventory for the Infection Control segment increased by $547,000, or 13.4%, to $4,637,000 due to a stockpiling of N-95 Particulate respirator face masks. Although up year to date, both the Disposable Protective Apparel segment and Infection Control segment inventories were down from both June and

September 2010. In addition, inventory for the Building Supply segment increased by $2,387,000, or 67.5%, to $5,923,000 as of December 31, 2010 as a result of our increased year to date and expected future sales.

Prepaid expenses and other current assets increased by $927,000, or 33.2%, to $3,719,000 as of December 31, 2010 from $2,792,000 as of December 31, 2009. The increase was primarily due to an increase in prepaid deposits on inventory from Asia and an increase in prepaid taxes.

Accounts payable and accrued liabilities as of December 31, 2010 decreased by $4,912,000, or 86.3%, to $783,000 from $5,695,000 as of December 31, 2009. The change was primarily due to a decrease in trade payables of $2,476,000 and a decrease in accrued liabilities of $2,436,000. Accrued liabilities for the twelve months ended December 31, 2010 decreased as follows: commission and bonus accrual decreased by $2,130,000, accrued rebates and other decreased by $273,000, accrued professional fees decreased by $17,000 and accrued payroll expenses decreased by $16,000.

Net cash used in investing activities was $1,143,000 for the year ended December 31, 2010, compared to net cash used in investing activities of $523,000 for the same period of 2009. Our investing activities for the year ended December 31, 2010 consisted primarily of expenditures for property and equipment of $1,134,000 and the purchase of intangible assets of $9,000, compared to $537,000 and $11,000, respectively, for the same period of 2009. The expenditures for property and equipment in 2010 were primarily for equipment for the Disposable Protective Apparel and Infection Control segments and to a lesser extent the Building Supply segment.

Net cash provided by financing activities was $147,000 for the year ended December 31, 2010, compared to net cash used in financing activities of $1,845,000 for the same period of 2009. Our net cash provided by financing activities for the year ended December 31, 2010 was due to the proceeds of $6,000 from the exercise of stock options, income tax benefit from stock options exercised of $5,000 and the excess tax benefit related to share-based compensation of $136,000. Our net cash used in financing activities for the year ended

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December 31, 2009 was primarily due to the repurchase of $2,109,000 of common stock, partially offset by $194,000 in proceeds from the exercise of stock options and the income tax benefit from stock options exercised of $70,000.

In February 2010, the Company announced an expansion of $2.0 million to its existing stock repurchase plan. As of December 31, 2010, we had $2,862,000 available for additional stock purchases under our repurchase program. We did not repurchase any shares of common stock in 2010. As of December 31, 2010, we had repurchased a total of 6,193,800 shares of common stock at a cost of $7,658,000 through our repurchase program. We retire all stock repurchases upon repurchase. Future repurchases are expected to be funded from cash on hand and cash flows from operations.

We believe that cash generated from operations, our current cash balance and the funds available under our credit facility will be sufficient to satisfy our projected working capital and planned capital expenditures for the foreseeable future.

New Accounting Standards

In the third quarter of 2009, the Company adopted the FASB ASC. The ASC is the single official source of authoritative, nongovernmental GAAP, other than guidance issued by the SEC. The adoption of the ASC did not have a significant impact on the consolidated financial statements included elsewhere in this report.

FASB ASC 810, *Consolidation*, (ASC 810), eliminates a required quantitative approach to determine whether a variable interest gives an entity a controlling financial interest in a variable interest entity in favor of a qualitatively focused analysis. This guidance was effective for the Company beginning in the first quarter of fiscal year 2010. The application of ASC 810 did not have a significant impact on the consolidated earnings nor the consolidated financial position for the periods presented.

In December 2009, the FASB issued Accounting Standards Update No. 2009-17 (ASU No. 2009-17), *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. The amendments in ASU No. 2009-17 replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in ASU No. 2009-17 also require additional disclosures about a reporting entity s involvement in variable interest entities, which will enhance the information provided to users of financial statements. The application of ASU No. 2009-17 did not have a significant impact on the consolidated earnings nor the consolidated financial position for the periods presented.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (ASU No. 2010-06), *Improving Disclosures About Fair Value Measurements*. The amendments in ASU No. 2010-06 require separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and reasons for the transfers and separate presentation of information about purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements. Additionally, ASU No. 2010-06 clarifies existing disclosures regarding level of disaggregation and inputs and valuation techniques. The new disclosures and clarifications of existing disclosures under ASU

No. 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years ending after December 15, 2010 and for interim periods within those fiscal years. The adoption of the disclosure requirements did not have a significant impact on the Company s consolidated earnings nor the consolidated financial position for the periods presented.

In April 2010, the FASB issued Accounting Standards Update No. 2010-13 (ASU No. 2010-13), *Compensation (Topic 718)*: *Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades a consensus of the FASB Emerging Issues Task Force*. The amendments in ASU No. 2010-13 address the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Topic 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The application of ASU No. 2010-13 did not have a significant impact on the consolidated earnings nor the consolidated financial position for the periods presented.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28 (ASU No. 2010-28), *Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*, which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments in ASU No. 2010-28 are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Upon adoption of the amendments, any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings. The Company does not

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expect the adoption of this guidance to have a significant impact on the consolidated earnings nor the consolidated financial position of the Company.

We periodically review new accounting standards that are issued. Although some of these accounting standards may be applicable to us, we have not identified any other new standards that we believe merit further discussion, and we expect that none would have a significant impact on our consolidated financial statements.

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

We subcontract the manufacture of products in China and, to a lesser extent in Mexico, and have a joint venture in India. In addition, our principal executive office, with 20 employees, is located in Canada. We do not believe that we have a material foreign currency exposure due to the fact that our purchase agreements with companies in China, India and Mexico are settled in United States of America (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 but 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 or interest or currency rate fluctuations. We do not hedge our interest rate or foreign exchange risks.

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Item 8. Financial Statements and Supplementary Data.

Alpha Pro Tech, Ltd.

Index to Consolidated Financial Statements

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

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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 accounting principles generally accepted in the United States of America and includes those policies and procedures that:

• pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

• provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with 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, 2010, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in accordance with the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Alpha Pro Tech, Ltd.

We have audited the accompanying consolidated balance sheets of Alpha Pro Tech, Ltd. and its subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of income, shareholders equity and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the index to the consolidated financial statements. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alpha Pro Tech, Ltd. and its subsidiaries as of December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the index to the consolidated financial statements, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Mayer Hoffman McCann P.C.

Salt Lake City, Utah

March 16, 2011

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Alpha Pro Tech, Ltd.

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 5,316,000	$ 9,753,000
Accounts receivable, net of allowance for doubtful accounts of $77,000 and $65,000 at December 31, 2010 and 2009, respectively	3,816,000	8,593,000
Inventories	17,318,000	13,094,000
Prepaid expenses and other current assets	3,719,000	2,792,000
Deferred income taxes	443,000	457,000
Total current assets	30,612,000	34,689,000
Property and equipment, net	4,162,000	3,843,000
Goodwill	55,000	55,000
Intangible assets, net	164,000	184,000
Equity investments in and advances to unconsolidated affiliates	1,941,000	1,701,000
Total assets	$ 36,934,000	$ 40,472,000
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 487,000	$ 2,963,000
Accrued liabilities	296,000	2,732,000
Total current liabilities	783,000	5,695,000
Deferred income taxes	639,000	906,000
Total liabilities	1,422,000	6,601,000
Shareholders equity:		
Common stock, $.01 par value, 50,000,000 shares authorized, 22,424,285 and 22,419,285 issued and outstanding at December 31, 2010 and 2009, respectively	224,000	224,000
Additional paid-in capital	23,504,000	23,164,000
Retained earnings	11,784,000	10,483,000
Total shareholders equity	35,512,000	33,871,000
Total liabilities and shareholders equity	$ 36,934,000	$ 40,472,000

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

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Alpha Pro Tech, Ltd.

Consolidated Income Statements

	Year Ended December 31, 2010		Year Ended December 31, 2009	
Net sales	$	41,890,000	$	59,697,000
Cost of goods sold, excluding depreciation and amortization shown below		25,468,000		30,823,000
Gross profit		16,422,000		28,874,000
Expenses:				
Selling, general and administrative		13,839,000		14,701,000
Depreciation and amortization		844,000		665,000
Income from operations		1,739,000		13,508,000
Other income:				
Equity in income of unconsolidated affiliates		317,000		333,000
Interest, net		25,000		17,000
Income before provision for income taxes		2,081,000		13,858,000
Provision for income taxes		780,000		4,817,000
Net income	$	1,301,000	$	9,041,000
Basic income per share	$	0.06	$	0.40
Diluted income per share	$	0.06	$	0.39
Basic weighted average shares outstanding		22,424,038		22,808,099
Diluted weighted average shares outstanding		22,685,154		23,445,564

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

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Alpha Pro Tech, Ltd.

Consolidated Statements of Shareholders Equity

	Shares		Common Stock		Additional Paid-in Capital		Retained Earnings		Total
Balance at January 1, 2009	23,850,855	$	239,000	$	24,785,000	$	1,442,000	$	26,466,000
Options exercised	123,330		1,000		193,000				194,000
Common stock repurchased & retired	(1,554,900)		(16,000)		(2,093,000)				(2,109,000)
Income tax benefit from stock options exercised					70,000				70,000
Share based compensation expense					209,000				209,000
Net income							9,041,000		9,041,000
Balance at December 31, 2009	22,419,285	$	224,000	$	23,164,000	$	10,483,000	$	33,871,000
Options exercised	5,000				6,000				6,000
Common stock repurchased & retired									
Income tax benefit from stock options exercised					5,000				5,000
Excess tax benefit related to share-based compensation					136,000				136,000
Share based compensation expense					193,000				193,000
Net income							1,301,000		1,301,000
Balance at December 31, 2010	22,424,285	$	224,000	$	23,504,000	$	11,784,000	$	35,512,000

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

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Alpha Pro Tech, Ltd.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2010	2009
Cash Flows From Operating Activities:		
Net income	$ 1,301,000	$ 9,041,000
Adjustments to reconcile net income to net cash provided by/ (used in) operating activities:		
Share-based compensation expenses	193,000	209,000
Proceeds from dividends from equity investments in unconsolidated affiliates	77,000	
Depreciation and amortization	844,000	665,000
Equity in income of unconsolidated affiliates	(317,000)	(333,000)
Deferred income taxes	(253,000)	140,000
Changes in assets and liabilities:		
Accounts receivable, net	4,777,000	(3,502,000)
Inventories	(4,224,000)	(1,037,000)
Prepaid expenses and other current assets	(927,000)	(1,452,000)
Accounts payable and accrued liabilities	(4,912,000)	3,812,000
Net cash provided by /(used in) operating activities	(3,441,000)	7,543,000
Cash Flows From Investing Activities:		
Repayments of advances to unconsolidated affiliates		25,000
Purchase of property and equipment	(1,134,000)	(537,000)
Purchase of intangible assets	(9,000)	(11,000)
Net cash used in investing activities	(1,143,000)	(523,000)
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	6,000	194,000
Payments for the repurchase of common stock		(2,109,000)
Income tax benefit from stock options exercised	5,000	70,000
Excess tax benefit related to share-based compensation	136,000	
Net cash provided by (used in) financing activities	147,000	(1,845,000)
Changes in cash and cash equivalents	(4,437,000)	5,175,000
Cash and cash equivalents, beginning of period	9,753,000	4,578,000
Cash and cash equivalents, end of period	$ 5,316,000	$ 9,753,000
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 0	$ 2,000
Cash paid for income taxes	$ 1,365,000	$ 4,614,000

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

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

1. The Company

Alpha Pro Tech, Ltd. (Alpha Pro Tech or the Company) is in the business of protecting people, products and environments. The Company accomplishes this by developing, manufacturing and marketing a line of disposable protective apparel for the cleanroom, industrial and pharmaceutical markets, a line of building supply products for the new home and re-roofing markets and a line of infection control products for the medical and dental markets.

The Disposable Protective Apparel segment consists of a complete line of shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats.

The Building Supply segment consists of a line of construction weatherization products such as housewrap and synthetic roof underlayment.

The Infection Control segment consists of a line of face masks, eye shields and medical bed pads, as well as a line of pet beds.

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 (U.S.).

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 subsidiary, Alpha Pro Tech, Inc. (APT), as well as APT s wholly-owned subsidiary, Alpha ProTech Engineered Products, Inc. All significant intercompany accounts and transactions have been eliminated.

Events that occurred after December 31, 2010 through the date on which these consolidated financial statements have been filed with the Securities and Exchange Commission (SEC) were considered in the preparation of these consolidated financial statements.

Periods Presented

The Company qualified as a smaller reporting company at the measurement date for determining such qualification during 2010. According to the disclosure requirements for smaller reporting companies, the Company has included in these consolidated financial statements a consolidated balance sheet as of the end of the two most recent fiscal years and consolidated statements of income, shareholders equity, and cash flows for each of the two fiscal years preceding the date of the most recent balance sheet.

Cash Equivalents

The Company considers all highly liquid instruments with a remaining maturity date of three months or less at the date of purchase to be cash equivalents

Accounts Receivable

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

Inventories

Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost (computed on a standard cost basis, which approximates average cost) or market. Provision is made for slow-moving, obsolete or unusable inventory. The Company assesses inventory for estimated obsolescence or unmarketable inventory and writes down the difference between the

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

cost of inventory and the estimated market value based upon assumptions about future sales and supply on-hand.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization and is 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	25 years
Machinery and equipment	5-15 years
Office furniture and equipment	2-7 years
Leasehold improvements	4-5 years

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 intangible assets in accordance with the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (FASB ASC , ASC or Codification) 350, *Intangibles Goodwill and Other*, (ASC 350). ASC 350 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. As prescribed by ASC 350, goodwill is not amortized, but rather is tested annually for impairment (Note 5). ASC 350 also prescribes that intangible assets with finite lives be amortized over their useful lives (Note 5). 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.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in 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 value of the asset, an impairment loss is recognized for the excess of the carrying value over the fair value of the asset. The

Company believes that the future 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 during the years ended December 31, 2010 and 2009.

Revenue Recognition

For sales transactions, the Company complies with the provisions of SEC s Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition,* which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) title transfers and the customer assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. These criteria are satisfied upon shipment of product and revenues are recognized accordingly.

Sales are reduced for any anticipated sales returns, rebates and allowances based on historical data.

Shipping and Handling Costs

The costs of shipping products to distributors are classified 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 stock based awards in accordance with FASB ASC 718, *Stock Compensation*, (ASC 718). ASC 718 requires companies to record compensation expense for the value of all outstanding and unvested share-based payments, including employee stock options and similar awards.

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

For the years ended December 31, 2010 and 2009 there were 995,000 and 0 stock options granted, respectively, under the option plan. The Company recognized $193,000, and $209,000 in share-based compensation expense in its consolidated financial statements for the years ended December 31, 2010 and 2009, respectively, related to previously issued options. The Company recognized a tax benefit related to share-based compensation awards of $5,000 and $70,000 for the years ended December 31, 2010 and 2009, respectively.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, (ASC 740). ASC 740 requires an asset and liability approach for accounting for income taxes. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized. The Company s policy is to classify any interest and penalties assessed by the Internal Revenue Service as a component of the provision for income taxes. Additionally, the Company presents taxes assessed by governmental authorities on revenue-producing activities (i.e. sales tax) on a net basis in the accompanying consolidated income statements.

The Company adopted FASB ASC 740-10-25-16, *Income Taxes,* (ASC 740-10-25-16), related to accounting for uncertain tax positions on January 1, 2007. The Company recognized no additional liability or reduction in deferred tax asset for uncertain tax benefits. The Company has evaluated the tax contingencies in accordance with ASC 740-10-25-16. At December 31, 2010 and 2009, the Company did not have any uncertain tax positions.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various states and foreign jurisdictions. The Company is no longer subject to U.S. federal, state and local, income tax examination by tax authorities for years before 2006. The Company is not currently under examination in any of its jurisdictions in which it operates.

Net Income Per Share

The following table provides a reconciliation of both net income and the number of shares used in the computations of basic earnings per share (EPS), which utilizes the weighted average number of shares outstanding without regard to potential shares, and diluted EPS, which includes all such dilutive shares for the years ended December 31, 2010 and 2009, respectively.

	Year Ended December 31,	
	2010	**2009**

Net income (Numerator)	$	1,301,000	$	9,041,000
Shares (Denominator):				
Basic weighted average shares outstanding		22,424,038		22,808,099
Add: Dilutive effect of stock options		261,116		637,465
Diluted weighted average shares outstanding		22,685,154		23,445,564
Net income per share:				
Basic	$	0.06	$	0.40
Diluted	$	0.06	$	0.39

Translation of Foreign Currencies

Transactions in foreign currencies during the reporting periods 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 for the periods presented and were not material for the years ended December 31, 2010 and 2009.

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

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

not manufacture in Canada. The exposure primarily relates to payroll expenses in its administrative branch office in Canada.

Research and Development

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, 2010 and 2009.

Advertising

The Company expenses advertising costs as incurred. These costs are included in selling, general and administrative expenses. Such costs were $75,000 and $43,000 for the years ended December 31, 2010 and 2009, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurements and Disclosures*, (ASC 820   ), establishes a framework for measuring fair value in generally accepted accounting principles (GAAP   ), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. ASC 820 is effective for fiscal years beginning after November 15, 2007.

On a quarterly basis, the Company measures at fair value certain financial assets. ASC 820 specifies 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 value of the Company s financial assets at December 31, 2010 and 2009 was 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:				
Cash equivalents - money market fund - 2010	$ 1,911,000	$ 1,911,000		
Cash equivalents - money market fund - 2009	$ 1,972,000	$ 1,972,000		

The fair value for the money market fund, classified as Level 1, was obtained from a quoted market price.

The fair value of accounts receivable and accounts payable approximate their respective book values at December 31, 2010 and 2009.

New Accounting Standards

In the third quarter of 2009, the Company adopted the FASB ASC. The ASC is the single official source of authoritative, nongovernmental GAAP, other than guidance issued by the SEC. The adoption of the ASC did not have any impact on the

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

consolidated financial statements included elsewhere in this report.

FASB ASC 810, *Consolidation*, (ASC 810), eliminates a required quantitative approach to determine whether a variable interest gives an entity a controlling financial interest in a variable interest entity in favor of a qualitatively focused analysis. This guidance was effective for the Company beginning in the first quarter of fiscal year 2010. The application of ASC 810 did not have a significant impact on the consolidated earnings nor the consolidated financial position for the periods presented.

In December 2009, the FASB issued Accounting Standards Update No. 2009-17 (ASU No. 2009-17), *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. The amendments in ASU No. 2009-17 replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in ASU No. 2009-17 also require additional disclosures about an reporting entity s involvement in variable interest entities, which will enhance the information provided to users of financial statements. The application of ASU No. 2009-17 did not have a significant impact on the consolidated earnings nor the consolidated financial position for the periods presented.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (ASU No. 2010-06), *Improving Disclosures About Fair Value Measurements*. The amendments in ASU No. 2010-06 require separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and reasons for the transfers and separate presentation of information about purchases, sales, issuances, and settlements in the reconciliation for Level 3 fair value measurements. Additionally, ASU No. 2010-06 clarifies existing disclosures regarding level of disaggregation and inputs and valuation techniques. The new disclosures and clarifications of existing disclosures under ASU No. 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years ending after December 15, 2010 and for interim periods within those fiscal years. The adoption of the disclosure requirements did not have a significant impact on the Company s consolidated earnings nor the consolidated financial position for the periods presented.

In April 2010, the FASB issued Accounting Standards Update No. 2010-13 (ASU No. 2010-13), *Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades a consensus of the FASB Emerging Issues Task Force*. The amendments in ASU No. 2010-13 address the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Topic 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The application of ASU No. 2010-13 did not have a significant impact on the consolidated earnings nor the consolidated financial position for the periods presented.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28 (ASU No. 2010-28), *Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*, which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments in ASU No. 2010-28 are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Upon adoption of the amendments, any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings. The Company does not expect the adoption of this guidance to have a significant impact on the consolidated earnings nor the consolidated financial position of the Company.

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

3. Inventories

Inventories consist of the following:

	December 31, 2010		2009	
Raw materials	$	8,536,000	$	9,831,000
Work in process		1,797,000		586,000
Finished goods		6,985,000		2,677,000
	$	17,318,000	$	13,094,000

4. Property and Equipment

Property and equipment consist of the following:

	December 31, 2010		2009	
Buildings	$	355,000	$	355,000
Machinery and equipment		8,847,000		7,962,000
Office furniture and equipment		948,000		858,000
Leasehold improvements		477,000		318,000
		10,627,000		9,493,000
Less accumulated depreciation		(6,465,000)		(5,650,000)
	$	4,162,000	$	3,843,000

Depreciation of property and equipment was $816,000 and $636,000 for the years ended December 31, 2010 and 2009, respectively.

5. Goodwill and Intangible Assets

In accordance with FASB ASC 350, *Intangibles Goodwill and Other*, management evaluates goodwill impairment on an annual basis, and no impairment charge was identified during the years presented

Intangible assets, consisting of patents and trademarks, are amortized over their useful lives. Intangible assets consist of the following:

	2010				2009			
	Weighted Average Amortization Period (Years)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Amortization Period (Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Patents and Trademarks	7.0	$ 470,000	$ (306,000)	$ 164,000	8.0	$ 462,000	$ (278,000)	$ 184,000

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

Amortization of intangible assets was $28,000 and $29,000 for the years ended December 31, 2010 and 2009, respectively.

Estimated future amortization expense related to intangible assets subject to amortization is as follows:

Year ending December 31,		
2011	$	29,000
2012		29,000
2013		25,000
2014		20,000
2015		20,000
Thereafter		41,000
	$	164,000

6. Investment in and Advances to Unconsolidated Affiliates

In 2005, Alpha ProTech Engineered Products, Inc. (a subsidiary of Alpha Pro Tech, Ltd.) entered into a joint venture with a manufacturer in India for the production of building products. Under the terms of the joint venture agreement, a private company, Harmony Plastics Private Limited (Harmony), was created with ownership interests of 41.66% by Alpha ProTech Engineered Products, Inc. and 58.34% by Maple Industries and Associates. Alpha ProTech Engineered Products, Inc. contributed $508,000 for share capital, and Maple Industries and Associates contributed $708,000.

This joint venture positions Alpha ProTech Engineered Products, Inc. to respond to current and expected increased product demand for housewrap and synthetic roofing underlayment and provides future capacity for sales of specialty roofing component products and custom products for industrial applications requiring high quality extrusion coated fabrics. In addition, the joint venture now supplies products for the Disposable Protective Apparel segment.

The capital from the initial funding, along with a bank loan, which is guaranteed exclusively by the individual shareholders of Maple Industries and Associates and collateralized by the assets of Harmony, were utilized to purchase an existing 33,000 square foot manufacturing facility in India. This facility includes manufacturing equipment necessary to produce coated material and to sew proprietary disposable protective apparel. This facility experienced a 38,500 square foot addition in mid-2010, bringing it to a total of 71,500 square feet. Also in 2005, Harmony built a 60,000 square foot facility in India for the manufacturing of housewrap and synthetic roof underlayment. Two additions have been made to this building: one was a 20,000 square foot addition in late 2009 and the other was a 22,000 square foot addition in mid-2010, for a total of 102,000 square feet. During the latter part of 2010, Harmony also added a new 16,000 square foot facility that sews proprietary disposable protective apparel. All additions have been financed by Harmony with no guarantees from Alpha Pro Tech.

The Company is subject to the provisions of FASB ASC 810, *Consolidation* (ASC 810), which defines the criteria by which the Company determines the proper accounting for its investments in related entities. Specifically, ASC 810 requires the Company to assess whether or not related entities are variable interest entities (VIEs), as defined. 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 investments in and advances to unconsolidated affiliates on the accompanying Consolidated Balance Sheets. The Company records its equity interest in Harmony s results of operations as Equity in income of unconsolidated affiliates on the accompanying Consolidated Income Statements.

The Company reviews annually its investment in Harmony for impairment in accordance with FASB ASC 323, *Investments Equity Method and Joint Ventures* (ASC 323). ASC 323 requires recognition of a loss when the decline in an investment is other-than-temporary. In determining whether the decline is other-than-temporary, the Company considers the nature of the industry in which Harmony operates, its historical performance, its performance in relation to its peers and the current economic environment. The Company has concluded that no impairment was required for the year ended December 31, 2010.

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Notes to Consolidated Financial Statements

Alpha ProTech Engineered Products, Inc. initially invested $1,450,000 in the joint venture: $508,000 for share capital and $942,000 as a long term advance for materials. Fifty percent of the $942,000 long term advance for materials is to be repaid over a six year term that commenced in July 2006, and the balance is to be paid in the seventh year. As of December 31, 2010, Harmony has repaid a total of $525,000, leaving a balance of $417,000. Interest of 3.5% is to be paid annually on this advance, and the Company had an interest receivable of $15,000 as of December 31, 2010 related to the agreement.

For the years ended December 31, 2010 and 2009, Alpha Pro Tech purchased $12,804,000 and $5,928,000 of inventory, respectively, from Harmony. For the years ended December 31, 2010 and 2009, the Company recorded equity income in unconsolidated affiliates of $317,000 and $333,000, respectively. As of December 31, 2010, the Company s investment in Harmony is $1,941,000, which consists of its original $1,450,000 investment and cumulative equity in income of unconsolidated affiliates of $1,093,000, less $525,000 in repayments of the advance and payment of $77,000 in dividends.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2010		December 31, 2009	
Payroll expenses	$	115,000	$	131,000
Bonuses payable		48,000		2,178,000
Accrued professional fees		133,000		150,000
Accrued rebates and other				273,000
	$	296,000	$	2,732,000

The Chief Executive Officer and President are each entitled to a bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense. The Chief Executive Officer and President have voluntarily decided to forgo their bonuses for 2010. Therefore, no executive bonuses were accrued for the year ended December 31, 2010

8. Notes Payable

The Company maintains a credit facility with Wells Fargo Bank that expires in May 2011. Pursuant to the terms of the credit facility, the Company has a line of credit for up to $3,500,000 based on eligible accounts receivable and inventories. The Company s borrowing capacity on the line of credit was $3,500,000 at December 31, 2010. The credit facility bears interest at prime plus 0.5% (prime rate was 3.25% at December 31, 2010 and 2009) and is collateralized by accounts receivable, inventories, trademarks, patents and property and equipment. Under the terms of the facility, the Company pays a 0.6% unused loan fee annually, which is paid quarterly.

As of December 31, 2010, the Company had no outstanding balance on the line of credit and no other debt.

9. Shareholders Equity

Repurchase Program

As of December 31, 2009 the Company had $862,000 available for additional purchases under its share repurchase program. On February 8, 2010, the Board of Directors authorized the repurchase of up to an additional $2,000,000 of the Company s outstanding common stock. During the year ended December 31, 2010, the Company did not repurchase or retire any common stock. During the year ended December 31, 2009, the Company repurchased and retired 1,554,900 shares of its common stock for $2,109,000. As of December 31, 2010, the Company had $2,862,000 available to repurchase under the repurchase plan.

Option Activity

The 2004 Stock Option Plan (the 2004 Plan) is an equity compensation plan that provides for grants of both incentive stock options and non-qualified stock options to eligible individuals. The 2004 Plan is intended to recognize the contributions made to the Company by key employees of the Company and its subsidiaries and affiliated companies, provide key employees with

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

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 additional 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.

Under the 2004 Plan, 2,500,000 shares were initially available for grant. In light of the Company s continued growth, the Board of Directors recommended to the shareholders at the 2010 Annual Meeting of Shareholders, and the shareholders approved, an amendment to the 2004 Plan to increase the number of shares available for issuance by an additional 2,500,000 shares of Common Stock, such that the 2004 Plan now provides for a total of 5,000,000 shares eligible for issuance.

Under the 2004 Plan, approximately 3,050,000 options have been granted as of December 31, 2010. 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, in 2004 and 2005 options granted had an expiration date of 10 years after the date of grant. The exercise price of the options is determined based on the fair value of the stock on the date of grant.

The following table summarizes option activity for the two years ended December 31, 2010 and 2009:

	Shares		Weighted Average Exercise Price Per Option
Options outstanding, January 1, 2009	1,870,000	$	1.56
Granted to employees and non-employee directors			
Exercised	(123,000)	$	1.57
Canceled/Expired/Forfeited	(175,000)	$	1.62
Options outstanding, December 31, 2009	1,572,000	$	1.56
Granted to employees and non-employee directors	995,000	$	1.60
Exercised	(5,000)	$	1.23
Canceled/Expired/Forfeited	(20,000)	$	1.51
Options outstanding, December 31, 2010	2,542,000	$	1.57
Options exercisable, December 31, 2010	1,392,000	$	1.60

Stock options to purchase 2,542,000 and 1,572,000 shares of common stock were outstanding at December 31, 2010 and 2009, respectively. As of December 31, 2010, 261,116 incremental shares were included in the computation of diluted earnings per share because the exercise prices of those stock options were less than the average share price of the Company s common stock for the year and, therefore, the effect was dilutive. As of December 31, 2009 all outstanding stock options were included in the computation of diluted earnings per share because the exercise prices of the stock options were less than the average share price of the Company s common stock and, therefore, the effect was dilutive.

The Company used the Black-Scholes-Merton option pricing model to value its options. Prior to 2008, the Company used the simplified method as discussed in SAB No. 107, *Share-Based Payment,* for estimating the expected life of the options. For options granted during and after 2008, the Company used historical data to estimate the expected life of the options because it felt that enough historical data existed to do so. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on historical volatility of the expected life in years. The Company uses an estimated dividend payout ratio of zero, as the Company has not paid dividends in the past and does not expect to do so in the near future.

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The fair value of the share-based payment awards were estimated using the Black-Scholes-Merton option pricing method with the following assumptions and weighted average fair values:

	Stock Options (1) For the Year Ended December 31, 2010	2009
Exercise price	$ 1.60	
Risk-free interest rate	1.49%	
Expected volatility	52.00%	
Expected life in years	4.3	
Black-Scholes fair value	$ 0.68	

(1) The fair value calculation was based on the stock options granted during the period.

The following table summarizes information about stock options as of December 31, 2010:

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value	Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
$1.10-$1.98	2,542,000	$ 1.57	3.17	$ 522,000	1,392,000	$ 1.60	2.18	$ 249,000

The intrinsic value is the amount by which the market value of the underlying common stock exceeds the exercise price of the respective stock option. The aggregate intrinsic value of stock options exercised during the twelve months ended December 31, 2010 and 2009 was $3,000 and $364,000, respectively. The aggregate intrinsic value of stock options granted during the twelve months ended December 31, 2010 and 2009 was $176,000 and $0, respectively.

As of December 31, 2010, $644,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average remaining period of 2.42 years. Cash received from options exercised for the twelve months ended December 31, 2010 was $6,000, as 5,000 options were exercised.

10. Income Taxes

The provision for income taxes consists of the following:

	Year ended December 31, 2010	2009
Current	$ 1,033,000	$ 4,591,000
Deferred	(253,000)	226,000
	$ 780,000	$ 4,817,000

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Deferred tax assets (liabilities) are comprised of the following:

	December 31, 2010		December 31, 2009	
Deferred tax assets:				
Foreign tax credits	$	105,000	$	
Temporary differences:				
Inventory reserve		158,000		145,000
Intangible assets		9,000		16,000
State income taxes		8,000		18,000
Accrued expenses and inventory		300,000		278,000
Gross deferred tax assets		580,000		457,000
Deferred tax liabilities:				
Temporary differences:				
Property and equipment		(753,000)		(860,000)
State income taxes		(23,000)		(46,000)
Gross deferred tax liabilities		(776,000)		(906,000)
Net deferred tax liability	$	(196,000)	$	(449,000)

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

	Year ended December 31, 2010		Year ended December 31, 2009	
Income taxes based on U.S. statutory rate of 34%	$	708,000	$	4,711,000
Non-deductible meals and entertainment		6,000		7,000
Domestic manufacturer s deduction		(44,000)		(157,000)
Foreign taxes				
State taxes		38,000		268,000
Other		72,000		(12,000)
	$	780,000	$	4,817,000

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11. Lease Commitments

The Company leases its facilities under non-cancelable operating leases expiring through April 30, 2020.

The following summarizes future minimum lease payments required under non-cancelable operating leases:

Year Ending December 31,		**Operating Leases**
2011	$	958,000
2012		637,000
2013		548,000
2014		432,000
2015		432,000
Thereafter		1,872,000
Future minimum lease payments	$	4,879,000

Total rent expense under operating leases for the years ended December 31, 2010 and 2009 was $1,054,000 and $765,000, respectively.

12. Employee Benefit Plans

401(k) Plan: The Company has a 401(k) defined contribution profit sharing plan. Under the plan, 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 an additional 1% of gross earnings for those employees contributing 2% to 12% of their gross earnings. The Company contributions become fully vested after five years. The amounts contributed to the plan by the Company were $35,000 and $34,000 for the years ended December 31, 2010 and 2009, respectively.

The Company does not have any other significant pension, profit sharing or similar plans established for its employees; however, the Chief Executive Officer and President are each entitled to a bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense. Executive bonuses of $0 and $1,540,000 were accrued for the years ended December 31, 2010 and 2009, respectively.

13. Activity of Business Segments

The Company operates through three segments:

Disposable Protective Apparel: consisting of a complete line of disposable protective clothing such as shoecovers (including the Aqua Trak® and spunbond shoecovers), bouffant caps, coveralls, frocks, lab coats, gowns and hoods, for the pharmaceutical, cleanroom, industrial and medical markets.

Building Supply (formerly known as Engineered Products): consisting of a line of construction supply weatherization products. The construction supply weatherization products consist of housewrap and synthetic roof underlayment. Of note, the Company s equity in income of unconsolidated affiliates (Harmony) is included in the total segment income for Building Supply in the table below.

Infection Control: consisting of face masks, eye shields principally for the medical, dental and industrial markets, as well as medical bed pads and a line of pet beds. Previously, the line of medical bed pads and pet beds were reported as a separate segment under the name of Extended Care. Because management is now looking at the Extended Care segment in conjunction with the Infection Control segment, and since the majority of the Extended Care revenue is now generated from the medical bed pads, as of the first quarter of 2009, these products are consolidated into the Infection Control segment. All numbers have been updated to reflect the updated segmentation.

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Alpha Pro Tech, Ltd.

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

The following table shows net sales for each segment:

	Year Ended December 31, 2010	2009
Disposable Protective Apparel	$ 16,462,000	$ 22,701,000
Building Supply	19,376,000	15,286,000
Infection Control	6,052,000	21,710,000
Consolidated total net sales	$ 41,890,000	$ 59,697,000

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

	Year Ended December 31, 2010	2009
Disposable Protective Apparel	$ 2,912,000	$ 6,825,000
Building Supply	2,439,000	2,269,000
Infection Control	1,398,000	11,108,000
Total segment income	6,749,000	20,202,000
Unallocated corporate overhead expenses	(4,668,000)	(6,344,000)
Provision for income taxes	(780,000)	(4,817,000)
Consolidated net income	$ 1,301,000	$ 9,041,000

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

	Year Ended December 31, 2010	2009
Net sales by geographic region		
United States	$ 39,998,000	$ 53,623,000

International		1,892,000		6,074,000
Consolidated total net sales	$	41,890,000	$	59,697,000
Long-lived assets by geographic region				
United States	$	3,573,000	$	3,681,000
International		589,000		162,000
Consolidated total long-lived assets	$	4,162,000	$	3,843,000

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

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

2010 and 2009, the Company did not generate sales from any single foreign country that were significant to the Company s consolidated net sales.

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

	Year Ended December 31, 2010	2009
Disposable Protective Apparel	$ 816,000	$ 460,000
Building Supply	2,277,000	2,398,000
Infection Control	1,173,000	1,091,000
Total segment assets	4,266,000	3,949,000
Unallocated corporate assets	114,000	133,000
Total consolidated assets	$ 4,380,000	$ 4,082,000

14. Selected Quarterly Financial Data (Unaudited)

As a smaller reporting company, the Company is not required to provide the information required by this item.

15. Concentration of Risk

The Company maintains its cash and cash equivalents in accounts in a number of banks, the balances of which at times may exceed federally insured limits. The Company has not experienced any losses related to these accounts and we believe that we are not exposed to significant credit risk.

Net sales to our former largest distributor, VWR International, LLC, were 13.9% and 28.7% of total sales for the years ended December 31, 2010 and 2009, respectively. Accounts receivable from this distributor represented 9.2% and 41.0% of total accounts receivable at December 31, 2010 and 2009, respectively.

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

The Company currently buys a significant amount of its disposable protective apparel products from a few subcontractors located in Asia and, to a much lesser extent, a subcontractor in Mexico. 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 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.

16. Subsequent Events

On February 8, 2011, the Company entered into an asset purchase agreement with an Oklahoma limited liability company to sell its line of pet beds. As consideration for the acquired assets, the Company sold its inventory at cost, plus additional compensation for goodwill. In addition, the Company signed a three year non-compete agreement.

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Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements

Also, the Company has reviewed and evaluated material subsequent events from the consolidated balance sheet date of December 31, 2010 through the consolidated financial statements filing date. All appropriate subsequent event disclosures, if any, have been made in the Notes to Consolidated Financial Statements.

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Alpha Pro Tech, Ltd.

Schedule to Consolidated Financial Statements

Alpha Pro Tech, Ltd. and Subsidiaries

Schedule II - Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 31, 2010					
Allowance for doubtful accounts	$ 65,000	$ 12,000	$	$	$ 77,000
Year Ended December 31, 2009					
Allowance for doubtful accounts	$ 71,000	$	$	$ 6,000	$ 65,000

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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 Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act.)) as of December 31, 2010 pursuant to the evaluation of these controls and procedures required by Rule 13a-15 of the Exchange Act. Disclosure controls and procedures are the controls and other procedures that we have designed to ensure that we record, process, summarize and report in a timely manner the information that we must disclose in reports that we file with or submit to the SEC under the Exchange Act.

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

Based on the evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective 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 on page 18, and is incorporated herein by reference.

Attestation Report of the Registered Public Accounting Firm

As a result of being a smaller reporting company, we are not required to provide an attestation report of our registered public accounting firm regarding our internal control over financial reporting. We have elected to not 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 Company s fiscal year ended December 31, 2010, 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. Copies of the Code of Business Conduct and Ethics are available on the Company s website at www.alphaprotech.com in the Investors section under Corporate Governance .

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 2011 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 29, 2011.

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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 2011 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 29, 2011.

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

Certain of 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 2011 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 29, 2011.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information as of December 31, 2010 relating to equity compensation plans of the Company under which the Company s common stock is authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans(c) (excluding securities reflected in column (a))
Equity compensation plan approved by shareholders	2,542,000(1)	$ 1.57	2,245,000(2)

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(1) The number shown in column (a) is the number of shares that may be issued upon exercise of outstanding options under the shareholder approved Alpha Pro Tech, Ltd. 2004 Stock Option Plan (the 2004 Plan).

(2) The number shown in column (c) is the number of shares that may be issued upon exercise of options granted in the future under the 2004 Plan.

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 2011 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 29, 2011.

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 2011 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 29, 2011.

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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 Mayer Hoffman McCann P.C.;

Consolidated Balance Sheets December 31, 2010 and 2009;

Consolidated Income Statements Years Ended December 31, 2010 and 2009;

Consolidated Statements of Shareholders Equity Years Ended December 31, 2010 and 2009;

Consolidated Statements of Cash Flows Years Ended December 31, 2010 and 2009; and

Notes to Consolidated Financial Statements Years Ended December 31, 2010 and 2009.

Schedule to Consolidated Financial Statements Years Ended December 31, 2010 and 2009.

(a)(2) Financial Statement Schedules.

The financial statement schedules required to be included pursuant to this Item are not included herein because they are not applicable, or the required information is shown in the financial statements or notes thereto, which are incorporated by reference at subsection (a)(1) of this Item above.

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

The exhibits listed on the Exhibit Index beginning on page 44 of this Form 10-K are filed herewith or are incorporated herein by reference.

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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: March 16, 2011	BY:	/s/ Sheldon Hoffman Sheldon Hoffman Chief Executive Officer and Director
DATE: March 16, 2011	BY:	/s/ Lloyd Hoffman Lloyd Hoffman Chief Financial Officer and Senior Vice President

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 indicated on March 16, 2011.

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

/s/ Alexander W. Millar
Alexander W. Millar, President and Director

/s/ Lloyd Hoffman
Lloyd Hoffman, Chief Financial Officer and Senior Vice President
(Principal Financial and Accounting Officer)

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

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

/s/ David Garcia
David Garcia, Director

/s/ Russ Manock
Russ Manock, Director

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

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EXHIBIT INDEX

ITEM 15(a)(3)

Exhibit No.	Description
3.1.1	Certificate of Incorporation of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(f) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
3.1.2	Certificate of Amendment of Certificate of Incorporation of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(j) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
3.1.3	Certificate of Ownership and Merger (BFD Industries, Inc. into Alpha Pro Tech, Ltd.), incorporated by reference to Exhibit 3(l) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
3.2	Bylaws of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(g) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
10.1	Alpha Pro Tech, Ltd. 2004 Stock Option Plan, incorporated by reference to Exhibit B to Schedule 14A, filed on April 29, 2004 (File No. 001-15725), in connection with the 2004 Annual Meeting of Stockholders held on June 8, 2004.*
10.1A	Alpha Pro Tech, Ltd. 2004 Stock Option Plan (As Amended on June 7, 2010), incorporated by reference to Exhibit 10.a to Form 8-K, filed on June 11, 2010.*
10.2	Non-Qualified Stock Option Agreement of David Anderson, incorporated by reference to Exhibit 4.2 to Form S-8, filed on December 13, 2004 (File No. 333-121184).*
10.3	Non-Qualified Stock Option Agreement of Robert Isaly, incorporated by reference to Exhibit 4.3 to Form S-8, filed on December 13, 2004 (File No. 333-121184).*
10.4	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).*
10.5	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).*
10.6	Incentive Stock Option Agreement of Alexander W. Millar, incorporated by reference to Exhibit 4.6 to Form S-8, filed on December 13, 2004 (File No. 333-121184).*
10.7	Incentive Stock Option Agreement of Sheldon Hoffman, incorporated by reference to Exhibit 4.7 to Form S-8, filed on December 13, 2004 (File No. 333-121184).*
10.8	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).*
10.9	Employment Agreement between the Company and Al Millar, dated June, 1989, incorporated by reference to Form 10 Registration Statement filed on February 25, 1992 (File No. 000-19893).*
10.10	VWR Scientific Products Corporation Distribution Agreement, dated January 1, 2000, incorporated by reference to the Exhibits to Form 10-K for the year ended December 31, 2000, filed on March 19, 2001 (File No. 001-15725).
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	Consent of Independent Registered Public Accounting Firm-Mayer Hoffman McCann P.C.
31.1	Certification of 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 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.

* Indicates a management contract or compensatory plan or arrangement.