

ALPHA PRO TECH LTD  
Form 10-Q  
May 06, 2009  
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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-Q

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**Quarterly Report pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**For the Quarter Ended March 31, 2009**

**Commission File No. 01-15725**

### **Alpha Pro Tech, Ltd.**

(exact name of registrant as specified in its charter)

**Delaware, U.S.A.**  
(State or other jurisdiction of incorporation)

**Suite 112, 60 Centurian Drive  
Markham, Ontario, Canada**  
(Address of principal executive offices)

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

**L3R 9R2**  
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 4, 2009.

23,850,853 shares of common stock, \$.01 par value

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**Alpha Pro Tech, Ltd.**

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Exhibit 31.1: Certification by CEO pursuant to Rule 13a-14(b) and Rule 15d-14(b) of the Exchange Act (filed herewith)

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- Exhibit 31.2: Certification by CFO pursuant to Rule 13a-14(b) and Rule 15d-14(b) of the Exchange Act (filed herewith)
- Exhibit 32.1: Certification by CEO pursuant to Section 906 of the Sarbanes-Oxley Act (filed herewith)
- Exhibit 32.2: Certification by CFO pursuant to Section 906 of the Sarbanes-Oxley Act (filed herewith)
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**Alpha Pro Tech, Ltd.**

***PART I. FINANCIAL INFORMATION***

**ITEM 1. FINANCIAL STATEMENTS**



## Edgar Filing: ALPHA PRO TECH LTD - Form 10-Q

Alpha Pro Tech, Ltd. ( Alpha Pro Tech , the Company ) prepared the following unaudited interim consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to these rules and regulations.

You should read the following unaudited interim consolidated financial statements and the accompanying notes together with the Company s current year 10-Q s and 8-K s as well as the Annual Report on Form 10-K for the year ended December 31, 2008. The Company s 2008 Annual Report contains information that may be helpful in analyzing the financial information contained in this report and in comparing its results of operations for the three ended months March 31, 2009 with the same period in 2008.

Table of Contents**Alpha Pro Tech, Ltd.****Consolidated Balance Sheets (Unaudited)**

|   | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008 (1)</b> |
|---|---------------------------|----------------------------------|
| <b>Assets</b>   |                           |                                  |
| Current assets:   |                           |                                  |
| Cash and cash equivalents   | \$ 4,631,000              | \$ 4,578,000                     |
| Accounts receivable, net of allowance for doubtful accounts of \$83,000 at March 31, 2009 and \$71,000 at December 31, 2008   | 6,100,000                 | 5,091,000                        |
| Inventories, net  | 10,944,000                | 12,057,000                       |
| Prepaid expenses and other current assets   | 1,422,000                 | 1,340,000                        |
| Deferred income taxes   | 531,000                   | 510,000                          |
| Total current assets  | 23,628,000                | 23,576,000                       |
| Property and equipment, net   | 3,874,000                 | 3,942,000                        |
| Goodwill, net   | 55,000                    | 55,000                           |
| Intangible assets, net  | 199,000                   | 202,000                          |
| Equity investments in and advances to unconsolidated affiliates   | 1,491,000                 | 1,393,000                        |
| Total assets  | \$ 29,247,000             | \$ 29,168,000                    |
| <b>Liabilities and Shareholders' Equity</b>   |                           |                                  |
| Current liabilities:  |                           |                                  |
| Accounts payable  | \$ 808,000                | \$ 620,000                       |
| Accrued liabilities   | 846,000                   | 1,263,000                        |
| Total current liabilities   | 1,654,000                 | 1,883,000                        |
| Deferred income taxes   | 840,000                   | 819,000                          |
| Total liabilities   | 2,494,000                 | 2,702,000                        |
| Shareholders' equity  |                           |                                  |
| Common stock, \$.01 par value, 50,000,000 shares authorized, 23,541,055 and 23,850,855 issued and outstanding at March 31, 2009 and December 31, 2008, respectively | 236,000                   | 239,000                          |
| Additional paid-in capital  | 24,561,000                | 24,785,000                       |
| Retained earnings   | 1,956,000                 | 1,442,000                        |
| Total shareholders' equity  | 26,753,000                | 26,466,000                       |
| Total liabilities and shareholders' equity  | \$ 29,247,000             | \$ 29,168,000                    |

(1) The condensed consolidated balance sheet as of December 31, 2008 has been prepared using information from the audited financial statements at that date.

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





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**Alpha Pro Tech, Ltd.**

**Consolidated Income Statements (Unaudited)**

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|   | For the Three Months Ended |              |
|---|----------------------------|--------------|
|   | March 31,                  |              |
|   | 2009                       | 2008         |
| Net sales   | \$ 9,326,000               | \$ 7,524,000 |
| Cost of goods sold, excluding depreciation and amortization | 5,207,000                  | 4,074,000    |
| Gross margin  | 4,119,000                  | 3,450,000    |
| Expenses:   |                            |              |
| Selling, general and administrative                         | 3,240,000                  | 3,141,000    |
| Depreciation and amortization                               | 161,000                    | 141,000      |
| Income from operations                                      | 718,000                    | 168,000      |
| Other income  |                            |              |
| Equity in income of unconsolidated affiliates               | 98,000                     | 21,000       |
| Interest, net   | 1,000                      | 34,000       |
| Income before provision for income taxes                    | 817,000                    | 223,000      |
| Provision for income taxes                                  | 303,000                    | 84,000       |
| Net income  | \$ 514,000                 | \$ 139,000   |
| Basic net income per share                                  | \$ 0.02                    | \$ 0.01      |
| Diluted net income per share                                | \$ 0.02                    | \$ 0.01      |
| Basic weighted average shares outstanding                   | 23,700,601                 | 25,210,691   |
| Diluted weighted average shares outstanding                 | 23,700,601                 | 25,210,691   |

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

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**Alpha Pro Tech, Ltd.**

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

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|                                    | <b>Common Stock</b> |               | <b>Additional</b> |                | <b>Retained</b> |    | <b>Total</b> |
|------------------------------------|---------------------|---------------|-------------------|----------------|-----------------|----|--------------|
|                                    | <b>Shares</b>       | <b>Amount</b> | <b>Paid-in</b>    | <b>Capital</b> | <b>Earnings</b> |    |              |
| Balance at December 31, 2008       | 23,850,855          | \$ 239,000    | \$ 24,785,000     | \$             | 1,442,000       | \$ | 26,466,000   |
| Share- based compensation expense  |                     |               | 58,000            |                |                 |    | 58,000       |
| Common Stock repurchased & retired | (309,800)           | (3,000)       | (282,000)         |                |                 |    | (285,000)    |
| Net income                         |                     |               |                   |                | 514,000         |    | 514,000      |
| Balance at March 31, 2009          | 23,541,055          | \$ 236,000    | \$ 24,561,000     | \$             | 1,956,000       | \$ | 26,753,000   |

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 (Unaudited)**

|   | For the Three Months Ended<br>March 31, |              |
|---|---|--------------|
|   | 2009                                    | 2008         |
| <b>Cash Flows From Operating Activities:</b>                                  |   |              |
| Net income  | \$ 514,000                              | \$ 139,000   |
| Adjustments to reconcile net income to net cash used in operating activities: |   |              |
| Share-based compensation expense  | 58,000                                  | 47,000       |
| Depreciation and amortization   | 161,000                                 | 141,000      |
| Deferred income taxes   | -                                       | 19,000       |
| Equity in income of unconsolidated affiliates                                 | (98,000)                                | (21,000)     |
| Changes in assets and liabilities:  |   |              |
| Accounts receivable, net  | (1,009,000)                             | 277,000      |
| Inventories, net  | 1,113,000                               | (273,000)    |
| Prepaid expenses and other current assets                                     | (82,000)                                | (103,000)    |
| Accounts payable and accrued liabilities                                      | (229,000)                               | (762,000)    |
| Net cash provided by (used in) operating activities:                          | 428,000                                 | (536,000)    |
| <b>Cash Flows From Investing Activities:</b>                                  |   |              |
| Purchase of property and equipment  | (86,000)                                | (10,000)     |
| Purchase of intangible assets   | (4,000)                                 | (4,000)      |
| Net cash used in investing activities   | (90,000)                                | (14,000)     |
| <b>Cash Flows From Financing Activities:</b>                                  |   |              |
| Payments for the repurchase of common stock                                   | (285,000)                               | (708,000)    |
| Net cash used in financing activities   | (285,000)                               | (708,000)    |
| Increase in cash during the period  | 53,000                                  | (1,258,000)  |
| Cash and cash equivalents, beginning of period                                | 4,578,000                               | 4,064,000    |
| Cash and cash equivalents, end of period                                      | \$ 4,631,000                            | \$ 2,806,000 |

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 (Unaudited)**

**1. The Company**

Alpha Pro Tech, Ltd. ( Alpha Pro Tech , 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 consists of a complete line of shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats. The line of building supply products (formerly known as Engineered Products) consists of construction weatherization products such as house wrap and synthetic roof underlayment. The infection control line of products includes a line of face masks, eye shields and medical bed pads as well as 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, it is now appropriate that these segments to be consolidated in the infection control segment. All numbers have been updated to reflect the updated segmentation.

The Company s products are sold both under the Alpha Pro Tech brand name as well as under private label and are predominantly sold in the United States of America.

**2. Basis of Presentation**

The interim financial information included herein is unaudited; however, the information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for the fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods. The consolidated financial statements should be read in conjunction with the current year 10-Q s and 8-K s, as well as the consolidated financial statements for the year ended December 31, 2008, which are included in the Company s Annual Report on Form 10-K ( 2008 10-K ). The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet at December 31, 2008 was extracted from the audited consolidated financial statements contained in the 2008 10-K and does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

**3. Stock Based Compensation**

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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 adopted Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-Based Payment ( SFAS 123R ) effective January 1, 2006, using the modified prospective application method. SFAS 123R requires companies to record compensation expense for the value of all outstanding and unvested share-based payments, including employee stock options and similar awards. During the first quarter of 2009 and 2008 there were no stock options granted under the option plan. The Company recognized \$58,000 and \$47,000 in share-based compensation expense in its consolidated financial statements for the three months ended March 31, 2009 and 2008, respectively related to previously issued options.

Stock options to purchase 1,794,995 and 1,320,000 shares of common stock were outstanding at

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**Alpha Pro Tech, Ltd.**

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

March 31, 2009 and 2008, respectively. As of March 31, 2009 none of the outstanding stock options were included in the computation of diluted earnings per share because the exercise prices of all stock options were greater than the average share price of the Company's common stock and, therefore, there was no dilutive effect.

The Company used the Black-Scholes-Merton option pricing model to value the options. Prior to 2008, The Company used the simplified method as discussed in Staff Accounting Bulletin ( SAB ) No.107, Share- Based Payment ( SAB 107 ) for estimating the expected life of the options. For options granted during a quarter, of which there were none in the first quarter of 2009, the Company would use historical data to estimate the expected life of the options. The risk-free interest rate for periods within the contractual life of the award is based on the US Treasury yield curve in effect at the time of grant. The 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 in the future.

As of March 31, 2009, \$326,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 2.0 years.

**4. New Accounting Standards**

In February 2007, the FASB issued SFAS No 159 The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ). Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. SFAS 159 was adopted for fiscal 2008; however, the Company did not elect to apply the fair value option to any financial instruments or other items upon adoption of SFAS 159 or during the twelve months ended December 31, 2008. Therefore, the adoption of SFAS 159 did not impact the Company's consolidated financial position, results of operations or cash flows.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ) . SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in prior accounting pronouncements. In February 2008, the FASB decided to postpone for one year the effective date of SFAS 157 for assets and liabilities measured at fair value on a non-recurring basis. The Company adopted SFAS 157 as of January 1, 2008 for assets and liabilities measured at fair value on a recurring basis and as of January 1, 2009 for assets and liabilities measured at fair value on a non-recurring basis. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, ( SFAS 141R ), which changes how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 141R was

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effective January 1, 2009 and did not have an impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ( SFAS 160 ), which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. SFAS 160 was effective January 1, 2009 and required retroactive adoption of the presentation and disclosure requirements for existing minority interests. The Company does not consolidate its partially owned affiliate and therefore does not expect the adoption of SFAS 160 did not have a material impact on its

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consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position ( FSP ) FAS No. 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments ( FSP FAS No. 107-1 and APB Opinion No. 28-1 ), which amends the disclosure requirements of SFAS No. 107 and APB Opinion No. 28 and requires disclosure about the fair value of the Company's financial instruments whenever it issues summarized financial information for interim reporting periods. FSP FAS No. 107-1 and APB Opinion No. 28-1 are effective for financial statements issued for interim reporting periods ending after June 15, 2009. The Company does not expect the adoption of FSP FAS No. 107-1 and APB Opinion No. 28-1 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ( FSP FAS No. 115-2 and FAS No. 124-2 ), which amends SFAS No. 115 and FSP FAS No. 115-1 and FSP FAS No. 124-1 and conforms changes to other standards including EITF Issue No. 99-20 and AICPA Statement of Position ( SOP ) No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer , and improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS No. 115-2 and FAS No. 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. The Company does not expect the adoption of FSP FAS No. 115-2 and FAS No. 124-2 to have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ( FSP FAS No. 157-4 ), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements , when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly and applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements, except in paragraphs 2 and 3 of SFAS No. 157. FSP FAS No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not expect the adoption of FSP FAS No. 157-4 to have a material impact on its consolidated financial statements.

**5. Inventories**

Inventories consist of the following:

|                 | March 31,<br>2008 | December 31,<br>2008 |
|-----------------|-------------------|----------------------|
| Raw materials   | \$ 6,867,000      | \$ 7,760,000         |
| Work in process | 661,000           | 797,000              |

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|  |               |               |
|--|---------------|---------------|
| Finished goods   | 3,831,000     | 3,915,000     |
|  | 11,359,000    | 12,472,000    |
| Less reserve for slow-moving, obsolete or unusable inventory | (415,000)     | (415,000)     |
|  | \$ 10,944,000 | \$ 12,057,000 |

**6. Investment in and Advances to Unconsolidated Affiliates**

On June 14, 2005, Alpha ProTech Engineered Products, Inc. entered into a joint venture with a manufacturer in India for the production of building products. Under terms of the joint venture



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**Alpha Pro Tech, Ltd.**

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

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 to respond to current and expected increased product demand for house wrap and synthetic roofing underlayment, and future capacity for sales of specialty roofing component products and custom products for industrial applications requiring high quality extrusion coated fabrics.

The capital from the initial funding along with a bank loan, which is guaranteed exclusively by Maple Industries and Associates and the assets of Harmony Plastics Private Limited, was utilized to purchase an existing 33,000 square-foot manufacturing facility in India; this facility includes manufacturing equipment necessary to produce synthetic roof underlayment. Harmony has also built a 60,000 square-foot facility for the manufacturing of house wrap and other building products.

The Company is subject to the provisions of FASB Interpretation ( FIN ) No. 46R, Consolidation of Variable Interest Entities an Interpretation of ARB No. 51 ( FIN 46R ), which defines the criteria by which the Company determines the proper accounting for its investments in related entities. Specifically, FIN 46R requires the Company to assess whether or not related entities are variable interest entities (VIEs), as defined. For those related entities that qualify as variable interest entities, FIN 46R 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 (unaudited). 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 (unaudited).

The Company reviews its investment in Harmony for impairment in accordance with APB No. 18, The Equity Method of Accounting for Investments in Common Stock ( APB 18 ). APB 18 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, their historical performance, their performance in relation to their peers and the current economic environment. The Company has concluded that no impairment was identified.

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Alpha ProTech Engineered Products initially invested \$1,450,000 in the joint venture; \$508,000 for share capital and \$942,000 as a long term advance. Fifty percent of the \$942,000 long term advance for materials was to be repaid over a six year term commencing in July 2006 and the balance is to be paid in the seventh year. During 2006, Harmony repaid \$39,000 in scheduled payments and \$461,000 in additional payments for a total of \$500,000, leaving a balance of \$442,000. Harmony has not made any further payments to date. Effective April 2006, interest of 3.5% is to be paid annually on this advance. The Company has an interest receivable of \$35,000 as of March 31, 2009 related to this agreement.

For the three months ended March 31, 2009 and 2008, Alpha Pro Tech purchased \$224,000 and \$801,000, respectively from Harmony. For the three months ended March 31, 2009 and 2008, the Company recorded equity income in unconsolidated affiliates of \$98,000 and \$21,000, respectively. As of March 31, 2009, the Company's investment in Harmony is \$1,491,000 which comprises its original \$1,450,000 investment and cumulative equity in income of unconsolidated affiliates of \$541,000 less \$500,000 in repayments of the advance.

Table of Contents**Alpha Pro Tech, Ltd.****Notes to Consolidated Financial Statements (Unaudited)****7. Accrued Liabilities**

Accrued liabilities consist of the following:

|                              | <b>March 31, 2009</b> |         | <b>December 31, 2008</b> |           |
|------------------------------|-----------------------|---------|--------------------------|-----------|
| Payroll                      | \$                    | 141,000 | \$                       | 280,000   |
| Commission and bonus accrual |                       | 199,000 |                          | 545,000   |
| Accrued professional fees    |                       | 190,000 |                          | 240,000   |
| Accrued rebates and other    |                       | 316,000 |                          | 198,000   |
|                              | \$                    | 846,000 | \$                       | 1,263,000 |

**8. Basic and Diluted Net Income Per Share**

The following table provides a reconciliation of both net income and the number of shares used in the computation 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:

|   | <b>For the Three Months Ended</b> |            |             |            |
|---|-----------------------------------|------------|-------------|------------|
|   | <b>March 31,</b>                  |            |             |            |
|   | <b>2009</b>                       |            | <b>2008</b> |            |
| Net income (Numerator)                      | \$                                | 514,000    | \$          | 139,000    |
| Shares (Denominator):                       |                                   |            |             |            |
| Basic weighted average shares outstanding   |                                   | 23,700,601 |             | 25,210,691 |
| Add: Dilutive effect of stock options       |                                   |            |             |            |
| Diluted weighted average shares outstanding |                                   | 23,700,601 |             | 25,210,691 |
| Net income per share:                       |                                   |            |             |            |
| Basic                                       | \$                                | 0.02       | \$          | 0.01       |
| Diluted                                     | \$                                | 0.02       | \$          | 0.01       |

**9. Activity of Business Segments**

The Company operates through three segments:

Disposable Protective Apparel Products: 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 and hoods, for the pharmaceutical, cleanroom, industrial and medical

Table of Contents**Alpha Pro Tech, Ltd.****Notes to Consolidated Financial Statements (Unaudited)**

markets.

Building Supply Products (formerly known as Engineered Products): consisting of a line of construction weatherization products such as house wrap and synthetic roof underlayment for the building and re-roofing markets. The Company's equity in income of unconsolidated affiliates (Harmony) is included in the total segment income for Building Supply Products in the table below.

Infection Control Products: consisting of a line of face masks and eye shields principally for the medical, dental and industrial markets. It also consists of a line of medical bed pads as well as 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, it is now appropriate that these segments to be consolidated in the infection control segment. All numbers reflect the updated segmentation.

The accounting policies of the segments excludes charges allocated to corporate office expenses, professional fees, public company expenses, executive and management bonuses 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 for the three ended March 31, 2009 and 2008:

|                               | <b>For the Three Months Ended<br/>March 31,</b> |              |
|-------------------------------|---|--------------|
|                               | <b>2009</b>                                     | <b>2008</b>  |
| Disposable Protective Apparel | \$ 4,834,000                                    | \$ 4,454,000 |
| Building Supply               | 2,255,000                                       | 1,360,000    |
| Infection Control             | 2,237,000                                       | 1,710,000    |
| Consolidated total net sales  | \$ 9,326,000                                    | \$ 7,524,000 |

Table of Contents**Alpha Pro Tech, Ltd.****Notes to Consolidated Financial Statements (Unaudited)**

The following table shows the reconciliation of total segment income to total consolidated net income for the three months ended March 31, 2009 and 2008:

|                                | <b>For the Three Months Ended</b> |                   |
|--------------------------------|-----------------------------------|-------------------|
|                                | <b>March 31,</b>                  |                   |
|                                | <b>2009</b>                       | <b>2008</b>       |
| Disposable Protective Apparel  | \$ 1,250,000                      | \$ 1,064,000      |
| Building Supply                | 91,000                            | (308,000)         |
| Infection Control              | 804,000                           | 522,000           |
| <b>Total segment income</b>    | <b>2,145,000</b>                  | <b>1,278,000</b>  |
| Unallocated corporate expenses | (1,328,000)                       | (1,055,000)       |
| Provision for income taxes     | (303,000)                         | (84,000)          |
| <b>Consolidated net income</b> | <b>\$ 514,000</b>                 | <b>\$ 139,000</b> |

**10. Subsequent Events**

On April 8, 2009, the Company announced the Board of Directors authorization of an additional share repurchase program of the Company's common stock for up to \$2.0 million beyond the current share repurchase program already in place.

During the period of April 1, 2009 through April 27, 2009, the Company purchased 483,400 shares of its own common stock at a cost of \$513,000. These shares will be retired.

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**Alpha Pro Tech, Ltd.**

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

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

**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION**

This report on Form 10-Q contains forward-looking statements that are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures and other information that is not historical information. When used in this report, the words estimates, expects, anticipates, forecasts, plans, intends, believes and variations of such words or similar expressions are intended to identify forward-looking statements. Additional forward-looking statements may be made by us from time to time. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of us, are also expressly qualified by these cautionary statements.

Our forward-looking statements are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. However, we cannot assure you that management's expectations, beliefs and projections will result or be achieved or accomplished. Our forward-looking statements apply only as of the date made. Except as required by law, we undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

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

**Critical Accounting Policies**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the reported periods. We base estimates on past experience and on various other assumptions that are believed to be reasonable under the circumstances. The application of these accounting policies on a consistent basis enables us to provide timely and reliable financial information. Our critical accounting policies 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, if necessary, write down the difference between the cost of inventory and the estimated market value less cost to sell based upon assumptions about future sales and supply on-hand. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.



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Revenue Recognition: For sales transactions, we comply with the provisions of the SEC's Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and 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 experience. Since our return policy is only 90 days and our products are not generally susceptible to external factors such as technological obsolescence or significant changes in demand, we are able to make a reasonable estimate for returns. We offer end-user product specific and sales volume rebates to select distributors. Our rebates are based on actual sales and accrued monthly.

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

The fair values of stock option grants are determined using the Black-Scholes option pricing model and the following assumptions: expected stock price volatility based on historical and management's expectations of future volatility, risk-free interest rates from published sources, years to maturity based on historical data and no dividend yield, as management currently does not intend to pay dividends in the near future. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. In addition, the option valuation model requires the input of highly subjective assumptions including expected stock price volatility. Our stock options have characteristics significantly different from those of traded options and changes in the subjective input assumptions can materially affect their fair value.

**OVERVIEW**

Alpha Pro Tech is in the business of protecting people, products and environments. We accomplish this by developing, manufacturing and marketing a line of high-value, disposable protective apparel and infection control products for the cleanroom, industrial, pharmaceutical, medical and dental markets. We also manufacture a line of building supply construction weatherization products. Our products are sold both 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 (formerly known as Engineered Products), consisting of construction weatherization products such as house wrap 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. 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, it is now appropriate that these segments to be grouped in the infection control segment. All numbers have been updated to reflect the updated segmentation.



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Our target markets are 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, as well as building and re-roofing sites. Our products are distributed principally in the United States through a network consisting of purchasing groups, national distributors, local distributors, independent sales representatives and our own sales and marketing force.

**RESULTS OF OPERATIONS**



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

|  | For the Three Months Ended<br>March 31, |        |
|--|---|--------|
|  | 2009                                    | 2008   |
| Sales                                    | 100.0%                                  | 100.0% |
| Gross profit                             | 44.2%                                   | 45.9%  |
| Selling, general and administrative      | 34.7%                                   | 41.8%  |
| Income from operations                   | 7.7%                                    | 2.2%   |
| Income before provision for income taxes | 8.8%                                    | 3.0%   |
| Net income                               | 5.5%                                    | 1.9%   |

**Three months ended March 31, 2009, compared to the three months ended March 31, 2008**



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**Sales.** Consolidated sales for the three months ended March 31, 2009 increased to \$9,326,000 from \$7,524,000 for the three months ended March 31, 2008, representing an increase of \$1,802,000 or 24.0%. This increase consists of increased sales of Building Supply segment of \$895,000, increased Infection Control segment sales of \$527,000 and increased Disposable Protective Apparel segment sales of \$380,000.

Sales for the Disposable Protective Apparel segment for the three months ended March 31, 2009 increased by \$380,000 or 8.5% to \$4,834,000 compared to \$4,454,000 for the same period of 2008. The increase is related to a slight increase in sales for our largest distributor as well as a major national distributor with which we received preferred vendor status in 2008 but, it was primarily due to increased sales to other cleanroom and industrial distributors. We expect sales for 2009 to be improved as compared to 2008.

Building Supply segment (formerly known as Engineered Products) sales for the three months ended March 31, 2009 increased by \$895,000 or 65.8% to \$2,255,000 as compared to \$1,360,000 for the same period of 2008. The segment increase is primarily due to a 90.0% increase in sales of REX Synfelt synthetic roof underlayment and a 30.0% increase in sales of REX Wrap house wrap. The sales mix



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of the Building Supply sales for the first quarter of 2009 was: 64% synthetic roof underlayment and 36% house wrap. This is compared to 54% synthetic roof underlayment and 46% house wrap in 2008.

Our Building Supply Products distribution channel strategy is continuing to gain momentum. Our REX synthetic roof underlayment is being positively received as a superior product in the industry and we believe is a cost effective and better alternative to felt paper. As well, our high-quality, multi-color printed house wrap gives us a distinct competitive advantage in the marketplace.

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

Infection Control segment sales for the three months ended March 31, 2009 increased by \$527,000 or 30.8% to \$2,237,000 compared to \$1,710,000 for the same period of 2008. Shield sales were up by 192.6% or \$699,000, mask sales were down by 3.5% or \$38,000 and medical bed pad and pet beds were down 50.5% or \$134,000 when compared to the quarter ended March 31, 2008. Shield sales improved in 2009 due to the \$1.7 million shield order received in the fourth quarter of 2008, from the same customer from which we received the non-recurring order from in the first quarter of 2007. This order is being shipped out over a period of three quarters and commenced shipping in the fourth quarter of 2008. As of March 31, 2009 we have shipped approximately \$1.3 million of the order, the balance of \$400,000 will ship in the second quarter of 2009. Shield sales should improve in 2009 due to the above mentioned order and mask sales are expected to improve significantly amidst concerns regarding the global H1N1 Influenza A (commonly known as Swine Flu ) outbreak.

**Gross Profit.** Gross profit increased by 19.4% to \$4,119,000 for the three months ended March 31, 2009 from \$3,450,000 for the same period in 2008. The gross profit margin was 44.2% for the three months ended March 31, 2009 compared to 45.9% for the three months ended March 31, 2008.

Gross profit margin for the first quarter of 2009 has been affected by the change in product mix in which Building Supply sales, which have lower margins, increased to 24.2% as a percentage of total sales for 2009 as compared to 18.1% for the same period of 2008. In addition, gross profit margin for the Disposable Protective Apparel segment for the quarter was lower than the same period of 2008. Although it was lower than the same period of 2008, it was improved from the fourth quarter of 2008 as we passed on a price increase to our distributors due to cost increases in the second half of 2008.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased by \$99,000 or 3.2% to \$3,240,000 for the three months ended March 31, 2009 from \$3,141,000 for the three months ended March 31, 2008. As a percentage of net sales, selling, general and administrative expenses decreased to 34.7% for the three month ended March 31, 2009 from 41.8% for the same period in 2008. The \$99,000 increase is primarily due to a \$225,000 severance agreement for our previous Senior Vice President of Marketing expensed during the first quarter of 2009 and an increased executive bonus of \$66,000. The increase was partially offset by decreased travel expenses of \$78,000, and decreased industrial sales and marketing expenses of \$79,000.

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We believe that we have built the infrastructure required to substantially grow our business and if our revenues grow as expected in the coming year our expenses are expected to decrease as a percentage of sales.

Included in this filing are references to certain financial performance measures excluding the effect of the aforementioned severance agreement. These are noted to be non-GAAP measures which are provided in order to represent how the Board of Directors and management analyze the operating results for the period when comparing it to prior periods. These measures are not intended to be a substitute for the corresponding GAAP measures in determining our operating performance in accordance with generally

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accepted accounting principles. The only reconciling item noted between these measures and those calculated under GAAP is the exclusion of the aforementioned severance transaction.

Excluding the severance agreement, selling, general and administrative expenses in the first quarter of 2009 were \$3,015,000, a decrease of \$126,000 or 4.0% compared to \$3,141,000 the same quarter of 2008. Excluding the severance agreement, selling, general and administrative expenses decreased to 32.3% of sales for the quarter ended March 31, 2009 from 41.8% of sales for the same period in 2008.

The chief executive officer and president are each entitled to a bonus equal to 5% of the pre-tax profits of the Company. Bonuses of \$91,000 were accrued for the three months ended March 31, 2009 as compared to \$25,000 in the same period of 2008.

**Depreciation and Amortization.** Depreciation and amortization expense increased to \$161,000 for the three months ended March 31, 2009 from \$141,000 for the same period in 2008. The increase is primarily attributable to increased depreciation for the Building Supply segment.

**Income from Operations.** Income from operations increased by \$550,000 or 327.4%, to \$718,000 for the three months ended March 31, 2009 as compared to income from operations of \$168,000 for the three months ended March 31, 2008. The increase in income from operations is due to an increase in gross profit of \$669,000, partially offset by an increase in selling, general and administrative expenses of \$99,000 and an increase in depreciation and amortization of \$20,000.

**Equity in income of unconsolidated affiliates.** For the three months ended March 31, 2009, we recorded equity in income of unconsolidated affiliates of \$98,000 as compared to \$21,000 for the same period of 2008.

**Net Interest.** For the three months ended March 31, 2009, net interest income was \$1,000 compared to net interest income of \$34,000 for the same period of 2008. Interest income decreased to \$3,000 for the three months ended March 31, 2009 as compared to \$36,000 for the same period of 2008, due to lower interest rates. Interest expense was constant at \$2,000 for the three months ended March 31, 2009 and March 31, 2008, respectively.

**Income before Provision for Income Taxes.** Income before provision for income taxes for the three months ended March 31, 2009 was \$817,000 compared to \$223,000 for the three months ended March 31, 2008, representing an increase of \$594,000 or 266.4%. The increase in income before provision for income taxes is due primarily to an increase in income from operations of \$550,000, an increase of \$77,000 in equity in income of unconsolidated affiliates (Harmony) and a decrease in net interest income of \$33,000.

**Provision for Income Taxes.** The provision for income taxes for the three months ended March 31, 2009 was \$303,000 compared to \$84,000 for the same period of 2008. The effective tax rate was 37.1% for the three months ended March 31, 2009 as compared to 37.7% for the same period in 2008. Management expects the effective tax rate to be in the 38% range going forward.

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**Net Income.** Net income for the three months ended March 31, 2009 was \$514,000 compared to net income of \$139,000 for the three months ended March 31, 2008, an increase of \$375,000 or 270.0%. The net income increase was primarily due to an increase in income before provision for income taxes of \$594,000, partially offset by an increase in income taxes of \$219,000. Net income as a percentage of sales for the three months ended March 31, 2009 and 2008 was 5.5% and 1.9% respectively. Basic and diluted income per share for the three months ended March 31, 2009 and 2008 was \$0.02 and \$0.01, respectively.

Income prior to the severance agreement and adjusted for related income tax and executive bonus effects for the quarter ended March 31, 2009 would be \$639,000 compared to net income of \$139,000

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for the quarter ended March 31, 2008, an increase of \$500,000 or 360.0%. Basic and diluted income per share for the quarters ended March 31, 2009 and 2008 would be \$0.03 and \$0.01, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2009, we had cash and cash equivalents of \$4,631,000 and working capital of \$21,974,000, an increase in working capital of 1.3% or \$281,000 since December 31, 2008. As of March 31, 2009, our current ratio was 14.3:1 as compared to 12.5:1 as of December 31, 2008. Cash increased by \$53,000 to \$4,631,000 as of March 31, 2009 as compared to \$4,578,000 as of December 31, 2008. The increase in cash is due to cash provided by operating activities of \$428,000 offset by cash paid for the repurchase of common stock of \$285,000 and cash used in investing activities of \$90,000.

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

Net cash provided by operating activities was \$428,000 for the three months ended March 31, 2009 compared to \$536,000 net cash used in operating activities for the three months ended March 31, 2008. The net cash provided by operating activities of \$428,000 for the three months ended March 31, 2009 is due to net income of \$514,000, adjusted by the following: an increase in accounts receivable of \$1,009,000, a decrease in accounts payable and accrued liabilities of \$229,000, equity in income of unconsolidated affiliates of \$98,000, a decrease in inventory of \$1,113,000, an increase in prepaid expenses of \$82,000, amortization of share-based compensation expense of \$58,000 and depreciation and amortization of \$161,000.

The net cash used in operating activities of \$536,000 for the three months ended March 31, 2008 is due to net income of \$139,000, adjusted by the following: an increase in inventory of \$273,000, a decrease in accounts receivable of \$277,000, an increase in prepaid expenses of \$103,000, an increase in accounts payable and accrued liabilities of \$762,000, equity in income of unconsolidated affiliates of \$21,000, amortization of share-based compensation of \$47,000, depreciation and amortization of \$141,000 and an increase in net deferred tax asset of \$19,000.

Accounts receivable increased by \$1,009,000 or 19.8% to \$6,100,000 as of March 31, 2009 from \$5,091,000 as of December 31, 2008. The increase in accounts receivable primarily related to an increase in sales in March 2009 as compared to December 2008. The number of days of sales outstanding as of March 31, 2009 was 54 days as compared to 51 days as of December 31, 2008.

Inventory decreased by \$1,113,000 or 9.2% to \$10,944,000 as of March 31, 2009 from \$12,057,000 as of December 31, 2008. The decrease is primarily due to a decrease in inventory for the Building Supply Segment (formerly the Engineered Products segment) of approximately \$1,000,000 to \$4,999,000 as of March 31, 2009. We expect our inventory turns for this segment to continue to improve in the coming quarters.

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Prepaid expenses and other current assets increased by \$82,000 to \$1,422,000 as of March 31, 2009 from \$1,340,000 as of December 31, 2008. The increase is primarily due to an increase in prepaid insurance and an increase in prepaid inventory from Asia, partially offset by decreased prepaid taxes.

Accounts payable and accrued liabilities as of March 31, 2009 decreased by \$229,000 to \$1,654,000 from \$1,883,000 as of December 31, 2008. The net change was primarily due a decrease in accrued liabilities of \$417,000 and an increase in trade payables of \$188,000. Accrued liabilities are down as follows: commission and bonus accrual \$346,000, accrued payroll expenses \$139,000 and accrued

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professional fees \$50,000. This is partially offset by an increase in accrued rebates and other of \$118,000.

Net cash used in investing activities was \$90,000 for the three months ended March 31, 2009 compared to net cash used in investing activities of \$14,000 for the same period of 2008. Our investing activity for the three months in 2009 consisted of expenditures for property and equipment of \$86,000 and the purchase of intangible assets of \$4,000, compared to \$10,000 and \$4,000, respectively, for the same period of 2008. The expenditures for property and equipment in 2009 are primarily for the Building Supply segment.

For the three months ended March 31, 2009, net cash used in financing activities was \$285,000 compared to net cash used in financing activities of \$708,000 for the same period of 2008. Our financing activities for both periods were solely due to the repurchase of common stock.

As of March 31, 2009 we had \$686,000 available on our repurchase program. During the three months ended March 31, 2009, we repurchased and retired 309,800 shares of common stock at a cost of \$285,000. As of March 31, 2009, we have repurchased and retired a total of 4,948,700 shares of common stock at a cost of \$5,835,000 through our repurchase program. Future repurchases are expected to be funded from cash on hand and cash-flow from operations.

As shown below, at March 31, 2009, our contractual cash obligations totaled approximately \$872,000.

## Contractual Obligations

|                                    | Total      | Payments Due by Period |            |           |
|------------------------------------|------------|------------------------|------------|-----------|
|                                    |            | 1 Year                 | 2-3 Years  | 4-5 Years |
| Operating leases                   | \$ 872,000 | \$ 504,000             | \$ 360,000 | \$ 8,000  |
| Total contractual cash obligations | \$ 872,000 | \$ 504,000             | \$ 360,000 | \$ 8,000  |

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

**New Accounting Standards**

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in prior accounting pronouncements. In February 2008, the FASB decided to postpone for one year the effective date of SFAS 157 for assets and liabilities measured at fair value on a non-recurring basis. We adopted SFAS 157 as of January 1, 2008 for assets and liabilities measured at fair value on a recurring basis and as of





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January 1, 2009 for assets and liabilities measured at fair value on a non-recurring basis. The adoption of this standard did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, ( SFAS 141R ), which changes how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 141R was effective January 1, 2009 and did not have an impact on our consolidated financial statements.

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

In April 2009, the FASB issued FASB Staff Position ( FSP ) FAS No. 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments ( FSP FAS No. 107-1 and APB Opinion No. 28-1 ), which amends the disclosure requirements of SFAS No. 107 and APB Opinion No. 28 and requires disclosure about the fair value of our financial instruments whenever we issue summarized financial information for interim reporting periods. FSP FAS No. 107-1 and APB Opinion No. 28-1 are effective for financial statements issued for interim reporting periods ending after June 15, 2009. We do not expect the adoption of FSP FAS No. 107-1 and APB Opinion No. 28-1 to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ( FSP FAS No. 115-2 and FAS No. 124-2 ), which amends SFAS No. 115 and FSP FAS No. 115-1 and FSP FAS No. 124-1 and conforms changes to other standards including EITF Issue No. 99-20 and AICPA Statement of Position ( SOP ) No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer , and improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS No. 115-2 and FAS No. 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. We do not expect the adoption of FSP FAS No. 115-2 and FAS No. 124-2 to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly ( FSP FAS No. 157-4 ), which provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements , when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly and applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements, except in paragraphs 2 and 3 of SFAS No. 157. FSP FAS No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. We do not expect the adoption of FSP FAS No. 157-4 to have a material impact on our consolidated financial statements.

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

We subcontract the manufacture of products in China and Mexico and have a joint venture in India. Our results of operations could be negatively affected by factors such as changes in foreign currency exchange rates due to stronger economic conditions in those countries.

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Changes in interest rates may result in changes in the fair market value of our cash and cash equivalents and interest income. Due to the short duration and conservative nature of the cash equivalent investment portfolio, we do not expect any material loss with respect to our cash equivalents. The book value for cash equivalents is considered to be representative of its fair value.

As of March 31, 2009 we have no debt.

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

**ITEM 4. CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the Securities and Exchange Commission under the Exchange Act.

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

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

Changes in Internal Controls.

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

**PART II - OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

None.

**Item 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our 2008 Annual report on Form 10-K.

Table of Contents**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

| Period     |          | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid per<br>Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plan | Approximate Dollar<br>Value of Shares that<br>May yet be Purchased<br>Under the Plan (1) |
|------------|----------|--|------------------------------------|--|--|
| January 1  | 31, 2008 | 117,600                                | \$ 0.96                            | 4,756,500  | \$ 855,000   |
| February 1 | 29, 2008 | 61,900                                 | \$ 0.97                            | 4,818,400  | \$ 793,000   |
| March 1-   | 31, 2008 | 130,300                                | \$ 0.81                            | 4,948,700  | \$ 686,000   |

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

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(1) On April 8, 2009, the Company announced the Board of Directors authorization of the repurchase of up to an additional \$2,000,000 of our outstanding common stock.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K**

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(a) Exhibits

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

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

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

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

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(b) Reports on Form 8-K

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated February 24, 2009 announcing the registrant's termination of the Senior Vice President of Marketing with a severance package of \$225,000.

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated March 4, 2009 announcing that it will be reporting its financial results for the fourth quarter and year end of 2008 after the close of the market on Tuesday March 10, 2009 and that it will have a conference call regarding its 2008 fourth quarter and year end at 4:30pm Eastern time on Tuesday March 10, 2009

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated March 10, announcing registrant's financial results for the fourth quarter and fiscal year ended December 31, 2008.

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated March 26, 2009 announcing that had signed a three year, renewable contract with a Fortune 1000 Company.

**SIGNATURES**

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

**ALPHA PRO TECH, LTD.**

DATE: **May 6, 2009**

BY: **/s/ Sheldon Hoffman**

Sheldon Hoffman  
Chief Executive Officer and Director

DATE: **May 6, 2009**

BY: **/s/ Lloyd Hoffman**

Lloyd Hoffman  
Chief Financial Officer