ALPHA PRO TECH LTD
Form 10-Q
May 14, 2008

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarter Ended March 31, 2008

Commission File No. 01-15725

Alpha Pro Tech, Ltd.

(exact name of registrant as specified in its charter)

Delaware, U.S.A.	**63-1009183**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
Suite 112, 60 Centurian Drive **Markham, Ontario, Canada**	**L3R 9R2**
(Address of principal executive offices)	(Zip Code)

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 x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of May 12, 2008.

25,027,853 shares of common stock, $.01 par value

Alpha Pro Tech, Ltd.

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	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)	

Alpha Pro Tech, Ltd.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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 Annual Report on Form 10-K for the year ended December 31, 2007. The Company s 2007 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 three months ended March 31, 2008 with the same period in 2007.

Alpha Pro Tech, Ltd.

Consolidated Balance Sheets (Unaudited)

		March 31, 2008		December 31, 2007 (1)
Assets				
Current assets:				
Cash and cash equivalents	$	2,806,000	$	4,064,000
Accounts receivable, net of allowance for doubtful accounts of $64,000 at March 31, 2008 and $65,000 at December 31, 2007		4,145,000		4,422,000
Inventories, net		14,384,000		14,111,000
Prepaid expenses and other current assets		1,691,000		1,588,000
Deferred income taxes		404,000		419,000
Total current assets		23,430,000		24,604,000
Property and equipment, net		3,314,000		3,439,000
Goodwill, net		55,000		55,000
Intangible assets, net		178,000		180,000
Equity investments in and advances to unconsolidated affiliates		1,229,000		1,208,000
Total assets	$	28,206,000	$	29,486,000
Liabilities and Shareholders Equity				
Current liabilities:				
Accounts payable	$	633,000	$	457,000
Accrued liabilities		540,000		1,478,000
Total current liabilities		1,173,000		1,935,000
Deferred income taxes		751,000		747,000
Total liabilities		1,924,000		2,682,000
Shareholders equity				
Common stock, $.01 par value, 50,000,000 shares authorized, 25,117,155 and 25,583,655 issued and outstanding at March 31, 2008 and December 31, 2007, respectively		252,000		256,000
Additional paid-in capital		26,013,000		26,670,000
Retained earnings (accumulated deficit)		17,000		(122,000)
Total shareholders equity		26,282,000		26,804,000
Total liabilities and shareholders equity	$	28,206,000	$	29,486,000

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(1) The condensed consolidated balance sheet as of December 31, 2007 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.

Alpha Pro Tech, Ltd.

Consolidated Income Statements (Unaudited)

	For the Three Months Ended March 31, 2008		For the Three Months Ended March 31, 2007	
Net sales	$	7,524,000	$	9,044,000
Cost of goods sold, excluding depreciation and amortization		4,074,000		4,880,000
Gross margin		3,450,000		4,164,000
Expenses:				
Selling, general and administrative		3,141,000		3,223,000
Depreciation and amortization		141,000		115,000
Income from operations		168,000		826,000
Other income				
Equity in income of unconsolidated affiliates		21,000		25,000
Interest, net		34,000		16,000
Income before provision for income taxes		223,000		867,000
Provision for income taxes		84,000		332,000
Net income	$	139,000	$	535,000
Basic net income per share	$	0.01	$	0.02
Diluted net income per share	$	0.01	$	0.02
Basic weighted average shares outstanding		25,210,691		24,834,005
Diluted weighted average shares outstanding		25,210,691		25,811,883

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

Alpha Pro Tech, Ltd.

Consolidated Statement of Shareholders Equity (Unaudited)

	Common Stock		Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Total
	Shares	Amount			
Balance at December 31, 2007	25,583,655	$ 256,000	$ 26,670,000	$ (122,000)	$ 26,804,000
Share- based compensation expense			47,000		47,000
Common Stock repurchased & retired	(466,500)	(4,000)	(704,000)		(708,000)
Net income				139,000	139,000
Balance at March 31, 2008	25,117,155	$ 252,000	$ 26,013,000	$ 17,000	$ 26,282,000

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Cash Flows (Unaudited)

	For the Three months Ended March 31,			
		2008		**2007**
Cash Flows From Operating Activities:				
Net income	$	139,000	$	535,000
Adjustments to reconcile net income to net cash used in operating activities:				
Share-based compensation expense		47,000		38,000
Depreciation and amortization		141,000		115,000
Deferred income taxes		19,000		
Equity in income of unconsolidated affiliates		(21,000)		(25,000)
Changes in assets and liabilities:				
Accounts receivable, net		277,000		819,000
Inventories, net		(273,000)		(2,067,000)
Prepaid expenses and other current assets		(103,000)		(116,000)
Accounts payable and accrued liabilities		(762,000)		(682,000)
Net cash used in operating activities:		(536,000)		(1,383,000)
Cash Flows From Investing Activities:				
Purchase of property and equipment		(10,000)		(50,000)
Purchase of intangible assets		(4,000)		(23,000)
Net cash used in investing activities		(14,000)		(73,000)
Cash Flows From Financing Activities:				
Payments for the repurchase of common stock		(708,000)		
Income tax benefit from stock options exercised				236,000
Proceeds from the exercise of stock options				469,000
Net cash (used in) provided by financing activities		(708,000)		705,000
Decrease in cash during the period		(1,258,000)		(751,000)
Cash and cash equivalents, beginning of period		4,064,000		1,837,000
Cash and cash equivalents, end of period	$	2,806,000	$	1,086,000

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

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 infection control products for the medical and dental markets and a line of construction weatherization products. The disposable protective apparel consists of a complete line of shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats. The infection control line of products includes a line of face masks and eye shields. The line of construction supply weatherization products consists of house wrap and synthetic roof underlayment. The Company also manufactures and distributes a line of medical bed pads and accessories as well as a line of pet beds. 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 consolidated financial statements for the year ended December 31, 2007, which are included in the Company s Annual Report on Form 10-K (2007 10-K). The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet at December 31, 2007 was extracted from the audited consolidated financial statements contained in the 2007 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

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 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 2008 and 2007 there were no stock options granted under the option plan. The Company recognized $47,000 and $38,000 in share-based compensation expense in its consolidated financial statements for the three months ended March 31, 2008 and 2007 respectively related to previously issued options.

Stock options to purchase 1,320,000 and 2,070,000 shares of common stock were outstanding at March 31, 2008 and 2007, respectively. Of the March 31, 2008 outstanding stock options totaling 1,320,000, none 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. Of the March 31, 2007 outstanding stock options totaling 2,070,000, all of the options to purchase common stock were included in

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements (Unaudited)

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 would have been dilutive.

The Company used the Black-Scholes option pricing model to value the options. The table below presents the weighted average expected life in years. The Company used SAB 107 s simplified method for estimating 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 following table summarizes stock option activity during the three months ended March 31, 2008 :

	Options		Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value
Options outstanding at December 31, 2007	1,320,000	$	1.71	5.02	$	(71,000)
Exercised						
Granted						
Forfeited or expired						
Options outstanding at March 31, 2008	1,320,000	$	1.71	4.77	$	(693,000)
Options exercisable at March 31, 2008	445,000	$	1.63	6.47	$	(202,000)

As of March 31, 2008, $354,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 2.4 years.

4. New Accounting Standards

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB s long-term measurement objectives for accounting for financial instruments. SFAS No. 159 was

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements (Unaudited)

adopted by the Company on January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows. The Company did not elect the fair value option for any of its financial assets or financial liabilities.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which changes the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. SFAS 160 is effective January 1, 2009 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We are currently evaluating the impact of SFAS 160 on our consolidated financial statements.

5. Inventories

Inventories consist of the following:

		March 31, 2007		December 31, 2007
Raw materials	$	11,158,000	$	10,175,000
Work in process		195,000		535,000
Finished goods		3,358,000		3,728,000
		14,711,000		14,438,000
Less reserve for slow-moving, obsolete or unusable inventory		(327,000)		(327,000)
	$	14,384,000	$	14,111,000

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

The Company is subject to the provisions of FIN 46 which defines the criteria by which the Company determines the proper accounting for its investments in related entities. Specifically, FIN 46 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 46

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Notes to Consolidated Financial Statements (Unaudited)

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 its investment in Harmony for impairment in accordance with APB No. 18, The Equity Method of Accounting for Investments in Common Stock. APB No. 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.

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 and $19,000 is accrued as of March 31, 2008.

Harmony commenced operations in August of 2005. For the three months ended March 31, 2008 and 2007, Alpha ProTech Engineered Products purchased $801,000 and $598,000, respectively from Harmony. For the three months ended March 31, 2008 and 2007, the Company recorded equity income in unconsolidated affiliates of $21,000 and $25,000, respectively. As of March 31, 2008, the Company s investment in Harmony is $1,229,000 which comprises its original $1,450,000 investment and cumulative equity in income of unconsolidated affiliates of $279,000 less $500,000 in repayments of the advance.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2008	December 31, 2007
Payroll expenses	$ 138,000	$ 229,000
Commission and bonus accrual	72,000	706,000
Income tax accrual		
Accrued professional fees	113,000	200,000
Accrued rebates and other	217,000	343,000
	$ 540,000	$ 1,478,000

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements (Unaudited)

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:

	For the Three Months Ended March 31, 2008	2007
Net income (Numerator)	$ 139,000	$ 535,000
Shares (Denominator):		
Basic weighted average shares outstanding	25,210,691	24,834,005
Add: Dilutive effect of stock options		977,878
Diluted weighted average shares outstanding	25,210,691	25,811,883
Net income per share:		
Basic	$ 0.01	$ 0.02
Diluted	$ 0.01	$ 0.02

9. Activity of Business Segments

The Company operates through four 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 markets.

Infection Control Products: consisting of a line of face masks and eye shields principally for the medical, dental and industrial markets.

Extended Care Products: consisting of a line of medical bed pads using Unreal Lambskin® (synthetic lambskin). The Unreal Lambskin® is used to produce medical bed pads, which prevent decubitus ulcers or bedsores on long term care patients. The Unreal Lambskin® is also used to manufacture bedrail pads, knee and elbow protectors, as well as wheelchair accessories. The Company also manufactures a line of pet beds with this material.

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Notes to Consolidated Financial Statements (Unaudited)

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

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 months ended March 31, 2008 and 2007:

	For the Three Months Ended March 31,	
	2008	**2007**
Disposable Protective Apparel	$ 4,454,000	$ 5,376,000
Infection Control	1,444,000	2,011,000
Engineered Products	1,360,000	1,316,000
Extended Care	266,000	341,000
Consolidated total net sales	$ 7,524,000	$ 9,044,000

The following table shows the reconciliation of total segment income to total consolidated net income for the three months ended March 31, 2008 and 2007:

	For the Three Months Ended March 31,	
	2008	**2007**
Disposable Protective Apparel	$ 976,000	$ 1,276,000
Infection Control	542,000	846,000
Engineered Products	(308,000)	(324,000)
Extended Care	(20,000)	12,000
Total segment income	1,190,000	1,810,000
Unallocated corporate expenses	(967,000)	(943,000)
Provision for income taxes	(84,000)	(332,000)
Consolidated net income	$ 139,000	$ 535,000

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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 and the notes to our consolidated financial statements, 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 id 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 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 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, 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.

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: We adopted Statement of Financial Accounting Standards 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. For the three months ended March 31, 2008 and March 31, 2007 no options were granted. We recognized $47,000 in share-based compensation expense in our consolidated financial statements for the three months ended March 31, 2008 related to options issued in prior periods.

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 historic 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, option valuation models require 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 clean room, industrial, pharmaceutical, medical and dental markets. We also manufacture a line of construction weatherization products and a line of medical bed pads and accessories as well as a line of pet beds. Our products are sold both under the Alpha Pro Tech brand name as well as under private label.

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

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 stores and pet distributors and construction supply and roofing distributors.

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

RESULTS OF OPERATIONS

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

	For the Three Months Ended March 31,	
	2008	**2007**
Sales	100.0%	100.0%
Gross profit	45.9%	46.0%
Selling, general and administrative	41.8%	35.6%
Income from operations	2.2%	9.1%
Income before provision for income taxes	3.0%	9.6%
Net income	1.9%	5.9%

Three months ended March 31, 2008, compared to the three months ended March 31, 2007

Sales Consolidated sales for the three months ended March 31, 2008 decreased to $7,524,000 from $9,044,000 for the three months ended March 31, 2007, representing a decrease of $1,520,000 or 16.8%. This decrease consists of decreased sales of Disposable Protective Apparel products of $922,000, decreased Infection Control segment sales of $567,000, and decreased sales from our

Extended Care products segment of $75,000, partially offset by increased sales of Engineered Products segment of $44,000.

Sales for the Disposable Protective Apparel segment for the three months ended March 31, 2008 decreased by $922,000 or 17.2% to $4,454,000 compared to $5,376,000 for the same period of 2007. The decrease is primarily related to decreased sales to our largest distributor as well as lower sales other clean room and industrial distributors. Shipments to our largest distributor were weak in the first quarter of 2008 primarily due to their loss of some accounts which can be attributed to the closure of some pharmaceutical manufacturing facilities that they sell to and to the loss of a few accounts in which we expect will purchase our products through other distributors. As well, our largest distributor has adjusted their inventory levels which have affected our sales to them in the first quarter of 2008. We expect growth in this segment in 2008 due to our expanded distribution network which we further solidified by achieving preferred vendor status with a major national distributor during the first quarter of 2008.

Infection Control segment sales for the three months ended March 31, 2008 decreased by $567,000 or 28.2% to $1,444,000 compared to $2,011,000 for the same period of 2007. Shield sales in this segment were down by $544,000 and mask sales were down by $23,000. Shield sales were down primarily due to a large non-recurring order in the first quarter of 2007. Medical mask sales were down slightly partially offset by higher dental mask sales. Sales in this segment for the balance of 2008 are expected to be similar to that of 2007.

Engineered Products segment sales for the three months ended March 31, 2008 increased by $44,000 or 3.3% to $1,360,000 as compared to $1,316,000 for the same period of 2007. The increase for the quarter is primarily due to a 132.3% or $429,000 increase in sales of REX Synfelt synthetic roof underlayment, partially offset by a 36.1% or $356,000 decrease in sales of REX Wrap house wrap. The breakdown of the Engineered Products sales is as follows for the first quarter: 54% synthetic roof underlayment and 46% house wrap. This compares to 25% synthetic roof underlayment and 75% house wrap and for the first quarter last year. This segment had growth of 39.6% when compared to the preceding quarter.

The Engineered Products segment sales were impacted by the weak housing market and our change in distribution channel strategy. The downturn in the housing market has particularly hurt our house wrap sales as fewer houses are being built and distributors continue to keep inventories low. Our recent ICC-ES approval for our REX Wrap house wrap significantly expands our market opportunities as many construction supply companies, builders and architects require this certification to sell the product. In addition, we continue to be optimistic that the new distribution channel strategy will broaden our ability to take advantage of market opportunities for house wrap and synthetic roof underlayment in 2008. We are currently working on some significant opportunities with existing and new distributors. We continue to expect that this segment will increase significantly in 2008, with the bulk of the growth coming in the second half of the year.

Sales from our Extended Care segment decreased by $75,000 or 22.0% to $266,000 for the three months ended March 31, 2008 from $341,000 for the three months ended March 31, 2007. The decrease in sales is primarily the result of lower pet bed sales. This line of products is not expected to be a growth segment for the Company.

Gross Profit Gross profit decreased by 17.2% to $3,450,000 for the three months ended March 31, 2008 from $4,164,000 for the same period in 2007. The gross profit margin was 45.9% for the three months ended March 31, 2008 compared to 46.0% for the three months ended March 31, 2007.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by $82,000 or 2.5% to $3,141,000 for the three months ended March 31, 2008 from $3,223,000 for the three months ended March 31, 2007. As a percentage of net sales, selling, general and administrative expenses increased to 41.8% for the three month ended March 31, 2008 from 35.6 % for the same period in 2007, this is due to the decrease in sales in the first quarter of 2008. The decrease is primarily due to decreased expenses for the Engineered Products segment of $53,000 and decreased executive bonus of $71,000, partially offset by increased sales & marketing salaries of $36,000.

The Engineered Products segment decrease of $53,000 is primarily due to a decrease of $104,000 in marketing expenses partially offset by a $41,000 increase in commission for independent representatives.

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 $25,000 were accrued for the three months ended March 31, 2008 as compared to $96,000 in the same period of 2007.

Depreciation and Amortization. Depreciation and amortization expense increased by $26,000 or 22.6% to $141,000 for the three months ended March 31, 2008 from $115,000 for the same period in 2007. The increase is primarily attributable to increased depreciation for Engineered Products.

Income from Operations. Income from operations decreased by $658,000 or 79.7%, to $168,000 for the three months ended March 31, 2008 as compared to income from operations of $826,000 for the three months ended March 31, 2007. The decrease in income from operations is due to a decrease in gross profit of $714,000, an increase in depreciation and amortization of $26,000, partially offset by a decrease in selling, general and administrative expenses of $82,000.

Net Interest. For the three months ended March 31, 2008, we had net interest income of $34,000 compared to net interest income of $16,000 for the three months ended March 31, 2007. Interest income increased by $18,000 to $36,000 for the three month ended March 31, 2008 as compared to $18,000 for the same period of 2007, due to higher cash balances and an interest income accrual for Harmony. Interest expense was constant at $2,000 for the three month ended March 31, 2008 and 2007.

Income Before Provision for Income Taxes. Income before provision for income taxes for the three months ended March 31, 2008 was $223,000 compared to $867,000 for the three months ended March 31, 2007, representing a decrease of $644,000 or 74.3%. The decrease in income before provision for income taxes is due primarily to a decrease in income from operations of $658,000, partially offset by an increase in net interest income of $18,000.

Provision for Income Taxes The provision for income taxes for the three months ended March 31, 2008 was $84,000 compared to $332,000 for the three months ended March 31, 2007. The effective tax rate was 37.7% for the three months ended March 31, 2008 as compared to 38.3% for the same period in 2007. The decrease in the effective tax rate is due to a reduction in state taxes.

Net Income. Net income for the three months ended March 31, 2008 was $139,000 compared to net income of $535,000 for the three months ended March 31, 2007, a decrease of $396,000 or 74.0%. The net income decrease was primarily due to a decrease in income before provision for income taxes of $644,000, partially offset by a decrease in income taxes of $248,000. Net income as a percentage of sales for the months ended March 31, 2008 and 2007 was 1.9% and 5.9% respectively. Basic and diluted income per share for the three months ended March 31, 2008 and 2007 was $0.01 and $0.02 respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, we had cash and cash equivalents of $2,806,000 and working capital of $22,257,000, a decrease in working capital of 1.8% or $412,000 since December 31, 2007. As of March 31, 2008, our current ratio was 20.0:1 as compared to 12.7:1 as of December 30, 2007. Cash decreased by $1,258,000 to $2,806,000 as of March 31, 2008 as compared to $4,064,000 as of December 31, 2007. The decrease in cash is due primarily to cash used in operating activities of $536,000, and cash paid for the repurchase of common stock of $708,000.

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, 2008, the prime interest rate was 5.25%. The line of credit was renewed in May

2007 and expires in May 2009 and we intend to renew it. Our borrowing capacity on the line of credit was $3,500,000 at March 31, 2007. The available line of credit is based on a formula of eligible accounts receivable and inventories. As of March 31, 2008, we did not have any debt.

Net cash used in operating activities was $536,000 for the three months ended March 31, 2008 compared to $1,383,000 net cash used in operating activities for the three months ended March 31, 2007. 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, a decrease in accounts payable and accrued liabilities of $762,000, equity in income of unconsolidated affiliates of $21,000, $47,000 in amortization of share-based compensation, depreciation and amortization of $141,000 and an decrease in net deferred tax asset of $19,000.

The net cash used in operating activities of $1,383,000 for the three month ended March 31, 2007 is due to net income of $535,000 adjusted by the following: a decrease in accounts payable and accrued liabilities of $682,000, an increase in inventory of $2,067,000, an increase in prepaid expenses of $116,000, non-cash equity income in unconsolidated affiliates of $25,000, a decrease in accounts receivable of $819,000, $38,000 of non-cash share-based compensation expense and depreciation and amortization of $115,000.

Accounts receivable decreased by $277,000 or 6.3% to $4,145,000 as of March 31, 2008 from $4,422,000 as of December 31, 2007. This decrease is primarily due to decreased sales of 5.4% in the first quarter of 2008 as compared to the fourth quarter of 2007. The number of days of sales outstanding was 50 days as of March 31, 2008 as compared to 51 days as of December 31, 2007.

Inventory increased by $273,000 or 1.9% to $14,384,000 as of March 31, 2008 from $14,111,000 as of December 31, 2007. The increase is primarily due to an increase in Disposable Protective Apparel segment inventory of $217,000 and to an increase in inventory for the Engineered Products segment of $102,000 to $8,061,000 as of March 31, 2008 from $7,959,000 as of December 31, 2007. Commencing in April 2008, the Engineered Products segment will not be placing any purchase orders for our current product line with our joint venture partner until inventory levels have been reduced to levels that are more in line with our sales volume.

Prepaid expenses and other current assets increased by $103,000 to $1,691,000 as of March 31, 2008 from $1,588,000 as of December 31, 2007. The increase of $103,000 is primarily due to an increase in prepaid tax of $70,000, and an increase in prepaid insurance for Engineered Products of $22,000.

Accounts payable and accrued liabilities as of March 31, 2008 decreased by $762,000 to $1,173,000 from $1,935,000. The net change in 2008 was primarily due a decrease in accrued liabilities of $938,000, partially offset by an increase in trade payables of $176,000. Accrued liabilities are down as follows: commission and bonus accrual $634,000, accrued rebates and other $126,000, payroll expenses $91,000 and accrued professional fees $87,000.

Net cash used in investing activities was $14,000 for the three months ended March 31, 2008 compared to net cash used in investing activities of $73,000 for the three months ended March 31, 2007. Our investing activity in 2008 consisted primarily of expenditures for property and equipment of $10,000 and compared to expenditures for property and equipment of $50,000 and the purchase of intangible assets of $23,000 during the three months ended March 31, 2007.

For the three months ended March 31, 2008, net cash used in financing activities was $708,000 compared to cash provided by financing activities of $705,000 for the same period of 2007. Our financing activities for the quarter ended March 31, 2008 consisted of the repurchase of 466,500 shares of common stock at a cost of $708,000. Our financing activities for the same period of 2007 consisted of cash proceeds of $469,000 from the exercise of 511,000 stock options and an income tax benefit from stock options exercised of $236,000.

On April 2, 2008, our Board of Directors authorized the repurchase of up to an additional $2,000,000 of our outstanding common stock. In addition to the $2,000,000, we have approximately $300,000 available from a previously announced repurchase program, making the total available to repurchase of approximately $2,300,000. As of March 31, 2008, we have repurchased and retired a total of 3,372,600 shares of common stock at a cost of $4,133,000 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, 2008, our contractual cash obligations totaled approximately $954,000.

Contractual Obligations

		Payments Due by Period	
	Total	**1 Year**	**2-3 Years**
Operating leases	$ 954,000	$ 473,000	$ 481,000
Total contractual cash obligations	$ 954,000	$ 473,000	$ 481,000

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

Based on our review of new accounting standards released during the quarter ended March 31, 2008, we did not identify any standards requiring adoption that would have a significant 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.

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

Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures as of March 31, 2008, have concluded that our disclosure controls and procedures were designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our management, including our chief executive and chief financial officers as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our fiscal quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(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)

(b) Reports on Form 8-K

On January 2, 2008 registrant issued a release announcing that it obtained a vendor number to begin distribution through a large national chain of building and home improvement products.

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated March 13, 2008 announcing that it will be reporting its financial results for the fourth quarter and year end of 2007 after the close of the market on Wednesday March 19, 2008 and that it will have a conference call regarding its 2007 fourth quarter and year end at 4:30pm Eastern time on Wednesday March 19, 2008

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated March 19, announcing registrants financial results for the fourth quarter and fiscal year ended December 31, 2007.

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated March 19, 2008 announcing that it obtained ICC-ES approval for its house wrap product.

A Form 8-K was filed during the quarter covered by this report, reporting the issuance of a release dated April 2, 2008 announcing the stock buyback plan.

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 14, 2008**	BY: /s/ **Sheldon Hoffman** Sheldon Hoffman Chief Executive Officer and Director
DATE: **May 14, 2008**	BY: /s/ **Lloyd Hoffman** Lloyd Hoffman Chief Financial Officer