

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File 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 or Organization)

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

60 Centurian Drive, Suite 112

Markham, Ontario, Canada

(Address of Principal Executive Offices)

L3R 9R2

(Zip Code)

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant 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 the latest practicable date.

<u>Class</u>	<u>Outstanding May 1, 2019</u>
Common Stock, \$0.01 par value	13,281,016 shares

Alpha Pro Tech, Ltd.

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Alpha Pro Tech, Ltd.

PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2019	December 31, 2018 (1)
Assets		
Current assets:		
Cash	\$ 4,488,000	\$ 7,007,000
Investments	417,000	258,000
Accounts receivable, net of allowance for doubtful accounts of \$64,000 and \$64,000 as of March 31, 2019 and December 31, 2018	7,202,000	4,935,000
Accounts receivable, related party	837,000	383,000
Inventories	10,407,000	9,878,000
Right-of-use assets	668,000	-
Prepaid expenses	2,697,000	3,999,000
Total current assets	<u>26,716,000</u>	<u>26,460,000</u>
Property and equipment, net	3,271,000	3,244,000
Goodwill	55,000	55,000
Definite-lived intangible assets, net	15,000	16,000
Right-of-use assets, net of current portion	2,583,000	-
Equity investment in unconsolidated affiliate	4,757,000	4,480,000
Total assets	<u>\$ 37,397,000</u>	<u>\$ 34,255,000</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 743,000	\$ 578,000
Accrued liabilities	632,000	1,342,000
Lease liabilities	663,000	-
Total current liabilities	<u>2,038,000</u>	<u>1,920,000</u>
Lease liabilities, net of current portion	2,632,000	-
Deferred income tax liabilities, net	141,000	141,000
Total liabilities	<u>4,811,000</u>	<u>2,061,000</u>
Commitments		
Shareholders' equity:		
Common stock, \$.01 par value: 50,000,000 shares authorized; 13,281,018 and 13,502,684 shares outstanding as of March 31, 2019 and December 31, 2018, respectively	133,000	135,000
Additional paid-in capital	1,845,000	2,669,000
Retained earnings	30,608,000	29,390,000
Total shareholders' equity	<u>32,586,000</u>	<u>32,194,000</u>
Total liabilities and shareholders' equity	<u>\$ 37,397,000</u>	<u>\$ 34,255,000</u>

1) The condensed consolidated balance sheet as of December 31, 2018 has been prepared using information from the audited consolidated balance sheet as of that date.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Alpha Pro Tech, Ltd.

Condensed Consolidated Statements of Income (Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Net sales	\$ 12,304,000	\$ 11,442,000
Cost of goods sold, excluding depreciation and amortization	7,500,000	6,987,000
Gross profit	4,804,000	4,455,000
Operating expenses:		
Selling, general and administrative	3,675,000	3,881,000
Depreciation and amortization	127,000	146,000
Total operating expenses	3,802,000	4,027,000
Income from operations	1,002,000	428,000
Other income:		
Equity in income of unconsolidated affiliate	277,000	139,000
Gain on marketable securities	170,000	32,000
Interest income, net	12,000	1,000
Total other income	459,000	172,000
Income before provision for income taxes	1,461,000	600,000
Provision for income taxes	243,000	92,000
Net income	\$ 1,218,000	\$ 508,000
Basic earnings per common share	\$ 0.09	\$ 0.04
Diluted earnings per common share	\$ 0.09	\$ 0.04
Basic weighted average common shares outstanding	13,391,992	14,217,919
Diluted weighted average common shares outstanding	13,469,497	14,383,005

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Alpha Pro Tech, Ltd.

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

For the Three Months Ended March 31, 2019

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance as of December 31, 2018	13,502,684	\$ 135,000	\$ 2,669,000	\$ 29,390,000	\$ 32,194,000
Common stock repurchased and retired	(255,000)	(2,000)	(1,006,000)	-	(1,008,000)
Stock-based compensation expense	-	-	122,000	-	122,000
Options exercised	33,334	-	60,000	-	60,000
Net income	-	-	-	1,218,000	1,218,000
Balance as of March 31, 2019	<u>13,281,018</u>	<u>\$ 133,000</u>	<u>\$ 1,845,000</u>	<u>\$ 30,608,000</u>	<u>\$ 32,586,000</u>

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Alpha Pro Tech, Ltd.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	For the Three Months Ended	
	March 31,	
	2019	2018
Cash Flows From Operating Activities:		
Net income	\$ 1,218,000	\$ 508,000
Adjustments to reconcile net income to net cash used in operating activities:		
Stock-based compensation	122,000	78,000
Depreciation and amortization	127,000	146,000
Gain on marketable securities	(170,000)	(32,000)
Equity in income of unconsolidated affiliate	(277,000)	(139,000)
Operating lease expense, net of accretion	164,000	-
Changes in assets and liabilities:		
Accounts receivable, net	(2,267,000)	(1,866,000)
Accounts receivable, related party	(454,000)	(20,000)
Inventories	(529,000)	(386,000)
Prepaid expenses	1,302,000	(790,000)
Accounts payable and accrued liabilities	(505,000)	5,000
Lease liabilities	(160,000)	-
Net cash used in operating activities	<u>(1,429,000)</u>	<u>(2,496,000)</u>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(152,000)	(102,000)
Proceeds from sales of marketable securities	<u>10,000</u>	<u>-</u>
Net cash used in investing activities	<u>(142,000)</u>	<u>(102,000)</u>
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	60,000	77,000
Repurchase of common stock	<u>(1,008,000)</u>	<u>(576,000)</u>
Net cash used in financing activities	<u>(948,000)</u>	<u>(499,000)</u>
Decrease in cash	(2,519,000)	(3,097,000)
Cash, beginning of the period	<u>7,007,000</u>	<u>8,763,000</u>
Cash, end of the period	<u>\$ 4,488,000</u>	<u>\$ 5,666,000</u>

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Alpha Pro Tech, Ltd.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. The Company

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

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

The Disposable Protective Apparel segment consists of a complete line of disposable protective clothing (shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats), face masks and face shields. Previously, face masks and face shields were included in a separate business segment called Infection Control. All our disposable protective apparel, including masks and shields, are sold through similar distribution channels, are single-use and disposable, have the purpose of protecting people, products and environments, and have to be produced in FDA approved facilities, regardless of the market served. For these reasons, the Infection Control segment was combined with the Disposable Protective Apparel segment during the quarter ended March 31, 2019. The disclosures herein reflect this current segmentation.

The Company's products are sold under the "Alpha Pro Tech" brand name and under private label, and are predominantly sold in the United States of America ("US").

2. Basis of Presentation and Revenue Recognition Policy

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. These interim condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and, therefore, omit certain information and note disclosures necessary to present the statements in accordance with US generally accepted accounting principles ("US GAAP"). The interim condensed consolidated financial statements should be read in conjunction with the Company's current year SEC filings on Form 8-K as well as the consolidated financial statements for the year ended December 31, 2018, which are included in the Company's Annual Report on Form 10-K (the "2018 Form 10-K"), which was filed on March 6, 2019. The results of operations for the three months ended March 31, 2019 reported in this Form 10-Q are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2018 was prepared using information from the audited consolidated balance sheet contained in the 2018 Form 10-K and does not include all disclosures required by US GAAP for annual consolidated financial statements.

As of January 1, 2018, the Company adopted the new accounting standard, Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*. This standard was retrospectively adopted for the 2017 year, and there was no cumulative effect adjustment upon adoption. Net sales include products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Revenue is measured as the amount of consideration that we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with revenue being recognized at the point in time when the customer obtains control of the products, at which time a receivable is created for the invoice sent to the customer. We recognize revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. We estimate product returns based on historical return rates and rebates based upon contractual agreements. Using probability assessments, we estimate sales incentives expected to be paid over the term of the contract. Our contracts have a single performance obligation. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales. The Company manufactures certain private label goods for customers and has

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Notes to Condensed Consolidated Financial Statements (Unaudited)

determined that control does not pass to the customer at the time of manufacture, based upon the nature of the private labelling. The Company had no material contract assets, and the Company concluded that its contract liabilities (mostly rebates) had the right of offset against customer receivables. See Notes 10 and 11 for revenue disaggregated by type and by geographic region.

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 records compensation expense for the fair value of stock-based awards determined as of the grant date, including employee stock options, over the determined requisite service period, which is generally ratably over the vesting term.

For the three months ended March 31, 2019 and 2018, 310,000 and 289,750 respectively, of stock options were granted under the Company's option plan. The Company recognized \$122,000 and \$78,000 in stock-based compensation expense for the three months ended March 31, 2019 and 2018, respectively.

The Company uses the Black-Scholes option-pricing model to value the options. The Company uses historical data to estimate the expected life of the options. The risk-free interest rate for periods within the contractual life of an award is based on the US Treasury yield curve in effect at the time of grant. The estimated volatility is based on historical volatility and management's expectations of future volatility. The Company uses an estimated dividend payout of zero, as the Company has not paid dividends in the past and, at this time, does not expect to do so in the future. The Company accounts for option forfeitures as they occur.

The following table summarizes stock option activity for the three months ended March 31, 2019:

	<u>Options</u>	<u>Weighted Average Exercise Price Per Option</u>
Options outstanding, December 31, 2018	1,022,913	\$ 2.69
Granted to employees and non-employee directors	310,000	3.62
Exercised	(33,334)	1.80
Canceled/expired/forfeited	-	0.00
Options outstanding, March 31, 2019	<u>1,299,579</u>	2.93
Options exercisable, March 31, 2019	<u>461,751</u>	2.50

As of March 31, 2019, \$863,000 of total unrecognized compensation cost related to stock options was expected to be recognized over a weighted average period of 2.30.

4. Investments

As of March 31, 2019 and December 31, 2018, investments totaled \$417,000 and \$258,000, respectively, which consisted of equity securities. Certain marketable securities were sold during the three months ended March 31, 2019 and none were sold during the three months ended March 31, 2018. The total gain on marketable securities during the three months ended March 31, 2019 and March 31, 2018 was \$170,000 and \$32,000 respectively. The gain for the three months ended March 31, 2019 was due to an unrealized gain of

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Notes to Condensed Consolidated Financial Statements (Unaudited)

\$167,000 and a realized gain of \$3,000. The gain for the three months ended March 31, 2018 was due to an unrealized gain of \$32,000.

5. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those reporting periods, with early adoption permitted. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, Targeted Improvements to ASC 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, Leases, as the date of initial application of transition. Based on the effective date, the Company adopted this ASU beginning on January 1, 2019 and elected the transition option provided under ASU 2018-11. This standard had a material effect on our consolidated balance sheet with the recognition of new right of use assets and lease liabilities for all operating leases, as these leases typically have a non-cancelable lease term of greater than one year. Upon adoption, both assets and liabilities on our consolidated balance sheets increased by approximately \$3,455,000. The Company elected a package of transition practical expedients which include not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs for existing leases. The Company also elected a practical expedient to not separate lease and non-lease components. The Company did not elect the practical expedient to use hindsight in determining the lease terms or assessing impairment of the Right-of-Use ("ROU") assets. See Note 13. Leases for more information.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for public entities for the annual periods, including interim periods within those annual periods, beginning after December 15, 2019. This guidance is applicable to the Company's fiscal year beginning January 1, 2020. Management is currently evaluating the requirements of this guidance and has not yet determined the impact on the adoption of the Company's financial position or results from operations.

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

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

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Notes to Condensed Consolidated Financial Statements (Unaudited)

6. Inventories

As of March 31, 2019 and December 31, 2018, inventories consisted of the following:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Raw materials	\$ 4,784,000	\$ 4,732,000
Work in process	1,144,000	825,000
Finished goods	4,479,000	4,321,000
	<u>\$ 10,407,000</u>	<u>\$ 9,878,000</u>

7. Equity Investment in Unconsolidated Affiliate

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

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

The capital from the initial funding and a bank loan, which loan is guaranteed exclusively by the individual shareholders of Maple Industries and associates and collateralized by the assets of Harmony, were utilized to purchase the original manufacturing facility in India. Harmony currently has four facilities in India (three owned and one rented), consisting of: (1) a 113,000 square foot building for manufacturing building products; (2) a 73,000 square foot building for manufacturing coated material and sewing proprietary disposable protective apparel; (3) a 16,000 square foot facility for sewing proprietary disposable protective apparel; and (4) a 93,000 square foot rental for manufacturing Building Supply segment products. All additions have been financed by Harmony with no guarantees from the Company.

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

The Company records its investment in Harmony as "equity investment in unconsolidated affiliate" in the accompanying condensed consolidated balance sheets. The Company records its equity interest in Harmony's results of operations as "equity in income of unconsolidated affiliate" in the accompanying condensed consolidated statements of income. The Company periodically reviews its investment in Harmony for impairment. Management has determined that no impairment was required as of March 31, 2019 and December 31, 2018.

For the three months ended March 31, 2019 and 2018, Alpha Pro Tech purchased \$5,274,000 and \$3,974,000 of inventories, respectively, from Harmony.

Alpha Pro Tech, Ltd.

Notes to Condensed Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2019 and 2018, the Company recorded equity in income of unconsolidated affiliate of \$277,000 and \$139,000, respectively, related to Harmony.

As of March 31, 2019, the Company's investment in Harmony was \$4,757,000, which consisted of its original \$1,450,000 investment and cumulative equity in income of unconsolidated affiliate of \$4,326,000, less \$942,000 in repayments of the advance and \$77,000 in dividends.

8. Accrued Liabilities

As of March 31, 2019 and December 31, 2018, accrued liabilities consisted of the following:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Payroll expenses and taxes payable	\$ 127,000	\$ 269,000
Commissions and bonuses payable and general accrued liabilities	505,000	1,073,000
	<u>\$ 632,000</u>	<u>\$ 1,342,000</u>

9. Basic and Diluted Earnings Per Common Share

The following table provides a reconciliation of both net income and the number of shares used in the computation of "basic" earnings per common share ("EPS"), which utilizes the weighted average number of common shares outstanding without regard to dilutive shares, and "diluted" EPS, which includes all such dilutive shares, for the three months ended March 31, 2019 and 2018.

	<u>For the Three Months Ended</u> <u>March 31,</u>	
	<u>2019</u>	<u>2018</u>
Net income (numerator)	\$ 1,218,000	\$ 508,000
Shares (denominator):		
Basic weighted average common shares outstanding	13,391,992	14,217,919
Add: dilutive effect of common stock options	77,505	165,086
	<u>13,469,497</u>	<u>14,383,005</u>
Earnings per common share:		
Basic	<u>\$ 0.09</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.04</u>

10. Activity of Business Segments

The Company operates through two business segments:

(1) Building Supply: consisting of a line of construction supply weatherization products. The construction supply weatherization products consist of housewrap and synthetic roof underlayment, as well as other woven material. The majority of the Company's equity in income of unconsolidated affiliate (Harmony) is included in the total segment income for the Building Supply segment.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

(2) Disposable Protective Apparel: consisting of a complete line of disposable protective clothing, including shoecovers (including the Aqua Trak® and spunbond shoecovers), bouffant caps, coveralls, frocks, lab coats, gowns, hoods, as well as face masks and face shields for the pharmaceutical, cleanroom, industrial, medical and dental markets. A portion of the Company's equity in income of unconsolidated affiliate (Harmony) is included in the total segment income for the Disposable Protective Apparel segment.

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

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

The following table presents consolidated net sales for each segment for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,	
	2019	2018
Building Supply	\$ 6,498,000	\$ 6,669,000
Disposable Protective Apparel	5,806,000	4,773,000
Consolidated net sales	<u>\$ 12,304,000</u>	<u>\$ 11,442,000</u>

The following table presents the reconciliation of consolidated segment income to consolidated net income for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,	
	2019	2018
Building Supply	\$ 908,000	\$ 994,000
Disposable Protective Apparel	1,423,000	1,023,000
Total segment income	2,331,000	2,017,000
Unallocated corporate overhead expenses	870,000	1,417,000
Provision for income taxes	243,000	92,000
Consolidated net income	<u>\$ 1,218,000</u>	<u>\$ 508,000</u>

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table presents the consolidated net property and equipment, goodwill and definite-lived intangible assets ("consolidated assets") by segment as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Building Supply	\$ 1,929,000	\$ 1,908,000
Disposable Protective Apparel	390,000	400,000
Total segment assets	<u>2,319,000</u>	<u>2,308,000</u>
Unallocated corporate assets	<u>1,022,000</u>	<u>1,007,000</u>
Total consolidated assets	<u><u>\$ 3,341,000</u></u>	<u><u>\$ 3,315,000</u></u>

11. Financial Information about Geographic Areas

The following table summarizes the Company's net sales by geographic region for the three months ended March 31, 2019 and 2018.

	For the Three Months Ended March 31,	
	2019	2018
Net sales by geographic region		
United States	\$ 12,040,000	\$ 11,198,000
International	<u>264,000</u>	<u>244,000</u>
Consolidated net sales	<u><u>\$ 12,304,000</u></u>	<u><u>\$ 11,442,000</u></u>

Net sales by geographic region are based on the countries in which our customers are located. For the three months ended March 31, 2019 and 2018, the Company did not generate sales from any single country, other than the United States, that were significant to the Company's consolidated net sales.

The following table summarizes the locations of the Company's long-lived assets by geographic region as of March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
Long-lived assets by geographic region		
United States	\$ 2,538,000	\$ 2,528,000
International	<u>733,000</u>	<u>716,000</u>
Consolidated total long-lived assets	<u><u>\$ 3,271,000</u></u>	<u><u>\$ 3,244,000</u></u>

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Notes to Condensed Consolidated Financial Statements (Unaudited)

12. Related Party Transactions

The Company has no related party transactions other than the Company's transactions with its non-consolidated affiliated Harmony Plastics Private Limited. See "Note 7-Equity Investment in Unconsolidated Affiliate".

13. Leases

We have operating leases for our corporate office and manufacturing facilities, which expire at various dates through 2024. Our primary operating lease commitments at March 31, 2019 are related to our manufacturing facilities in Valdosta, Georgia; Nogales, Arizona and Salt Lake City, Utah; as well as corporate headquarters in Markham, Canada.

As of March 31, 2019, we had operating lease ROU assets of \$3,251,000 and operating lease liabilities of \$3,295,000. As of March 31, 2019, we did not have any finance leases recorded on our condensed consolidated balance sheet. Operating lease expense was approximately \$201,000 during the three months ended March 31, 2019.

The aggregate future minimum lease payments and reconciliation to lease liabilities as of March 31, 2019, are as follows:

	March 31, 2019
Remaining nine months of 2019	\$ 594,000
2020	797,000
2021	776,000
2022	670,000
2023	676,000
Thereafter	<u>135,000</u>
Total future minimum lease payments	3,648,000
Less imputed interest	<u>(353,000)</u>
Total Lease liabilities	<u>\$ 3,295,000</u>

As of March 31, 2019, our weighted average remaining lease term was 4.7 years. During the three months ended March 31, 2019, our weighted average discount rate was 4.32%.

14. Subsequent Events

The Company has reviewed and evaluated whether subsequent events have occurred from the condensed consolidated balance sheet date of March 31, 2019 through the filing date of this Quarterly Report on Form 10-Q that would require accounting or disclosure and has concluded that there are no such subsequent events.

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 unaudited condensed consolidated financial statements and the notes to our unaudited condensed consolidated financial statements, which appear elsewhere in this report.

Special Note Regarding Forward-Looking Statements

Certain information set forth in this Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions and other information that is not historical information. When used in this report, the words "estimates," "expects," "anticipates," "forecasts," "plans," "intends," "believes" and variations of such words or similar expressions are intended to identify forward-looking statements. We may make additional forward-looking statements from time to time. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise. All forward-looking statements, whether written or oral and whether made by us or on our behalf, are expressly qualified by this special note.

Any expectations based on these forward-looking statements are subject to risks and uncertainties. These and many other factors could affect the Company's future operating results and financial condition and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by the Company or on its behalf.

Special Note Regarding Smaller Reporting Company Status

We are filing this report as a "smaller reporting company" (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended). As a result of being a smaller reporting company, we are allowed and have elected to omit certain information from this Management's Discussion and Analysis of Financial Condition and Results of Operations; however, we have provided all information for the periods presented that we believe to be appropriate.

Where to find more information about us. We make available, free of charge, on our 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 reports with the Securities and Exchange Commission ("SEC"). In addition, in accordance with SEC rules, 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 US generally accepted accounting principles ("US GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the 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:

Marketable Securities: The Company periodically invests a portion of its cash in excess of short-term operating needs in marketable equity securities. These investments are classified as available-for-sale in accordance with US GAAP. The Company does not have any investments classified as held-to-maturity or trading securities. Available-for-sale investments are carried at their fair value using quoted prices in active markets for identical securities, and, effective January 1, 2018, unrealized gains and losses are reported as a component of net income in the statements of income. Prior to January 1, 2018, unrealized gains and losses were reported as

other comprehensive income as a component of equity. The cost of securities sold is based on the specific identification method. Investments that the Company intends to hold for more than one year are classified as long-term investments in the accompanying condensed consolidated balance sheets.

Inventories: Inventories include freight-in, materials, labor and overhead costs and are stated at the lower of cost or net realizable value. Allowances are recorded for slow-moving, obsolete or unusable inventory. We assess our inventory for estimated obsolescence or unmarketable inventory and write down the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future sales and quantities on hand, if necessary. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Accounts Receivable: Accounts receivable are recorded at the invoice amount and do not bear interest, the general terms for receivables is net 30 days. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. The Company determines the allowance based upon historical write-off experience and known conditions about customers' current ability to pay. Account balances are charged against the allowance when the potential for recovery is considered remote.

Leases: We determine if an arrangement is a lease at inception. Operating leases are included as right-of-use ("ROU") assets and lease liabilities on our condensed consolidated balance sheet. ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Our leases do not provide an implicit rate, and therefore we estimate our incremental borrowing rate based on the information available at the commencement date in determining the present value of future minimum lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options. We do not record leases on our condensed consolidated balance sheet with a term of one year or less. We have elected a package of transition practical expedients which include not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs for existing leases. We have also elected a practical expedient to not separate lease and non-lease components. We did not elect the practical expedient to use hindsight in determining our lease terms or assessing impairment of our ROU assets. See Note 13. Leases for more information.

Revenue Recognition: Net sales include products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Revenue is measured as the amount of consideration that we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with revenue being recognized at the point in time the customer obtains control of the products, at which time a receivable is created for the invoice sent to the customer. We recognize revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. We estimate product returns based on historical return rates and rebates based upon contractual agreements. Using probability assessments, we estimate sales incentives expected to be paid over the term of the contract. Our contracts have a single performance obligation. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales. The Company manufactures certain private label goods for customers and has determined that control does not pass to the customer at the time of manufacture, based upon the nature of the private labelling. The Company had no material contract assets, and the Company concluded that its contract liabilities (rebates) had the right of offset against customer receivables.

See Notes 10 and 11 of the Notes to Condensed Consolidated Financial Statements (Unaudited), which appear elsewhere in this report, for revenue disaggregated by type and by geographic region.

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

Stock-Based Compensation: The Company accounts for stock-based awards using Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718, Stock Compensation. ASC 718

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requires companies to record compensation expense for the value of all outstanding and unvested share-based payments, including employee stock options and similar awards.

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

OVERVIEW

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

Our products are grouped into two business segments: the Building Supply segment, consisting of construction weatherization products such as housewrap and synthetic roof underlayment as well as other woven material; and the Disposable Protective Apparel segment, consisting of disposable protective clothing (including shoecovers, bouffant caps, gowns, coveralls, lab coats, and frocks), face masks and face shields. All financial information presented in this report reflects the current segmentation.

Previously, face masks and face shields were included in a separate business segment called Infection Control. All of our disposable protective apparel, including face masks and face shield, are sold through similar distribution channels, are single-use, and disposable, have the purpose of protecting people, products and environments, and have to be produced in FDA approved facilities, regardless of the market served.

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

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

RESULTS OF OPERATIONS

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

	For the Three Months Ended March 31,	
	2019	2018
Net sales	100.0%	100.0%
Gross profit	39.0%	38.9%
Selling, general and administrative expenses	29.9%	33.9%
Income from operations	8.1%	3.7%
Income before provision for income taxes	11.9%	5.2%
Net income	9.9%	4.4%

Three months ended March 31, 2019, compared to Three months ended March 31, 2018

Sales. Consolidated sales for the three months ended March 31, 2019 increased to \$12,304,000 from \$11,442,000 for the three months ended March 31, 2018, representing an increase of \$862,000, or 7.5%. This increase consisted of increased sales in the Disposable Protective Apparel segment (now including face masks and face shields) of \$1,033,000, partially offset by decreased sales in the Building Supply segment of \$171,000.

Building Supply segment sales for the three months ended March 31, 2019 decreased by \$171,000, or 2.6%, to \$6,498,000, compared to \$6,669,000 for the same period of 2018. This segment decrease was primarily due to a decrease in sales of premium REX™ synthetic roof underlayment and, to a lesser extent, a decrease in sales of economy brand housewrap. The majority of the decreases occurred mid quarter which can be attributed to a large percentage of our market being affected by unusually severe weather during that time. We were pleased with the fact that the decreases were partially offset by increases in our economy brand synthetic roof underlayment and an increase in the sales of our premium REX™ Wrap Fortis housewrap line which indicates that these new products are gaining continued market approval. This reinforces our decision to expand the economy brand synthetic roof underlayment line to include TECHNO SB® 25 and TECHNO SB® ULTRA, as announced in our April 4, 2019 press release. We also experienced an increase in sales of other woven materials. The sales mix of the Building Supply segment for the three months ended March 31, 2019 was 46% for synthetic roof underlayment, 44% for housewrap and 10% for other woven material. This sales mix is compared to 47% for synthetic roof underlayment, 44% for housewrap and 9% for other woven material for the three months ended March 31, 2018.

Sales for the Disposable Protective Apparel segment for the three months ended March 31, 2019 increased by \$1,033,000, or 21.6%, to \$5,806,000, compared to \$4,773,000 for the same period of 2018. This segment increase was primarily due to a significant increase in disposable protective clothing (shoecovers, bouffant caps, gowns, coveralls, lab coats, and frocks), partially offset by a decrease in sales of masks and shields. The increase in disposable protective clothing was primarily due to strong sales growth across all our supply chain partners. Sales of face masks were affected by a less severe flu season in 2019. The sales mix of the Disposable Protective Apparel segment for the three months ended March 31, 2019 was 78% for disposable protective clothing, 15% for masks and 7% for shields. This sales mix is compared to 68% for disposable protective clothing, 23% for masks and 9% for shields for the three months ended March 31, 2018.

Gross Profit. Gross profit increased by \$349,000, or 7.8%, to \$4,804,000 for the three months ended March 31, 2019, from \$4,455,000 for the same period of 2018. The gross profit margin was 39.0% for the three months ended March 31, 2019, compared to 38.9% for the same period of 2018. Management expects gross profit margin in 2019 to be similar to 2018.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by \$206,000, or 5.3%, to \$3,675,000 for the three months ended March 31, 2019 from \$3,881,000 for the three months ended March 31, 2018. As a percentage of net sales, selling, general and administrative expenses decreased to 29.9% for the three months ended March 31, 2019, from 33.9% for the same period of 2018. The decrease in selling, general and administrative expenses was primarily the result of the accrual of expenses associated with a mediated settlement of a litigation matter for the three months ended March 31, 2018 that did not recur for the same period of 2019, partially offset by increased trade show expenses and employee compensation.

The change in expenses by segment was as follows: Building Supply was up \$125,000, or 9.6%; Disposable Protective Apparel (which now includes expenses from the old Infection Control segment) was up \$63,000, or 5.6%; and corporate unallocated expenses were down \$394,000, or 27.4%. The decrease in corporate unallocated expenses was primarily related to the litigation matter mentioned above. The increase in the Building Supply expenses was primarily as a result of increased trade show expenses and the increase in the Disposable Protective Apparel expenses was primarily due to increased expenses for trade shows and sales commissions.

In accordance with the terms of his employment agreement, the Company's President and Chief Executive Officer is entitled to an annual bonus equal to 5% of the pre-tax profits of the Company, excluding bonus expense. A bonus amount of \$77,000 was accrued for the three months ended March 31, 2019, as compared to \$32,000 for the same period of 2018.

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Depreciation and Amortization. Depreciation and amortization expense decreased by \$19,000, or 13.0%, to \$127,000 for the three months ended March 31, 2019, from \$146,000 for the three months ended March 31, 2018. The decrease was primarily attributable to decreased depreciation for machinery and equipment in the Building Supply segment.

Income from Operations. Income from operations increased by \$574,000, or 134.1%, to \$1,002,000 for the three months ended March 31, 2019, compared to \$428,000 for the three months ended March 31, 2018. The increased income from operations was primarily due to an increase in gross profit of \$349,000 and a decrease in selling, general and administrative expenses of \$206,000 and a decrease in depreciation and amortization expense of \$19,000. Income from operations for the three months ended March 31, 2018 was negatively impacted by the mediated litigation settlement discussed previously. Income from operations as a percentage of net sales for the three months ended March 31, 2019 was 8.1%, compared to 3.7% for the same period of 2018.

Other Income. Other income increased by \$287,000, or 166.9%, to \$459,000 for the three months ended March 31, 2019 from \$172,000 for the same period of 2018. The increase was primarily due to an increase in equity in income of unconsolidated affiliate of \$138,000 and an increase in gain on marketable securities of \$138,000.

Other income consisted of equity in income of unconsolidated affiliate of \$277,000, a gain on marketable securities of \$170,000 and interest income of \$12,000 for the three months ended March 31, 2019. Other income consisted of equity in income of unconsolidated affiliate of \$139,000, a gain on marketable securities of \$32,000 and interest income of \$1,000 for the three months ended March 31, 2018. Equity in income of unconsolidated affiliate was higher for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to higher gross margin and interest income was higher due to restructuring the interest terms on our operating cash accounts.

Income before Provision for Income Taxes. Income before provision for income taxes for the three months ended March 31, 2019 was \$1,461,000, compared to income before provision for income taxes of \$600,000 for the three months ended March 31, 2018, representing an increase of \$861,000, or 143.5%. This increase in income before provision for income taxes was primarily due to an increase in income from operations of \$574,000 and an increase in other income of \$287,000.

Provision for Income Taxes. The provision for income taxes for the three months ended March 31, 2019 was \$243,000, compared to \$92,000 for the same period of 2018. The effective tax rate was 16.6% for the three months ended March 31, 2019, compared to 15.3% for the same period of 2018. The Company does not record a tax provision on equity in income of unconsolidated affiliate, which reduces the effective tax rate.

Net Income. Net income for the three months ended March 31, 2019 was \$1,218,000, compared to net income of \$508,000 for the same period of 2018, representing an increase of \$710,000, or 139.8%. The net income increase was due to an increase in income before provision for income taxes of \$861,000, partially offset by an increase in provision for income taxes of \$151,000. Net income as a percentage of net sales for the three months ended March 31, 2019 was 9.9%, compared to 4.4% for the same period of 2018. Basic and diluted earnings per common share for the three months ended March 31, 2019 and 2018 were \$0.09 and \$0.04, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2019, the Company had cash of \$4,488,000 and working capital of \$24,678,000, representing an increase in working capital of \$138,000 from December 31, 2018. As of March 31, 2019, the Company's current ratio (current assets/current liabilities) was 13:1, compared to a 14:1 current ratio as of December 31, 2018. Cash decreased by 35.9%, or \$2,519,000, to \$4,488,000 as of March 31, 2019, compared to \$7,007,000 as of December 31, 2018. The decrease in cash was due to cash used in operating activities of \$1,429,000, cash used in financing activities of \$948,000 and cash used in investing activities of \$142,000. Historically, cash on hand is the lowest at the end of the first quarter of each year, due to our Building Supply segment winter buy extended terms program, as well as prior year accruals which are paid in the first quarter. As such, management expects cash to increase next quarter. The credit facility includes customary financial and non-financial debt covenants. As of March 31, 2019 we believe we are in compliance with all such covenants.

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We have a \$3,500,000 credit facility with Wells Fargo Bank, consisting of a line of credit with interest at prime plus 0.5%. As of March 31, 2019, the prime interest rate was 5.50%. This credit line will expire in May 2020. The available line of credit is based on a formula of eligible accounts receivable and inventories. Our borrowing capacity on the line of credit was \$3,500,000 as of March 31, 2019. As of March 31, 2019, we did not have any borrowings under this credit facility and do not anticipate using it in the near future.

Net cash used in operating activities of \$1,429,000 for the three months ended March 31, 2019 was due to net income of \$1,218,000, impacted primarily by the following: stock-based compensation expense of \$122,000, depreciation and amortization expense of \$127,000, gain on marketable securities of \$170,000, equity in income of unconsolidated affiliate of \$277,000, operating lease expense net of accretion of \$164,000, an increase in accounts receivable of \$2,721,000, a decrease in prepaid expenses of \$1,302,000, an increase in inventory of \$529,000, a decrease in accounts payable and accrued liabilities of \$505,000 and a decrease in lease liabilities of \$160,000.

Net cash used in operating activities of \$2,496,000 for the three months ended March 31, 2018 was due to net income of \$508,000, impacted primarily by the following: stock-based compensation expense of \$78,000, depreciation and amortization expense of \$146,000, gain on marketable securities of \$32,000 equity in income of unconsolidated affiliate of \$139,000, an increase in accounts receivable of \$1,886,000, an increase in prepaid expenses of \$790,000, an increase in inventory of \$386,000, and an increase in accounts payable and accrued liabilities of \$5,000.

Accounts receivable increased by \$2,721,000, or 51.2%, to \$8,039,000 as of March 31, 2019, from \$5,318,000 as of December 31, 2018. The increase in accounts receivable was primarily related to extended payment terms that we offer on many Building Supply segment sales through the end of the first quarter of 2019 to remain competitive, as our competition also offers these extended payment terms. We started this program in mid-November 2018, and most of these receivables are due to be paid in the second quarter of this year. The number of days that sales remained outstanding as of March 31, 2019, calculated by using an average of accounts receivable outstanding and annual revenue, was 49 days, compared to 40 days as of December 31, 2018.

Inventory increased by \$529,000, or 5.4%, to \$10,407,000 as of March 31, 2019, from \$9,878,000 as of December 31, 2018. The increase was primarily due to an increase in inventory for the Building Supply segment of \$648,000, or 15.1%, to \$4,950,000, partially offset by a decrease in inventory for the Disposable Protective Apparel segment of \$119,000, or 2.1%, to \$5,457,000,

Prepaid expenses decreased by \$1,302,000, or 32.6%, to \$2,697,000 as of March 31, 2019, from \$3,999,000 as of December 31, 2018. The decrease was primarily due to a decrease in deposits for the purchase of inventory for the Building Supply segment.

Right-of-use assets as of March 31, 2019 decreased by \$204,000 to \$3,251,000 from \$3,455,000 as of January 1, 2019 when ASC 842 was adopted.

Accounts payable and accrued liabilities as of March 31, 2019 decreased by \$545,000, or 28.4%, to \$1,375,000, from \$1,920,000 as of December 31, 2018. The change was primarily due to a decrease in accrued liabilities as a result of payments of 2018 year-end commissions and bonuses.

Lease liabilities as of March 31, 2019 decreased by 160,000 to \$3,295,000 from \$3,455,000 as of January 1, 2019. This is the result of adopting ASU 842, *Leases*.

Net cash used in investing activities was \$142,000 for the three months ended March 31, 2019, compared to net cash used in investing activities of \$102,000 for the same period of 2018. Investing activities for the three months ended March 31, 2019 consisted of the purchase of property and equipment of \$152,000 and proceeds from the sale of marketable securities of \$10,000. Investing activities for the three months ended March 31, 2018 consisted of the purchase of property and equipment of \$102,000.

Net cash used in financing activities was \$948,000 for the three months ended March 31, 2019, compared to net cash used in financing activities of \$499,000 for the same period of 2018. Net cash used in financing activities for the three months ended March 31, 2019 resulted from the payment of \$1,008,000 for the repurchase of common stock, partially offset by proceeds of \$60,000 from the exercise of stock options. Net cash used in financing

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activities for the three months ended March 31, 2018 resulted from the payment of \$576,000 for the repurchase of common stock, partially offset by proceeds of \$77,000 from the exercise of stock options.

As of March 31, 2019, we had \$1,691,000 available for additional stock purchases under our stock repurchase program. For the three months ended March 31, 2019, we repurchased 255,000 shares of common stock at a cost of \$1,008,000. As of March 31, 2019, we had repurchased a total of 17,458,907 shares of common stock at a cost of \$32,777,000 through our repurchase program. We retire all stock upon repurchase. Future repurchases are expected to be funded from cash on hand and cash flows from operating activities.

We believe that our current cash balance 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.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those reporting periods, with early adoption permitted. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, Targeted Improvements to ASC 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, Leases, as the date of initial application of transition. Based on the effective date, we adopted this ASU beginning on January 1, 2019 and elected the transition option provided under ASU 2018-11. This standard had a material effect on our consolidated balance sheet with the recognition of new right of use assets and lease liabilities for all operating leases, as these leases typically have a non-cancelable lease term of greater than one year. Upon adoption, both assets and liabilities on our consolidated balance sheets increased by approximately \$3,455,000. We have elected a package of transition practical expedients which include not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs for existing leases. We have also elected a practical expedient to not separate lease and non-lease components. We did not elect the practical expedient to use hindsight in determining the lease terms or assessing impairment of the ROU assets. See Note 13. Leases for more information.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for public entities for the annual periods, including interim periods within those annual periods, beginning after December 15, 2019. This guidance is applicable to the Company's fiscal year beginning January 1, 2020. Management is currently evaluating the requirements of this guidance and has not yet determined the impact on the adoption of the Company's financial position or results from operations.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our President and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)), as of March 31, 2019, pursuant to the evaluation of these controls and procedures required by Rule 13a-15 of the Exchange Act. Disclosure controls and procedures are the controls and other procedures that we have designed to ensure that we record, process, summarize and report in a timely manner the information that we must disclose in reports that we file with or submit to the SEC under the Exchange Act.

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

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

Changes in Internal Control Over Financial Reporting

During the quarter to which this report relates, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

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

Issuer Purchases of Equity Securities					
Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)	
January 1 - 31, 2019	83,900	4.08	83,900	\$	2,354,000
February 1 - 28, 2019	79,100	3.99	79,100		2,035,000
March 1 - 31, 2019	92,000	3.71	92,000		1,691,000
	<u>255,000</u>	3.92	<u>255,000</u>		

(1) On December 20, 2018, the Company announced that the Board of Directors had authorized a \$2,000,000 expansion of the Company’s existing share repurchase program.

SECURITIES SOLD

We did not sell unregistered equity securities during the period covered by this report.

ITEM 6. EXHIBITS

- 3.1.1 Certificate of Incorporation of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(f) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
- 3.1.2 Certificate of Amendment of Certificate of Incorporation of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(j) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
- 3.1.3 Certificate of Ownership and Merger (BFD Industries, Inc. into Alpha Pro Tech, Ltd.), incorporated by reference to Exhibit 3(l) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
- 3.2 Bylaws of Alpha Pro Tech, Ltd., incorporated by reference to Exhibit 3(g) to Form 10-K for the year ended December 31, 1994, filed on March 31, 1995 (File No. 000-19893).
- 31.1 Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – President and Chief Executive Officer.
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer.
- 101 Interactive Data Files for Alpha Pro Tech, Ltd's Form 10-Q for the period ended March 31, 2019.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALPHA PRO TECH, LTD.

DATE: May 7, 2019

BY: /s/ Lloyd Hoffman

Lloyd Hoffman
President and Chief Executive Officer

DATE: May 7, 2019

BY: /s/ Colleen McDonald

Colleen McDonald
Chief Financial Officer

Alpha Pro Tech, Ltd.

Certification Under Exchange Act Rules 13a – 14(a) and 15d – 14(a)

EXHIBIT 31.1

I, Lloyd Hoffman, certify that:

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

DATE: May 7, 2019

BY: /s/ Lloyd Hoffman

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

Alpha Pro Tech, Ltd.

Certification Under Exchange Act Rules 13a – 14(a) and 15d – 14(a)

EXHIBIT 31.2

I, Colleen McDonald, certify that:

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

DATE: May 7, 2019

BY: /s/ Colleen McDonald

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

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

In connection with the Quarterly Report of Alpha Pro Tech, Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lloyd Hoffman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

DATE: May 7, 2019

BY: /s/ Lloyd Hoffman

Lloyd Hoffman
President and Chief Executive Officer

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

In connection with the Quarterly Report of Alpha Pro Tech, Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Colleen McDonald, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

DATE: May 7, 2019

BY: /s/ Colleen McDonald

Colleen McDonald
Chief Financial Officer