Alpha Pro Tech, Ltd.
Third Quarter Earnings Conference Call
October 27, 2009

Operator: Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Alpha Pro Tech Limited Third Quarter 2009 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you have a question, please press the star, followed by the one on your touchtone phone and please press star, zero for Operator assistance at any time. For participants using the speak—using speaker equipment, it may be necessary to pick up your handset before making your selection. As a reminder, this conference is being recorded today, Tuesday, October 27th, 2009.

I would now like to turn the conference over to our host, Mr. Cameron Donahue of Hayden Communications. Go ahead, sir.

Cameron Donahue: Thank you and good afternoon. We'd like to thank everyone for joining us today for Alpha Pro Tech's Fiscal 2009 Third Quarter Earnings Conference Call. Our call today will be hosted by Mr. Al Millar, President, and Mr. Lloyd Hoffman, Chief Financial Officer. Following management's discussion, there will be a formal Q&A session open to participants on the call. Before we get started, I'm going to review the Safe Harbor statement.

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

With that, I'd like to turn the call over to Mr. Al Millar, President for opening comments. Al, congratulations on another great quarter, the floor is yours.

Al Millar: Thanks, Cameron. Thanks to everyone who joined us for our earnings call today. I'm joined by Lloyd Hoffman, our CFO. As most of you know, we conduct these calls twice a year; one to accompany our second quarter and first half results and then again for our fourth quarter and full year results. However, because of the significant ramp up in our three operating segments, we're breaking with tradition to provide you with additional update on operational and financial performance. We will not go into the level of financial detail on this call that we do on our semi-annual and annual call but I wanted to give you a high level overview of revenue and profitability results and balance sheet data, along with a more in-depth review of the market factors driving these results.

I'm please to report that, due to strong sales activity, we again experienced record revenues for the third quarter, the period which ended September 30th, '09. Our consolidated sales for the 2009 third quarter increased by 65.3% and for the nine months year-to-date increased by 52.9%. I will leave the sales details for Lloyd to cover in a few minutes. Equally impressive is the fact that our third quarter was up double digits from our extraordinarily strong and record-breaking second quarter. For the third quarter ended September 30th, '09, consolidated revenues were up 16.1% to 16.9 million from 14.5 million in our second quarter ended June 30th. These outstanding results reflect our carefully management—careful management of the business during a time of unprecedented growth and sales opportunity and further demonstrates the scalability of our business in the face of this demand.

Our sales growth accelerated during the third quarter of 2009 due to our ability to ramp up manufacturing to meet the unexpected demand for our N-95 respirator mask for H1N1 or swine flu outbreak. Our current run rate is approximately $36 million annually in N-95 masks alone. Starting in October, we increased production and are now running at full capacity. Other mask lines are running at accelerated levels as well. If demand continues as we expect, we have the capacity to build new N-95 lines at a reasonable cost with an annual capacity of approximately $9 million each and are currently discussing adding additional lines. As we indicated in our last call, the Company feels levels in mask sales will continue for the foreseeable future. H1N1 from everything we are seeing appears to be on a massive upswing and is probably going to continue to evolve at intervals over the next two to five years. Keep in mind, we've seen trends like this before with the avian flu and other breaks—outbreaks. We know how to ramp, but the demand and duration has exceeded prior outbreaks. As long as that continues, infection control products will continue to sell very well. We think the mask sales will continue certainly into next year. Beyond that, we will reevaluate and update you accordingly.

Building supply product sales increased due to our expanded distribution relationships, which have gained significant traction during 2009. Our hard work at repositioning our distribution channel strategy in the last 24 months, as well as our focus on enhancing our infrastructure, allowed us to quickly take advantage of the market opportunities that occurred recently. And the growing acceptance of our building supply products in the marketplace continues to demonstrate the significant advantages we provide related to other product—or to our product capabilities and our ability to service our customers.

Within both the roof underlayment and the house wrap market we have distinct competitive advantages. In our roof underlayment, we've built in to our polymers an anti-skid feature that helps prevent roofers from sliding off the roof. We have also a preprinted nail pattern so users do not have to continually measure to hit studs. Users just hit the X on the printed material. In addition, one of the things our distributors really like is that we are vertically integrated so we have control of the supply chain where our competitors basically outsource to a third party. This helps us control costs, quality and time to market. We believe the market for synthetic underlayment is approximately 500 million, down from 1 billion during the housing boom, and the roof underlay market breaks out roughly at 90% felt and 10% synthetics. That is evolving every day and over the next two to five years, synthetics will become the major share of that market. You can see that we have significant upside opportunity as this market moves forward, and then you'll also want to factor in a turnaround in the building industry when that occurs. We are now the market leader in this space and expect to keep and expand our market share during the transition to synthetic. One of the driving forces in this transition is that synthetic is now priced at the same levels of traditional felt and provides a 50% labor savings.

Our building wrap continues to gain traction as well, evidenced by the 33% growth through the first nine months. We are increasing sales by having a lower price point, superior customization and shorter lead times than the competition. We generated 5.3 million in consolidated building product sales in the third quarter of '09. That puts the Company on a 21 million run rate for this division. We did 8.2 million for the full year of 2008, so we continue to see accelerated adaption for these products and expect to see this growth continue.

We are now back in full production in our India manufacturing plants. At our Valdosta plant, you will see inventory starting to build in upcoming quarters. We initiated a 20,000 square foot expansion in one of our Indian facilities, which is expected to be finished in quarter four of '09. We will have an additional 20,000 square foot expansion starting in the fourth quarter for the Indian facilities. As a reminder, we do not any—incur any cap ex for the expansions as the joint venture pays for these costs. As well as India, we will be expanding our Valdosta factories to 200 and—203,000 square feet from 89,000 square feet.

Lastly, sales from the disposable protective apparel segment for the three months ended September 30th, '09 were adversely affected by a supply chain issue in which goods from Asia were delayed due to the high demand for products in regards to the H1N1 flu pandemic.

With that, I'll turn the call over to Lloyd to review our top and bottom line details and select balance sheet data, then I'll make some final comments. Lloyd?

Lloyd Hoffman: Thanks, Al. Let's get right to (unintelligible). Consolidated sales for the fourth—for the third quarter of 2009 increased by 65.3% to 16.9 million from 10.2 million. For the nine months, sales increased 52.9% to 40.8 million from 26.7 million. Let me break out the sales by segment.

Building supply segment sales for the third quarter increased by 67.7% to a quarterly record of 5.3 million as compared to 3.2 million. The increase in the quarter is primarily due to a 72.6% increase in sales of REX Synthetic Roof Underlayment and a 52% increase in REX Wrap house wrap. This quarterly record of 5.3 million is also up 40.8% sequentially from the previous record of 3.8 million set in the second quarter of this year. Year-to-date building supply segment sales increased by 75.6% to 11.3 million from 6.4 million.

Third quarter apparel sales decreased by 3.2% to 5.3 million from 5.4 million. As Al mentioned, sales were adversely affected by shipping delays from China. Year-to-date disposable protective apparel segment sales increased by 6.2% to 16.2 million from 15.2 million. Infection control segment sales for the quarter increased by 290.1% to a quarterly record of 6.3 million compared to 1.6 million. Mask sales were up 379% or 4.2 million and shield sales were up 157% or 500,000. This quarterly record is also up 34.4% sequentially from the quarterly record of 4.7 million set in the second quarter of this year. Infection control segment for the nine months is up 166.2% to 13.3 million compared to 5 million. Mask sales are up 6.6 million and shields are up 1.9.

Turning to gross profit. The gross profit margin for the third quarter was 48.6% as compared to 42.6 for the same period of last year. For the nine months, gross profit margin improved to 47.1 compared to 44%. Gross profit has improved due to the change in the product mix in which infection control sales, which have higher margins, has increased as a percentage of our total sales.

For the third quarter and nine months, selling, general and administrative expenses have increased in actual dollars but have decreased significantly as a percentage of sales. For the third quarter, expenses decreased to 21.7% of sales from 30.1% and for the nine months, SG&A decreased to 25.3% from 35.3%. We believe that we can grow the business while decreasing expenses as a percentage of sales from historical levels. The effective tax rate for the third quarter and nine months was 36.3% and we feel that that's going to be fairly consistent for the year.

Net income for the third quarter was a record 2.8 million as compared to 745,000 in the same quarter last year. Sequentially, third quarter net income increased by 36.9% as compared to the second quarter of this year, which was our previous record. Diluted income per share for the third quarter 2009 and 2008 was $0.12 and $0.03 respectively. Net income for the year increased to 5.5 million compared to 1.3. Diluted income for the '09 and '08 was 24 versus $0.05.

Turning to the balance sheet. As of September 30th, the balance sheet continues to remain strong with a current ratio of 6:1 and we had working capital of 25.3 million. Our strong financial performance has led to a cash position of 9.1 million as of September 30th;that is up 98.4% from the 4.6 million as of December 31st, 2008. Inventory has decreased to 9.4 million compared to 12.1 million as of December, primarily due to a decrease in inventory for the building supply segment. Inventory levels are expected to increase going forward to meet our accelerated demand. During the first nine months of 2009, we have repurchased 1.6 million shares of common stock at a cost of 2.1 million. We have repurchased a total of 6.2 million shares of common stock at a cost of 7.7 million through our repurchase program. The Company currently has no outstanding debt and remains an unused 3.5 million credit facility that was renewed in May.

With that, I'd like to turn the call back to Al for closing comments. Al?

Al Millar: Thanks, Lloyd. Over the last two years or so, through innovative product introductions and new distribution strategies, both of which we can control, as well as the emergence of another flu pandemic over which we have no control, we are seeing significant upside in our 2009 revenues. The important factor to note is that we had developed the infrastructure to take advantage of this upsurge without de-leveraging our business model. We are gratified not only by our strong revenue performance through the first nine months of '09 but our significant profitability. We will remain focused on innovation with the goal of creating new products to introduce to the marketplace.

We will broaden our distribution channels to deliver products to our three market segments, and we will continue to leverage our infrastructure to maximize these sales and our profitability. Our building supply segment distribution channel strategy continues to strengthen each and every quarter and should continue to broaden our ability to take advantage of market opportunities throughout this year and into the future. N-95 respirator mask sales are expected to continue to grow significantly in the fourth quarter from current levels and are expected to be substantially stronger than normal for the foreseeable future amidst concerns regarding the global H1N1 pandemic. Gross margins will continue to be positively affected by the change in product mix in which infection control sales, which have higher margins, increase as a percentage of total sales. And since we are leveraging our expense structure more effectively, we expect continued growth and profitability, a stronger balance sheet, and continued cash generation. We want to thank everyone for the continued interest and support.

That concludes our prepared remarks for the day and we'd now like to open the call up to your questions.

Operator: Okay, thank you, sir. And, ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you have a question, please press the star, followed by the one on your touchtone phone. If you would like to withdraw your question, please press the star, followed by the two. And if you're using speaker equipment you will need to lift the handset before pressing the numbers. Once again, if you would like to ask a question, please press star, one.

And our first question comes from the line of Joe Maxa with Dougherty & Company. Go ahead please.

Joe Maxa: Thank you. Gentlemen, good quarter.

Al Millar: Thanks, Joe.

Lloyd Hoffman: Thank you.

Joe Maxa: Let me ask you, can you elaborate on your comments that your demand for N-95 masks will be at elevated levels for the foreseeable future? How long are, how long are you talking and what are you hearing out there?

Al Millar: Well the comment I guess I just made, Joe, is two to five years.

Joe Maxa: So you think it's potential to run at your 36 million rate, 36 million annual rate plus for that timeframe?

Al Millar: Yes, sir.

Joe Maxa: Okay, what to you see…?

Al Millar: Let me clarify that, Joe. Should we continue to see the numbers that we're seeing today, I would imagine at some point we'll increase production capacity.

Joe Maxa: Do you see a potential for sales to decline after the typical flu season ends in the spring?

Al Millar: You know, you're talking about the flu season ending in the spring. You're talking North America. If the pandemic continues, as pandemics do, it will now evolve into—come spring it'll head for Asia, Australia, Japan, the United Kingdom, back into South America, before we get hit here in with the third phase again this time next year. So, does it does it tail off? Not in the foreseeable future that we can see.

Joe Maxa: Okay, that's very good. Are you looking at distribution in other countries currently?

Al Millar: We currently have distribution in other countries. We do sell our masks offshore.

Joe Maxa: Okay. Let me ask you on the roofing side, it looks like you're on—or actually let's just say building supply side, you're on track to double sales this year. Can you double that again next year? And if so, how do you get there?

Al Millar: We continue to do just what we're doing, Joe. Yes, we can double our sales next year, but you know, we'd like a little help from the building industry to kick into high gear as well, but we're going to continue to expand our distribution and sell more product to more people. You know, don't forget that felt will continue to lose market share and we'll continue to gain it. Did that answer it? Joe?

Operator: I'm sorry; our next question comes from the line of Ali Mohamed with Boston Partners. Go ahead please.

Ali Mohamed: Hi, great quarter and great work here, guys.

Al Millar: Thanks, Ali.

Lloyd Hoffman: Thanks, Ali.

Ali Mohamed: I was wondering, has there been a bit of a change in the way that, you know, even in North America, people are looking at stocking masks because there's no sort of expiration to a mask life or it's relatively long? Are we seeing, you know, people developing for corporate, for government, for healthcare purposes, sort of stock piles that are there to last in case of a major pandemic even in the event that this is slightly milder than you would expect—than, you know, people are expecting?

Al Millar: You know, here comes the problem, Ali; we at Alpha Pro Tech would love to have a major stock of N-95 face masks in our warehouse; the problem being, everything we manufacture we're shipping out the door. We can't get ahead of the game. I imagine the people that are using the masks are using them as fast as they're buying them from us. (Unintelligible).

Ali Mohamed: I guess what I mean is, do you see them also stockpiling masks so they are ready the next time or if there is a...

Al Millar: They would like to, I think.

Ali Mohamed: They would like to and this is sort of what gives you confidence that even in North America this is going to go beyond, and not exclusive of, you know, the other geographic regions.

Al Millar: Well, exactly and if you notice that what we did was we mentioned a little downturn in our apparel because of the production in China. And what you have in China today is everybody has jumped on the face mask bandwagon; now they don't manufacture the N-95 as we do, but they manufacture a lot of ear loop masks and that is eating up a lot of Asian production time as they fight their version of swine flu. So I don't think you're going to see a great stockpiling by anybody because I don't think any of us can get ahead of the game.

Ali Mohamed: Okay, and then you also mentioned you're on a 9 million, it seams, quarterly run rate for the N-95 mask.

Al Millar: Yes.

Ali Mohamed: Of your 4.2 in mask sales this past quarter, how much were N-95 masks?

Al Millar: Lloyd's going to try and answer that one I think.

Lloyd Hoffman: N-95 masks was roughly 50% of the total sales.

Ali Mohamed: So we could see a 7.5 million—or, yes, almost, let's say $7 million increase in N-95 masks in the next quarter if you're at that run rate, basically because you were 50% of 4.2 and now we're running at 9…

Lloyd Hoffman: Well, no, the sales for—the mask sales for the third quarter were over 5 million.

Ali Mohamed: Excuse me, they were up by that much.

Lloyd Hoffman: Yes, they were up by the 4.2, that's right.

Ali Mohamed: Okay, so 50% of that was N-95 and now we see N-95 going up to 9 million. And the margin on that—the gross margin on that is higher than the corporate business mix and really there's not much incremental SG&A?

Lloyd Hoffman: Ali, actually it—sorry, when I said 50, it's probably—it's more in the range of about 75.

Ali Mohamed: Okay. And then there's no incremental SG&A and gross margins are higher than the corporate average, is that fair?

Lloyd Hoffman: That's right.

Ali Mohamed: Thank you very much. Great job, guys.

Al Millar: Thanks, Ali.

Operator: Thank you. And we have a follow-up question from Joe Maxa. Please go ahead, sir.

Joe Maxa: Can you elaborate again on this issue in China with the protective apparel business? Do you expect that to come back or because of the production, it sounded like being taken up by other masks, maybe that stays at a little bit lower level?

Al Millar: No, our production in China you'll see coming back right now. We will have a very strong fourth quarter.

Joe Maxa: Okay. And what will you—will that be possibly a higher quarter than normal because of the delays in Q3? So we should look at maybe kind of lumpy and then maybe back down in Q1?

Male Speaker: Do you have a thought on that one, Mike (sp?)?

Joe Maxa: How much was delayed because of the shipping in Q3?

Al Millar: That—what we're saying, Joe, is our apparel business will be up double digits for the year and be continuing very strong. The question we can't answer today is just how much production we're going to get. We believe we're going to be fine and that our numbers will still continue to light up the charts, but I got to get a little further—a few more weeks into the quarter before we see where we are.

Lloyd Hoffman: Yes.

Joe Maxa: Okay.

Lloyd Hoffman: If we look at the third quarter, where we were down about 3%, I'd say we probably would have been up about 10%, would be probably a good number. That gives you an idea.

Joe Maxa: Yes, certainly does and we're looking—okay. We're looking for that 10% number to return for Q4.

Lloyd Hoffman: That's right.

Joe Maxa: Got it. Do you think you guys can reach 50% gross margin blended?

Lloyd Hoffman: Nope.

Joe Maxa: No?

Al Millar: That's Lloyd's question.

Lloyd Hoffman: I think that might be a little high. (Inaudible).

Joe Maxa: (Unintelligible).

Lloyd Hoffman: Remember, we're in the 48% range this quarter so certainly in the high 40s.

Joe Maxa: And I'm just looking to get a review of when your additional capacity coming on line for your building products. I didn't pick up those numbers.

Al Millar: When will we be on line?

Joe Maxa: Right, you had talked about another 20,000 square feet in India coming on line in the Q4 and then you were adding another 20,000 square feet; then you mentioned, I think, about 100,000 square foot addition. Maybe just clarify that for me please.

Al Millar: Valdosta is basically complete now. The first 20,000 in India will be completed within 10 working days or 15 working days. The second 20,000 in India will be completed, I would imagine by end of February.

Joe Maxa: Got it. All right, thanks, I'll jump back.

Al Millar: Right-O.

Operator: Thank you. And our next question comes from the line of Amy Norflus with Pilot Advisors. Go ahead, please.

Amy Norflus: Hi, very nice quarter guys. I guess, I got just confused by Ali's question and the incremental math. I mean if you say basically by 2010 we could be on a $36 million run rate for just, you know, N1H1 masks and then we got to go ahead and later on an incremental $3 million a quarter from this other stuff, so that's 36 plus 12?

Lloyd Hoffman: Amy, the 3 million of the other stuff—I'm not sure what...

Male Speaker: Shields.

Amy Norflus: The—well, yes, the other things because you said basically the—you know, 75% of the 4.2 million increase was not masks, or it was masks or, I—you confused me because you said three numbers real fast.

Lloyd Hoffman: Yes, the—our N-95 capacity right now is 36 million. We can add to that with building line. We have additional mask business that is probably in the range of about 4 or 5 million on top of that, and then we have shields that is another couple of million in addition. So if you take all of those pieces together, you're roughly at a little over 42 million I think.

Amy Norflus: Okay. And that's what we could do today which is pretty much sold out for 2010 at an incremental 50% margin-ish?

Lloyd Hoffman: Well we're not sold out; that's our capacity at the moment.

Amy Norflus: We're at capacity?

Lloyd Hoffman: We're currently running at capacity; have been running, you know, since the last week or so.

Amy Norflus: Okay.

Lloyd Hoffman: But we're not sold out through 2010.

Amy Norflus: That's great. And are you finding more companies being—you know, asking for masks as part of their safety protocol, whether be, you know hospitals, banks, or whatever, large institutions?

Al Millar: We have found banks and some financial institutions that are providing their employees with masks.

Amy Norflus: Okay. And then jumping to the building segment, is the growth of the building segment so large that seasonality really won't play such a large part in the fourth quarter?

Lloyd Hoffman: Fourth quarter tends to be in the building business a little bit weaker so there is some seasonality, yes, but we do believe that our fourth quarter is going to be very strong relative to the fourth quarter last year.

Amy Norflus: Okay. Perfect, all right, I'll get back in queue. Thanks, guys.

Operator: Thank you, and our next question comes from the line of Jamie Wilen with Wilen Management. Go ahead, please.

Jamie Wilen: Yes, great quarter, fellas. You mentioned that your lines can be added at for—they generate $9 million of revenues per line. How much does it cost you to do that and how long does it take you to add a line?

Al Millar: Well the cost, Jamie, is insignificant. It's really not a major cost involved in it, and it's about an eight to 10-week lead time. We build our own lines.

Jamie Wilen: Okay. Is there any difference between your mask and the major competitors out there in terms of quality and price?

Al Millar: Well, from everything I can see, we are the, probably the lower cost mask in the field right now as far as N-95s go and our mask is entirely different in that it's a flat mask. They all have to do the same thing, Jamie; they have to filter 95% of the air you breathe down to .3 microns. So it's not a quality issue.

Jamie Wilen: Okay and...

Lloyd Hoffman: Yes, one of the things that we hear from a lot of healthcare professionals is that it's much easier to breathe through our masks and much more comfortable on their face.

Jamie Wilen: So I assume…

Lloyd Hoffman: From that standpoint, people much more—enjoy wearing our mask much more than some of our competitors.

Jamie Wilen: But do people make a conscious decision or do they order from their hospital supplier a—given this that he—a person only stocks one mask?

Al Millar: That is correct. And what has happened in some cases this year is their traditional supply channel has now dried up and they have switched to an Alpha N-95. Our belief going forward is that the people that have switched will be—continue to be happy with Alpha and stay with us after the pandemic.

Jamie Wilen: Okay. You mentioned your margins will probably stay somewhere in the—a little—south of 50 but I assume as the volumes grow, your SG&A remains—should remain somewhat static?

Lloyd Hoffman: Yes, SG&A has decreased, as we indicated, significantly. We're now in the, you know, in the third quarter in the low 20%. It might change a little but I wouldn't say dramatic as a percentage of sales.

Jamie Wilen: Okay, very good. And lastly on building supplies, how much additional capacity percentage wise are you adding? And what type of—you're at a $21 million run rate right now. What—why are you adding so much capacity? How much do you expect that you could possibly be doing in the years ahead?

Al Millar: Well, in the years ahead, if you look at it, if we have solid 25, 20% of the ongoing market in building products, all you have to do is convert the $500 million roughly that are felt today to synthetic and it gives us 100 million.

Jamie Wilen: And is that achievable in three, four years?

Lloyd Hoffman: Yes. Sure it is.

Jamie Wilen: Okay, how much capacity do we have right now if we were to utilize all that you're now bringing on stream?

Al Millar: Probably, I'm going to guess, quickly off the top of my head about 40 million. We have some new equipment that we're adding as well. I would imagine we're pretty safe at 40 million and possibly beyond, that but I'd have to get everything up and running and let you know.

Jamie Wilen: Okay, so I assume you're looking at building supplies growing certainly 50% or so in the next year?

Al Millar: We're sure hoping for it.

Jamie Wilen: Okay. Well done, fellas, thanks.

Al Millar: Right-O.

Operator: Thank you. And once again, ladies and gentlemen, if you would like to ask a question, please press star, one.

And our next question comes from the line of Russell Lynde with Park West Capital Management. Go ahead, please.

Russell Lynde: Good afternoon, thank you for taking my question. Can you hear me? Hello?

Al Millar: Yes, Russell.

Russell Lynde: You can hear me?

Al Millar: Yes.

Russell Lynde: Okay, good. I just have a question about the composition of your inventory. It sounds like you're sold out of most of your disposable protective apparel and infection control. Is the majority of your inventory then building products?

Lloyd Hoffman: No, our building product inventory is actually, about a third of it, the largest piece of our inventory is the disposable protective apparel and building would be second but building is on the low end right now. We were at, you know, 7 million not too long ago; we're down to 3 million. We're actually a little light right now on the building and expect that to grow a bit. But the largest dollars is the protective apparel.

Russell Lynde: And so that's not affected by that slowdown you were talking about in China—manufacturing problems?

Lloyd Hoffman: Yes, we were looking—there was some product that we would—you know, we—if we could have received it, would have been able to ship in the third quarter. We have inventory but there was some product that we needed, you know, that we needed to get.

Russell Lynde: These are all like different SKUs or something?

Lloyd Hoffman: Yes, correct.

Al Millar: Different SKUs.

Lloyd Hoffman: That's right.

Russell Lynde: So, again, roughly it's a third and a third—how does it break down again? I'm sorry.

Lloyd Hoffman: You could do, for argument's sake, you could say a third, a third, a third; it's probably—it's higher than that. In apparel, it's probably more like 50%, 25%—a third for building and the rest is infection.

Russell Lynde: And the infection, I guess that would be all masks—all shields, then?

Lloyd Hoffman: Masks and shields, that's right.

Russell Lynde: No masks, though right?

Lloyd Hoffman: There's still—there's raw materials.

Russell Lynde: Okay.

Lloyd Hoffman: We haven't been able to build up a, you know, the finished goods, but we still have raw materials.

Russell Lynde: Got you. Okay, great. Thank you very much.

Operator: Thank you, and our next question comes from the line of Barry Cohen with Knott Capital. Go ahead, please.

Barry Cohen: Good evening, gentlemen, thank you for hosting the call. I appreciate it. A couple of just fairly quick questions. As you were kind of working through the math of your capacity, some of the global capacity in the masks and expectations for maybe what some kind of shadow capacity is. You know, if you believe what you say, and it sounds as if you do wholeheartedly, about the demand for these products, what expectations should we have potentially as investors for you to contemplate raising prices given, you know, basic economic theory?

Al Millar: If you were suggesting, Barry, that we would raise prices because of demand for the product, that won't happen.

Barry Cohen: No, I was more kind of suggesting that the combination of both demand and manufacturing capacity.

Al Millar: No. The only thing that would raise prices at our end is increased costs from our suppliers to us. We're quite comfortable with our gross margins; we're not going to gouge because of a pandemic.

Barry Cohen: Okay. It just sounded like you were pricing below—I think you mentioned—I wasn't suggesting you gouge, by the way—it just sounded like you were pricing below the competitors, which is why I was asking the question.

Al Millar: No, we're a different supply chain than, for example, someone like a 3M and I'm sure their costs are much higher than ours are. We're—you know, we're very comfortable with our gross margins, and we see no reason to move them.

Barry Cohen: Thank you. I appreciate your help.

Al Millar: You're welcome.

Operator: Thank you, and our next question comes from the line of Ryan Worch with Worch Capital. Go ahead, please.

Ryan Worch: Hey, guys, a quick question. If you say that costs are minimal to add new machines and you seem to see demand into the foreseeable future for the N-95 masks, are you currently adding new machines? Or when do you plan on adding new machines?

Al Millar: We currently, as I've mentioned, we're not adding them today. We are looking at what's happening with H1N1 going forward. It, you know, I mean it's a simple thing to add equipment. When you're running 24/7 and you're running flat out, you try to focus on that particular aspect of your business. If you start adding equipment, you know, maybe a little additional space for warehousing, et cetera, you're taking away from your focus at hand. We will add equipment when we believe we have to add it to continue to gain market share and to supply the pandemic as it is.

Ryan Worch: And secondly, are you guys constrained by getting raw materials for making the masks?

Al Millar: At this point in time, no. We're well stocked in raw materials, and we have ample materials on order going forward.

Ryan Worch: Okay. And lastly, what kind of timeframe do you think you guys would, if you do add a new machine? I mean it seems pretty up in the air.

Al Millar: It is pretty up in the air but I imagine first quarter should tell us what we're doing.

Ryan Worch: Okay, and it's what, eight to 10 weeks to get a new one up and running?

Al Millar: Correct.

Ryan Worch: Okay, great. Thanks, guys.

Al Millar: Thanks.

Lloyd Hoffman: Okay.

Operator: Thank you, and our next question comes from the line of Steve Pedian with SAP Capital Management. Go ahead, please.

Steve Pedian: Hey, guys, great quarter. Just one follow-up question on the synthetic roof business. Is that a patented product?

Al Millar: No, it's not, Steve.

Steve Pedian: Okay, and what's…

Al Millar: (Inaudible) manufacturers out there.

Steve Pedian: Okay. And then I guess the follow-up would be, have you guys had any conversations from any competitors looking to possibly acquire you?

Al Millar: Well you know, Steve, I couldn't answer that if I knew the answer to it.

Steve Pedian: Okay. And then I've missed your answer to this regarding the cost to ramp up or bring on new lines for the N-95. What were the costs to do that?

Al Millar: I didn't give the actual numbers, Steve, but it's minimal.

Steve Pedian: Okay, and you said that possibly first quarter you'll make a decision on that?

Al Millar: Correct.

Steve Pedian: Okay, great. Great quarter; keep up the good work.

Al Millar: Thanks.

Operator: Thank you, and our next question comes from the line of Steve Rud with USIP. Go ahead, please.

Steve Rud: Hi, just a quick one. Al, you've done a good job of buying back shares. I take it you're going to continue with that as we go forward?

Al Millar: Steve, we're—you know, where we are right now, we're kind of in a hold pattern. We have a buyback in place, and we certainly have cash in the bank. We're looking to see what our—what we're actually going to need going forward here in the next 30 to 60 days.

Steve Rud: Okay, and I take it, we're then, your choice is—and not to put words in your mouth—but expanding the line and putting on an additional line for masks or buying back shares?

Al Millar: If required, yes.

Steve Rud: Okay. All right, thanks very much.

Operator: Thank you, and our next question comes from the line of Alan Robinson. Go ahead, please.

Alan Robinson: Hello, congratulations on a great quarter. I'm a private investor, a shareholder.

Al Millar: Yes, sir.

Alan Robinson: I'm assuming with your production increase on the masks and the other business units doing well that you've done some hiring here lately, and could you tell me how many employees you currently have and what your plans are for future hiring and also what percentage of your work force is permanent and contingent workers as well?

Al Millar: Well I'm kind of hoping that all our employees are permanent. You know, we've had to put on, of course, the additional shifts in Salt Lake City, and we're sitting at a couple hundred employees.

Lloyd Hoffman: Yes, we—most of the add, if we look at the infection control side, you know, we've added quite a few people but it's all based—they're all manufacturing people. And, you know, we can hire and fire as required. We have not hired any people really in the relation—on the SG&A side.

Alan Robinson: So you don't have contract workers or temporary contingent work force? They're all permanent employees?

Lloyd Hoffman: That's right.

Alan Robinson: Great. All right, that's it. That's my question.

Al Millar: Thanks.

Alan Robinson: Thank you.

Operator: Thank you, and our next question comes from the line of Paul Kubala. Go ahead, please.

Paul Kubala: Al, outstanding quarter and superb leadership on your behalf. My question is with regard to the earnings going forward, all the cash that you've got coming in to the Company; is there a potential opportunity for a dividend for shareholders? And also, is there a chance for a forward split if the share price increases?

Al Millar: None of those have been discussed at this point in time. That's something that—there'll be Board decisions at some point in the future.

Paul Kubala: That's all I had, thank you very much. Congratulations.

Operator: Thank you, and ladies and gentlemen, that does conclude our question and answer session. I would now like to turn the conference back over to management for any closing statements.

Al Millar: I want, just wanted to say we appreciate everybody coming in to participate with us today. The questions, I think, were great. We're going to continue to try to shoot the lights out here; hopefully, hit some home runs along with the triples and continue to build this Company to what we'd like to see it at as all of us are shareholders and that's what we're trying to do, the best thing we can on behalf of the Corporation. So I thank everybody for joining us today and we'll catch you certainly after the fourth quarter. Thanks a bunch.

Operator: And, ladies and gentlemen, this concludes the Alpha Pro Tech Limited Third Quarter 2009 Earnings Conference Call. If you would like to listen to a replay of this conference, please dial 800-406-7325 or 303-590-3030 with the pass code 4176615. Thank you for your participation and you may now disconnect.