

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarter Ended March 31, 2008

Commission File No. 01-15725

Alpha Pro Tech, Ltd.

(exact name of registrant as specified in its charter)

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

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

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

L3R 9R2
(Zip Code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

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

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

Alpha Pro Tech, Ltd.

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Alpha Pro Tech, Ltd.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

You should read the following unaudited interim consolidated financial statements and the accompanying notes together with the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The Company's 2007 Annual Report contains information that may be helpful in analyzing the financial information contained in this report and in comparing its results of operations for the three three months ended March 31, 2008 with the same period in 2007.

Alpha Pro Tech, Ltd.

Consolidated Balance Sheets (Unaudited)

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

(1) The condensed consolidated balance sheet as of December 31, 2007 has been prepared using information from the audited financial statements at that date.

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

Alpha Pro Tech, Ltd.

Consolidated Income Statements (Unaudited)

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

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

Alpha Pro Tech, Ltd.

Consolidated Statement of Shareholders Equity (Unaudited)

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

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

Alpha Pro Tech, Ltd.

Consolidated Statements of Cash Flows (Unaudited)

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

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

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements (Unaudited)

1. The Company

Alpha Pro Tech, Ltd. (Alpha Pro Tech , the Company) is in the business of protecting people, products and environments. The Company accomplishes this by developing, manufacturing and marketing a line of disposable protective apparel for the cleanroom, industrial and pharmaceutical markets, a line of infection control products for the medical and dental markets and a line of construction weatherization products. The disposable protective apparel consists of a complete line of shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats. The infection control line of products includes a line of face masks and eye shields. The line of construction supply weatherization products consists of house wrap and synthetic roof underlayment. The Company also manufactures and distributes a line of medical bed pads and accessories as well as a line of pet beds. The Company s products are sold both under the Alpha Pro Tech brand name as well as under private label and are predominantly sold in the United States of America.

2. Basis of Presentation

The interim financial information included herein is unaudited; however, the information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for the fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods. The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2007, which are included in the Company s Annual Report on Form 10-K (2007 10-K). The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet at December 31, 2007 was extracted from the audited consolidated financial statements contained in the 2007 10-K and does not include all disclosures required by accounting principles generally accepted in the United States of America for annual consolidated financial statements.

3. Stock Based Compensation

The Company maintains a stock option plan under which the Company may grant incentive stock options and non-qualified stock options to employees and non-employee directors. Stock options have been granted with exercise prices at or above the fair market value of the underlying shares of common stock on the date of grant. Options vest and expire according to terms established at the grant date.

The Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R) effective January 1, 2006, using the modified prospective application method. SFAS 123R requires companies to record compensation expense for the value of all outstanding and unvested share-based payments, including employee stock options and similar awards. During the first quarter 2008 and 2007 there were no stock options granted under the option plan. The Company recognized \$47,000 and \$38,000 in share-based compensation expense in its consolidated financial statements for the three months ended March 31, 2008 and 2007 respectively related to previously issued options.

Stock options to purchase 1,320,000 and 2,070,000 shares of common stock were outstanding at March 31, 2008 and 2007, respectively. Of the March 31, 2008 outstanding stock options totaling 1,320,000, none were included in the computation of diluted earnings per share because the exercise prices of all stock options were greater than the average share price of the Company's common stock and, therefore, there was no dilutive effect. Of the March 31, 2007 outstanding stock options totaling 2,070,000, all of the options to purchase common stock were included in

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

the computation of diluted earnings per share because the exercise prices of the stock options were less than the average share price of the Company's common stock and, therefore, the effect would have been dilutive.

The Company used the Black-Scholes option pricing model to value the options. The table below presents the weighted average expected life in years. The Company used SAB 107's simplified method for estimating the expected life of the options. The risk-free interest rate for periods within the contractual life of the award is based on the US Treasury yield curve in effect at the time of grant. The expected volatility is based on historical volatility of the expected life in years.

The following table summarizes stock option activity during the three months ended March 31, 2008 :

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

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

4. New Accounting Standards

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

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

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

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

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

5. Inventories

Inventories consist of the following:

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

6. Investment in and Advances to Unconsolidated Affiliates

On June 14, 2005, Alpha ProTech Engineered Products, Inc. entered into a joint venture with a manufacturer in India for the production of building products. Under terms of the joint venture agreement, a private company, Harmony Plastics Private Limited (Harmony), was created with ownership interests of 41.66% by Alpha ProTech Engineered Products, Inc. and 58.34% by Maple Industries and Associates. Alpha ProTech Engineered Products, Inc. contributed \$508,000 for share capital and Maple Industries and Associates contributed \$708,000.

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

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

The Company is subject to the provisions of FIN 46 which defines the criteria by which the Company determines the proper accounting for its investments in related entities. Specifically, FIN 46 requires the Company to assess whether or not related entities are variable interest entities (VIEs), as defined. For those related entities that qualify as variable interest entities,
FIN 46

Alpha Pro Tech, Ltd.

Notes to Consolidated Financial Statements (Unaudited)

requires the Company to determine whether or not the Company is the primary beneficiary of the VIE, and if so, to consolidate the VIE.

The Company has determined that Harmony is not a VIE and is therefore considered to be an unconsolidated affiliate.

The Company records its investment in Harmony as Equity investments in and advances to unconsolidated affiliates on the accompanying Consolidated Balance Sheets. The Company records its equity interest in Harmony's results of operations as Equity in income of unconsolidated affiliates on the accompanying Consolidated Income Statements.

The Company reviews its investment in Harmony for impairment in accordance with APB No. 18, The Equity Method of Accounting for Investments in Common Stock. APB No. 18 requires recognition of a loss when the decline in an investment is other-than-temporary. In determining whether the decline is other-than-temporary, the Company considers the nature of the industry in which Harmony operates, their historical performance, their performance in relation to their peers and the current economic environment. The Company has concluded that no impairment was identified.

Alpha ProTech Engineered Products initially invested \$1,450,000 in the joint venture; \$508,000 for share capital and \$942,000 as a long term advance. Fifty percent of the \$942,000 long term advance for materials was to be repaid over a six year term commencing in July 2006 and the balance is to be paid in the seventh year. During 2006, Harmony repaid \$39,000 in scheduled payments and \$461,000 in additional payments for a total of \$500,000, leaving a balance of \$442,000. Harmony has not made any further payments to date. Effective April 2006, interest of 3.5% is to be paid annually on this advance and \$19,000 is accrued as of March 31, 2008.

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

7. Accrued Liabilities

Accrued liabilities consist of the following:

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

Alpha Pro Tech, Ltd.**Notes to Consolidated Financial Statements (Unaudited)****8. Basic and Diluted Net Income Per Share**

The following table provides a reconciliation of both net income and the number of shares used in the computation of basic earnings per share (EPS), which utilizes the weighted average number of shares outstanding without regard to potential shares, and diluted EPS, which includes all such dilutive shares:

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

9. Activity of Business Segments

The Company operates through four segments:

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

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

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

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

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

The accounting policies of the segments excludes charges allocated to corporate office expenses, professional fees, public company expenses, executive and management bonuses and income taxes. The Company evaluates the performance of its segments and allocates resources to them based primarily on net sales.

The following table shows net sales for each segment for the three months ended March 31, 2008 and 2007:

	For the Three Months Ended				
	March 31,				
	2008	2007			
Disposable Protective Apparel	\$ 4,454,000	\$ 5,376,000	\$ 1,589,583	\$ 2,580,068	\$ 4,638,539
Transfers into Level 3 ¹		12,150		12,150	
Transfers out of Level 3					
Accrued discounts/premiums	(91,140)		(7,452)	(98,592)	
Net realized gain (loss)	(95,532)	(106)	(8,841)	(104,479)	
Net change in unrealized appreciation (depreciation) ^{1,2}	133,312	(181,873)	35,153	(13,408)	
Purchases Sales		(5)	(422,708)	(422,713)	
Closing Balance, as of May 31, 2017	\$ 415,528	\$ 1,419,749	\$ 2,176,220	\$ 4,011,497	
Net change in unrealized appreciation (depreciation) on investments held as of May 31, 2017 ²	\$ 133,312	\$ (181,873)	\$ 35,153	\$ (13,408)	

¹ As of August 31, 2016 the Trust used observable inputs in determining the value of certain investments. As of May 31, 2017, the Trust used significant unobservable inputs in determining the value of the same investments. As a result, investments at beginning of period value were transferred from Level 2 to Level 3

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in the disclosure hierarchy.

² Any difference between net change in unrealized appreciation (depreciation) and net change in unrealized appreciation (depreciation) on investments held as of May 31, 2017 is generally due to investments no longer held or categorized as Level 3 at period end.

The Trust's investments that are categorized as Level 3 were valued utilizing third party pricing information without adjustment. Such valuations are based on unobservable inputs. A significant change in third party information inputs could result in a significantly lower or higher value of such Level 3 investments.

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BLACKROCK INCOME TRUST, INC.

MAY 31, 2017

Item 2 Controls and Procedures

- 2(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended.
- 2(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3 Exhibits

Certifications Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BlackRock Income Trust, Inc.

By: /s/ John M. Perlowski

John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Income Trust, Inc.

Date: July 24, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ John M. Perlowski

John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Income Trust, Inc.

Date: July 24, 2017

By: /s/ Neal J. Andrews

Neal J. Andrews
Chief Financial Officer (principal financial officer) of
BlackRock Income Trust, Inc.

Date: July 24, 2017