

ALLIED HEALTHCARE PRODUCTS INC  
Form 10-Q  
May 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-19266

**ALLIED HEALTHCARE PRODUCTS, INC.**

(Exact name of registrant as specified in its charter)

Delaware 25-1370721  
(State or other jurisdiction of (I.R.S. Employer  
Incorporation or organization) Identification No.)

**1720 Sublette Avenue, St. Louis, Missouri 63110**

(Address of principal executive offices, including zip code)

**(314) 771-2400**

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 twelve months (or for such shorter periods that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past ninety days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if 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

The number of shares of common stock outstanding at April 30, 2012 is 8,124,386 shares.

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## SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements contained in this Report, which are not historical facts or information, are "forward-looking statements." Words such as "believe," "expect," "intend," "will," "should," and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome and future results of operations, and financial condition to be materially different than stated or anticipated based on the forward-looking statements. Such risks and uncertainties include both general economic risks and uncertainties, risks and uncertainties affecting the demand for and economic factors affecting the delivery of health care services, and specific matters which relate directly to the Company's operations and properties as discussed in the Company's annual report on Form 10-K for the year ended June 30, 2011. The Company cautions that any forward-looking statements contained in this report reflect only the belief of the Company or its management at the time the statement was made. Although the Company believes such forward-looking statements are based upon reasonable assumptions, such assumptions may ultimately prove inaccurate or incomplete. The Company undertakes

no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ALLIED HEALTHCARE PRODUCTS, INC.****CONSOLIDATED STATEMENT OF OPERATIONS****(UNAUDITED)**

	Three months ended March 31,		Nine months ended March 31,	
	2012	2011	2012	2011
Net sales	\$ 10,702,421	\$ 11,338,196	\$ 32,778,824	\$ 34,681,610
Cost of sales	8,377,307	8,729,823	25,312,756	26,712,541
Gross profit	2,325,114	2,608,373	7,466,068	7,969,069
Selling, general and administrative expenses	2,555,649	2,494,806	7,883,631	7,780,116
Income (loss) from operations	(230,535 )	113,567	(417,563 )	188,953
Interest income	(5,692 )	(8,150 )	(21,984 )	(23,692 )
Interest expense	-	-	336	66
Other, net	10,297	24,421	36,446	67,931
	4,605	16,271	14,798	44,305
Income (loss) before provision for (benefit from) income taxes	(235,140 )	97,296	(432,361 )	144,648
Provision for (benefit from) income taxes	(89,353 )	36,972	(164,297 )	54,966
Net income (loss)	\$(145,787 )	\$60,324	\$(268,064 )	\$89,682
Basic earnings (loss) per share	\$(0.02 )	\$0.01	\$(0.03 )	\$0.01
Diluted earnings (loss) per share	\$(0.02 )	\$0.01	\$(0.03 )	\$0.01
Weighted average shares outstanding - basic	8,124,386	8,113,434	8,124,386	8,101,643
Weighted average shares outstanding - diluted	8,124,386	8,195,174	8,124,386	8,121,042

See accompanying Notes to Consolidated Financial Statements.



**ALLIED HEALTHCARE PRODUCTS, INC.****CONSOLIDATED BALANCE SHEET****ASSETS**

	(Unaudited)	
	March 31, 2012	June 30, 2011
Current assets:		
Cash and cash equivalents	\$6,375,285	\$6,512,887
Accounts receivable, net of allowances of \$300,000	4,123,940	5,366,860
Inventories, net	10,338,003	10,553,289
Income tax receivable	-	95,578
Other current assets	665,404	213,745
Total current assets	\$21,502,632	\$22,742,359
Property, plant and equipment, net	9,307,647	8,660,507
Other assets, net	562,112	362,480
Total assets	\$31,372,391	\$31,765,346

See accompanying Notes to Consolidated Financial Statements.

(CONTINUED)

**ALLIED HEALTHCARE PRODUCTS, INC.****CONSOLIDATED BALANCE SHEET****(CONTINUED)****LIABILITIES AND STOCKHOLDERS' EQUITY**

	(Unaudited)	
	March 31, 2012	June 30, 2011
Current liabilities:		
Accounts payable	\$1,588,091	\$1,644,910
Other accrued liabilities	2,073,899	1,645,552
Deferred income taxes	499,417	512,572
Deferred revenue	286,750	688,200
Total current liabilities	4,448,157	4,491,234
Deferred revenue	-	114,700
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding	-	-
Series A preferred stock; \$0.01 par value; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock; \$0.01 par value; 30,000,000 shares authorized; 10,427,878 shares issued at March 31, 2012 and June 30, 2011; 8,124,386 shares outstanding at March 31, 2012 and June 30, 2011	104,279	104,279
Additional paid-in capital	48,531,989	48,499,103
Accumulated deficit	(980,606 )	(712,542 )
Less treasury stock, at cost; 2,303,492 shares at March 31, 2012 and June 30, 2011	(20,731,428)	(20,731,428)
Total stockholders' equity	26,924,234	27,159,412
Total liabilities and stockholders' equity	\$31,372,391	\$31,765,346

See accompanying Notes to Consolidated Financial Statements.



**ALLIED HEALTHCARE PRODUCTS, INC.****CONSOLIDATED STATEMENT OF CASH FLOWS****(UNAUDITED)**

	Nine months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$(268,064 )	\$89,682
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	948,245	1,070,981
Stock based compensation	32,886	15,928
Provision for doubtful accounts and sales returns and allowances	13,478	19,722
Deferred taxes	(221,970 )	(6,371 )
Changes in operating assets and liabilities:		
Accounts receivable	1,229,442	109,248
Inventories	215,286	(59,555 )
Income tax receivable	95,578	101,084
Other current assets	(451,659 )	(34,925 )
Accounts payable	(56,819 )	30,868
Deferred revenue	(516,150 )	(516,150 )
Other accrued liabilities	428,347	(271,665 )
Net cash provided by operating activities	1,448,600	548,847
Cash flows from investing activities:		
Capital expenditures	(1,586,202)	(125,815 )
Net cash used in investing activities	(1,586,202)	(125,815 )
Cash flows from financing activities:		
Stock options exercised	-	103,250
Excess tax benefit from exercise of stock options	-	12,980
Net cash provided by financing activities	-	116,230
Net (decrease) increase in cash and cash equivalents	(137,602 )	539,262
Cash and cash equivalents at beginning of period	6,512,887	5,263,324
Cash and cash equivalents at end of period	\$6,375,285	\$5,802,586

See accompanying Notes to Consolidated Financial Statements.



**ALLIED HEALTHCARE PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. Summary of Significant Accounting and Reporting Policies**

**Basis of Presentation**

The accompanying unaudited consolidated financial statements of Allied Healthcare Products, Inc. (the “Company”) have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2011.

**Recently Adopted Accounting Pronouncements**

In October 2009, the Financial Accounting Standards Board (“FASB”) issued guidance titled “Revenue Recognition – Multiple Deliverable Revenue Arrangements”, which requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This guidance is applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. This guidance became effective for the Company in the quarter ended September 30, 2010, and its adoption did not have a significant effect on the Company’s consolidated financial statements.

In July 2010, the FASB issued guidance expanding disclosure requirements related to receivables. The guidance was issued to provide financial statement users with greater transparency about an entity’s allowance for credit losses and the credit quality of its financing receivables. The guidance is for receivables, off-balance sheet credit exposures and foreclosed and repossessed assets. The Company’s summary of significant accounting policies shall now include: (i) basis for accounting for loans, trade receivables, and lease financing (including those classified as held for sale), (ii) method used in determining the lower of cost or fair value of nonmortgage loans held for sale, (iii) classification and

method of accounting for interest-only strips, loans and other receivables and (iv) method for recognizing interest income on loan and trade receivables.

In addition, the allowance for credit losses, the allowance for doubtful accounts, and as applicable any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, shall be disclosed in the financial statements. The Company adopted this guidance, as required for both interim and annual reporting periods, for the quarter ended December 31, 2010. The adoption of this guidance does not impact the Company's consolidated results of operations or financial position. The Company has included its Accounts Receivable policy in Note 2 – Summary of Significant Accounting Policies.

### Recently Issued Accounting Pronouncements

In September 2011, the FASB issued guidance titled “Disclosures about an Employers Participation in a Multiemployer Plan”. The guidance requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures to provide users with more detailed information about an employer's involvement in multiemployer pension plans. The guidance is effective for years ending after December 15, 2011. Adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

### Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable and accounts payable. The carrying amounts for cash, accounts receivable and accounts payable approximate their fair value due to the short maturity of these instruments.

## 2. Inventories

Inventories are comprised as follows:

	March 31, 2012	June 30, 2011
Work-in progress	\$ 763,016	\$ 820,586
Component parts	7,599,999	7,858,862
Finished goods	3,285,723	3,293,261
Reserve for obsolete and excess inventory	(1,310,735 )	(1,419,420 )
	\$ 10,338,003	\$ 10,553,289

### 3. Earnings per share

Basic earnings per share are based on the weighted average number of shares of all common stock outstanding during the period. Diluted earnings per share are based on the sum of the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The number of basic shares outstanding for the three months ended March 31, 2012 and 2011 were 8,124,386 and 8,113,434, respectively. The number of diluted shares outstanding for the three months ended March 31, 2012 and 2011 were 8,124,386 and 8,195,174, respectively. The number of basic shares outstanding for the nine months ended March 31, 2012 and 2011 was 8,124,386 and 8,101,643, respectively. The number of diluted shares outstanding for the nine months ended March 31, 2012 and 2011 was 8,124,386 and 8,121,042, respectively.

#### 4. Commitments and Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company intends to continue to conduct business in such a manner as to avert any FDA action seeking to interrupt or suspend manufacturing or require any recall or modification of products.

The Company has recognized the costs and associated liabilities only for those investigations, claims and legal proceedings for which, in its view, it is probable that liabilities have been incurred and the related amounts are estimable. Based upon information currently available, management believes that existing accrued liabilities are sufficient and that it is not reasonably possible at this time that any additional liabilities will result from the resolution of these matters that would have a material adverse effect on the Company's consolidated results of operations, financial position, or cash flows.

Stuyvesant Falls Power Litigation. The Company is currently involved in litigation with Niagara Mohawk Power Corporation d/b/a National Grid ("Niagara") and other parties, which provides electrical power to the Company's facility in Stuyvesant Falls, New York. In fiscal year 2011, Niagara began sending invoices to the Company for electricity used at the Company's Stuyvesant Falls plant. The Company maintains in its defense of the lawsuit that it is entitled to a certain amount of free electricity based on covenants running with the land which have been honored for more than a century. Niagara's attempts to collect such invoices were stopped in December 2010 by a temporary restraining order, although a court has not yet ruled on the merits of all of Niagara's claims. Among other things, Niagara seeks approximately \$469,000, which it alleges represents the value of electricity provided prior to the commencement of litigation going back to 2003. As of March 31, 2012, the Company has not recorded a provision for this matter as management intends to vigorously defend this allegation and believes the payment of this claim is not probable. The Company believes, however, that any liability it may incur would not have a material adverse effect on its financial condition or its result of operations.

Armstrong Medical Infringement Litigation. The Company is currently involved in litigation against Armstrong Medical Ltd., relating to the Company's marketing and sale of Litholyme® and a patent owned by Armstrong Medical regarding a carbon dioxide absorbent for use in anesthesiology. In this litigation, the Company asserts that Armstrong Medical's patent is invalid as being anticipated and obvious in light of material prior art and seeks a declaratory judgment that the marketing and sale of Litholyme® does not infringe Armstrong Medical's patent. Armstrong Medical has denied the Company's claims and counterclaimed for infringement. As of March 31, 2012, the Company cannot estimate a loss or range of loss for this matter because damages claimed by Armstrong Medical have not been specified and the proceedings are in early stages.

## 5. Financing

The Company is party to a Loan and Security Agreement, dated November 17, 2009, with Enterprise Bank & Trust (the "Credit Agreement") pursuant to which the Company obtained a secured revolving credit facility with borrowing availability of up to \$7,500,000 (the "Credit Facility"). The Company's obligations under the Credit Facility are secured by certain assets of the Company pursuant to the terms and subject to the conditions set forth in the Credit Agreement.

The Credit Facility was amended on November 11, 2011 extending the maturity date to November 13, 2012. The Credit Facility will be available on a revolving basis until it expires on November 13, 2012, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances under the Credit Facility will be made pursuant to a Revolving Credit Note executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to LIBOR plus 3.50%. Advances may be prepaid in whole or in part without premium or penalty.

Under the Credit Agreement, advances are generally subject to customary borrowing conditions. The Credit Agreement also contains covenants with which the Company must comply during the term of the Credit Facility. Among other things, such covenants restrict the Company's ability to incur certain additional debt; make specified restricted payments, dividends and capital expenditures; authorize or issue capital stock; enter into certain transactions with affiliates; consolidate or merge with or acquire another business; sell certain of its assets or dissolve or wind up the Company. The Credit Agreement also contains certain events of default that are customary for financings of this type including, without limitation: the failure to pay principal, interest, fees or other amounts when due; the breach of specified representations or warranties contained in the loan documents; cross-default with certain other indebtedness of the Company; the entry of uninsured judgments that are not bonded or stayed; failure to comply with the observance or performance of specified agreements contained in the loan documents; commencement of bankruptcy or other insolvency proceedings; and the failure of any of the loan documents entered into in connection with the Credit Facility to be in full force and effect. After an event of default, and upon the continuation thereof, the principal amount of all loans made under the Credit Facility would bear interest at a rate per annum equal to 4.00% above the otherwise applicable interest rate (provided, that the interest rate may not exceed the highest rate permissible under law), and the lender would have the option to accelerate maturity and payment of the Company's obligations under the Credit Facility.

The 90-day LIBOR rate was 0.47% on March 31, 2012.



At March 31, 2012 the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt.

The Company was in compliance with all of the financial covenants associated with the Credit Facility at March 31, 2012.

## 6. Baralyme® Agreement

A reconciliation of deferred revenue resulting from the agreement with Abbott Laboratories (“Abbott”), with the amounts received under the agreement, and amounts recognized as net sales is as follows:

	Three Months ended March 31,		Nine Months ended March 31,	
	2012	2011	2012	2011
Beginning balance	\$458,800	\$1,147,000	\$802,900	\$1,491,100
Revenue recognized as net sales	(172,050)	(172,050 )	(516,150)	(516,150 )
	286,750	974,950	286,750	974,950
Less - Current portion of deferred revenue	(286,750)	(688,200 )	(286,750)	(688,200 )
	\$0	\$286,750	\$0	\$286,750

In addition to the provisions of the agreement relating to the withdrawal of the Baralyme® product, Abbott has agreed to pay Allied up to \$2,150,000 in product development costs to pursue development of a new carbon dioxide absorption product for use in connection with inhalation anesthetics that does not contain potassium hydroxide and does not produce a significant exothermic reaction with currently available inhalation agents. As of March 31, 2012, \$2,150,000 has been received as a result of product development activities.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

*Three months ended March 31, 2012 compared to three months ended March 31, 2011*

Allied had net sales of \$10.7 million for the three months ended March 31, 2012, down from net sales of \$11.3 million in the prior year same quarter. Domestic sales were down 10.4% while international sales, which represented 24.5% of third quarter sales, were up 12.9% from the prior year same quarter.

Sales for the three months ended March 31, 2012 include \$172,050 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at \$57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime® and newly developed Litholyme®. Both are carbon dioxide absorbents with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company's products for the three months ended March 31, 2012 of \$10.6 million were \$0.1 million or 1.0% higher than orders for the prior year same quarter of \$10.5 million. Domestic orders are down 2.9% over the prior year same quarter while international orders, which represented 24.7% of third quarter orders, were 17.6% higher than orders for the prior year same quarter. The Company believes the drop in domestic orders from the prior year is due to normal variations in customer order patterns and does not reflect a drop in market share or a further drop in aggregate demand.

Gross profit for the three months ended March 31, 2012 was \$2.3 million, or 21.5% of net sales, compared to \$2.6 million, or 23.0% of net sales, for the three months ended March 31, 2011. The decrease in gross profit is primarily the result of lower sales volume. The decrease in sales for the quarter also resulted in decreased production in comparison to the prior year and less utilization of fixed overhead cost. Gross profit during the third quarter was favorably impacted from the prior year by an approximately \$0.1 million reduction in shipping and other startup cost at its Stuyvesant Falls facility. The Company continues to implement changes to its operations to reduce the manufacturing cost in St. Louis and Stuyvesant Falls.

Selling, general and administrative expenses for the three months ended March 31, 2012 were \$2.6 million compared to selling, general and administrative expenses of \$2.5 million for the three months ended March 31, 2011. Research and development costs were approximately \$90,000 higher than in the prior year.

Loss from operations was \$0.2 million for the three months ended March 31, 2012 compared to income from operations of \$0.1 million for the three months ended March 31, 2011. Allied had a loss before benefit from income taxes in the third quarter of fiscal 2012 of \$0.2 million, compared to income before provision for income taxes of \$0.1 million in the prior year period. The Company recorded a tax benefit of \$89,353 for the three months ended March 31, 2012 compared to a tax provision of \$36,972 for the three months ended March 31, 2011.

Net loss for the third quarter of fiscal 2012 was \$145,787 or \$0.02 per basic and diluted share compared to net income of \$60,324 or \$0.01 per basic and diluted share for the third quarter of fiscal 2011. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the third quarters of fiscal 2012 and 2011 were 8,124,386 and 8,113,434, respectively. The number of diluted shares outstanding for the three months ended March 31, 2012 and 2011 were 8,124,386 and 8,195,174, respectively.



*Nine months ended March 31, 2012 compared to nine months ended March 31, 2011*

Allied had net sales of \$32.8 million for the nine months ended March 31, 2012, down \$1.9 million, or 5.5% from net sales of \$34.7 million in the prior year same period resulting from lower order levels. Domestic sales were down 8.3% from the prior year same period while international sales were up 6.4% from the prior year same period. International business represented 21.6% of sales for the first nine months of fiscal 2012.

Sales for the nine months ended March 31, 2012 include \$516,150 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at \$57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime® and newly developed Litholyme®. Both are carbon dioxide absorbents with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company's products for the nine months ended March 31, 2012 of \$31.3 million were \$2.0 million or 6.0% lower than orders for the prior year same period of \$33.3 million. Domestic orders are down 10.9% over the prior year same period while international orders, which represented 23.8% of orders for the first nine months of fiscal 2012, were 15.4% higher than orders for the prior year same period. The Company believes the improvement in international orders is due to the reorganization of its international sales efforts. The Co