

ALLIED HEALTHCARE PRODUCTS INC
Form 10-Q
May 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended March 31, 2010

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
(State or other jurisdiction of
Incorporation or organization)

25-1370721
(I.R.S. Employer
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, 2010 is 8,093,386 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, 2009. 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, | |
|--|---------------------------------|---------------|--------------------------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 11,627,418 | \$ 12,389,640 | \$ 34,366,002 | \$ 39,361,993 |
| Cost of sales | 8,781,739 | 9,915,884 | 26,172,709 | 30,677,586 |
| Gross profit | 2,845,679 | 2,473,756 | 8,193,293 | 8,684,407 |
| Selling, general and administrative expenses | 2,705,644 | 3,198,135 | 9,197,535 | 9,782,064 |
| Income (loss) from operations | 140,035 | (724,379) | (1,004,242) | (1,097,657) |
| Interest income | (2,956) | (5,041) | (4,403) | (54,155) |
| Interest expense | 190 | - | 2,764 | 5,849 |
| Other, net | 80,791 | 13,403 | 103,588 | 36,583 |
| | 78,025 | 8,362 | 101,949 | (11,723) |
| Income (loss) before provision for (benefit from) income taxes | 62,010 | (732,741) | (1,106,191) | (1,085,934) |
| Provision for (benefit from) income taxes | 24,480 | (282,469) | (420,353) | (407,925) |
| Net income (loss) | \$ 37,530 | \$ (450,272) | \$ (685,838) | \$ (678,009) |
| Basic earnings (loss) per share | \$ 0.00 | \$ (0.06) | \$ (0.09) | \$ (0.09) |
| Diluted earnings (loss) per share | \$ 0.00 | \$ (0.06) | \$ (0.09) | \$ (0.09) |
| Weighted average shares outstanding - basic | 8,093,386 | 7,901,327 | 8,057,890 | 7,897,937 |
| Weighted average shares outstanding - diluted | 8,183,907 | 7,901,327 | 8,057,890 | 7,897,937 |

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.
CONSOLIDATED BALANCE SHEET
ASSETS

| | (Unaudited) March 31, 2010 | June 30, 2009 |
|---|----------------------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 3,273,496 | \$ 1,943,364 |
| Accounts receivable, net of allowances of \$300,000 | 5,371,848 | 6,172,437 |
| Inventories, net | 11,968,396 | 12,663,938 |
| Income tax receivable | 1,634,370 | 937,273 |
| Other current assets | 270,340 | 327,203 |
| Total current assets | 22,518,450 | 22,044,215 |
| Property, plant and equipment, net | 10,040,867 | 10,799,089 |
| Other assets, net | 186,069 | 390,627 |
| Total assets | \$ 32,745,386 | \$ 33,233,931 |

See accompanying Notes to Consolidated Financial Statements.

(CONTINUED)

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

| | (Unaudited) March 31, 2010 | June 30, 2009 |
|---|----------------------------------|------------------|
| Current liabilities: | | |
| Accounts payable | \$ 2,140,610 | \$ 1,633,568 |
| Other accrued liabilities | 2,055,459 | 2,316,558 |
| Deferred income taxes | 164,125 | 419,213 |
| Deferred revenue | 688,200 | 688,200 |
| Total current liabilities | 5,048,394 | 5,057,539 |
| Deferred revenue | 974,950 | 1,491,100 |
| Commitments and contingencies | | |
| 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; 10,396,878 and 10,204,819 shares issued at March 31, 2010 and June 30, 2009, respectively; 8,093,386 and 7,901,327 shares outstanding at March 31, 2009 and June 30, 2009, respectively | 103,969 | 102,048 |
| Additional paid-in capital | 48,352,716 | 47,632,049 |
| Accumulated deficit | (1,003,215) | (317,377) |
| Less treasury stock, at cost; 2,303,492 shares at March 31, 2010 and June 30, 2009 | (20,731,428) | (20,731,428) |
| Total stockholders' equity | 26,722,042 | 26,685,292 |
| Total liabilities and stockholders' equity | \$ 32,745,386 | \$ 33,233,931 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Nine months ended March 31, | |
|---|--------------------------------|--------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net loss | \$ (685,838) | \$ (678,009) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 948,607 | 1,074,119 |
| Stock based compensation | 637,720 | 17,392 |
| Provision for doubtful accounts and sales returns and allowances | (9,832) | 2,886 |
| Deferred taxes | (59,713) | 14,223 |
| Loss on disposition of equipment | 67,848 | 3,056 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 810,421 | 680,519 |
| Inventories | 695,542 | (1,611,991) |
| Income tax receivable | (697,097) | - |
| Other current assets | 56,863 | (59,655) |
| Accounts payable | 507,042 | (287,444) |
| Deferred revenue | (516,150) | (516,150) |
| Other accrued liabilities | (261,099) | (1,429,952) |
| Net cash provided by (used in) operating activities | 1,494,314 | (2,791,006) |
| Cash flows from investing activities: | | |
| Capital expenditures | (303,680) | (1,403,665) |
| Proceeds from disposal of fixed assets | 54,630 | - |
| Net cash used in investing activities | (249,050) | (1,403,665) |
| Cash flows from financing activities: | | |
| Stock options exercised | 3,469 | 81,094 |
| Minimum tax withholdings on stock options exercised | (406,110) | - |
| Excess tax benefit from exercise of stock options | 487,509 | 619 |
| Net cash provided by financing activities | 84,868 | 81,713 |
| Net increase (decrease) in cash and cash equivalents | 1,330,132 | (4,112,958) |
| Cash and cash equivalents at beginning of period | 1,943,364 | 6,149,015 |
| Cash and cash equivalents at end of period | \$ 3,273,496 | \$ 2,036,057 |

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, 2009.

Codification of Accounting Standards

On September 30, 2009, the Company adopted SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (the Codification). The Codification combines the previous U.S. GAAP hierarchy which included four levels of authoritative accounting literature distributed among a number of different sources. The Codification does not by itself create new accounting standards but instead reorganizes thousands of pages of existing U.S. GAAP accounting rules into approximately 90 accounting topics. All existing accounting standards documents are superseded by the Codification and all other accounting literature not included in the Codification is now considered non-authoritative. The Codification explicitly recognizes the rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under federal securities laws as authoritative GAAP for SEC registrants. The Codification is now the single source of authoritative nongovernmental accounting standards in the U.S.

As a result of the Codification, the references to authoritative accounting pronouncements included herein in this Quarterly Report on Form 10-Q now refer to the Codification topic section rather than a specific accounting rule as was past practice.

Recently Issued Accounting Guidance

In April 2009, the FASB issued guidance (“Fair Value Determination Guidance”) in the Fair Value Measurements and Disclosures Topic of the ASC regarding the determination of fair value in instances where market conditions result in either inactive markets for assets and liabilities or disorderly transactions within markets. The Fair Value Determination Guidance affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. The Fair Value Determination Guidance requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence and expands certain disclosure requirements. The Fair Value Determination Guidance became effective for Allied Healthcare Products, Inc. in the quarter ended September 30, 2009, and its adoption did not have a significant effect on the Company’s financial position, results of operations, or cash flows.

In December 2007, the FASB issued the Business Combinations Topic of the ASC. The Business Combinations Topic replaces previously issued guidance regarding business combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. Departing from the cost-allocation process of previous guidance, the Business Combinations Topic requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity at the acquisition date, measured at their fair values as of that date. Contingent consideration is recognized and measured at fair value at the acquisition date, and acquisition related costs are expensed as incurred. The Business Combinations Topic also distinguishes between assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date and assets or liabilities arising from all other contingencies, requiring different treatment for each type of contingency. The Business Combinations Topic is effective for Allied Healthcare Products, Inc. on July 1, 2009. To the extent business combinations occur on or after the effective date, the Company’s accounting for those transactions will be significantly affected by the provisions of the Business Combinations Topic.

The Company has determined that all other recently issued accounting guidance will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

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, 2010 | June 30, 2009 |
|---|----------------|---------------|
| Work-in progress | \$ 744,409 | \$ 718,711 |
| Raw materials and component parts | 8,591,912 | 8,981,435 |
| Finished goods | 3,929,250 | 4,311,440 |
| Reserve for obsolete and excess inventory | (1,297,175) | (1,347,648) |
| | \$ 11,968,396 | \$ 12,663,938 |

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, 2010 and 2009 were 8,093,386 and 7,901,327 respectively. The number of diluted shares outstanding for the three months ended March 31, 2010 and 2009 were 8,183,907 and 7,901,327 respectively. The number of basic and diluted shares outstanding for the nine months ended March 31, 2010 and 2009 were 8,057,890 and 7,897,937 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 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 to believe 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.

5. Financing

Effective as of November 13, 2009, Allied Healthcare Products, Inc. (the "Company") terminated its revolving credit facility arrangement with Bank of America, N.A., as successor to LaSalle Bank National Association (the "Old Credit Agreement"). The Old Credit Agreement provided for borrowings of up to \$10,000,000 and was available through September 1, 2010. No loans were outstanding under the Old Credit Agreement as of November 13, 2009.

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

The New Credit Facility will be available on a revolving basis until it expires on November 15, 2010, at which time all amounts outstanding under the New Credit Facility will be due and payable. Advances under the New Credit Facility will be made pursuant to a Revolving Credit Note (the "Promissory Note") executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to .50% in excess of Enterprise Bank & Trust's prime-rate based interest rate for commercial loans, subject to a minimum annual interest rate of 4.50%. Advances may be prepaid in whole or in part without premium or penalty.

Under the New Credit Agreement, advances are generally subject to customary borrowing conditions. The New Credit Agreement also contains covenants with which the Company must comply during the term of the New 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 transaction with affiliates; consolidate or merge with or acquire another business; sell certain of its assets or dissolve or wind up the Company. The New 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 New 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 New 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 New Credit Facility.

The prime rate was 3.25% on March 31, 2010.

At March 31, 2010 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 New Credit Facility at March 31, 2010.

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, | |
|---|---------------------------------|--------------|--------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Beginning balance | \$ 1,835,200 | \$ 2,522,950 | \$ 2,179,300 | \$ 2,867,500 |
| Revenue recognized as net sales | (172,050) | (171,600) | (516,150) | (516,150) |
| | 1,663,150 | 2,351,350 | 1,663,150 | 2,351,350 |
| Less - Current portion of deferred revenue | (688,200) | (688,200) | (688,200) | (688,200) |
| | \$ 974,950 | \$ 1,663,150 | \$ 974,950 | \$ 1,663,150 |

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, 2010, \$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, 2010 compared to three months ended March 31, 2009

Allied had net sales of \$11.6 million for the three months ended March 31, 2010, down \$0.8 million, or 6.5%, from net sales of \$12.4 million in the prior year same quarter. Customer orders of \$10.6 million were \$1.9 million lower than the prior year same quarter. Purchase order releases were only \$1.0 million lower than in the prior year same quarter. Purchase order release times depend on the scheduling practices of individual customers, and do vary over time.

Sales for the three months ended March 31, 2010 and March 31, 2009 include approximately \$172,000 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®, a carbon dioxide absorbent with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27th, 2004.

Domestic sales were down 4.7% from the prior year same quarter, while international business, which represented 20.9% of third quarter sales, was down 11.3%. Orders for the Company's products for the three months ended March 31, 2010 of \$10.6 million were \$1.9 million or 15.2% lower than orders for the prior year same quarter of \$12.5 million. Domestic orders are down 15.7% over the prior year same quarter while international orders, which represented 20.5% of third quarter orders, were 14.0% lower than orders for the prior year same quarter. The Company believes that the decrease in net sales is primarily the result of the worldwide recession. The Company believes that the purchase of equipment and durable goods by hospitals and municipalities have continued to be reduced as a short term measure to meet budgets and conserve cash, despite early indications of limited recovery in the economy. By and large, the Company's products are considered durable goods.

Gross profit for the three months ended March 31, 2010 was \$2.8 million, or 24.1% of net sales, compared to \$2.5 million, or 20.2% of net sales, for the three months ended March 31, 2009. Gross profit during the third quarter was favorably impacted by cost savings initiatives which reduced the cost of purchased materials and manufactured finished goods.

Selling, general and administrative expenses for the three months ended March 31, 2010 were \$2.7 million compared to selling, general and administrative expenses of \$3.2 million for the three months ended March 31, 2009. The decrease in selling, general and administrative expenses is partially due to a decrease of approximately \$0.3 million for compensation expense as a result of a reduction in the Company's workforce and a decrease of approximately \$71,000 for sales commissions due to the decline in sales compared to the same quarter of the prior year. Additionally, selling expenses for business travel decreased approximately \$74,000 and expenses for trade shows decreased approximately \$52,000 compared to the same quarter of the prior year.

Income from operations was \$140,035 for the three months ended March 31, 2010 compared to loss from operations of \$0.7 million for the three months ended March 31, 2009. Allied had income before provision for income taxes in the third quarter of fiscal 2010 of \$62,010, compared to a loss before benefit from income taxes in the third quarter of fiscal 2009 of \$0.7 million. The Company recorded a tax provision of \$24,480 for the three-months ended March 31, 2010 compared to a tax benefit of \$0.3 million for the three months ended March 31, 2009.

Net income for the third quarter of fiscal 2010 was \$37,530 or \$0.00 per basic and diluted share compared to net loss of \$0.5 million or \$0.06 per basic and diluted share for the third quarter of fiscal 2009. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the third quarters of fiscal 2010 and 2009 were 8,093,386 and 7,901,327 shares, respectively. The weighted average number of common shares outstanding, used in the calculation of diluted earnings per share for the third quarters of fiscal 2010 and 2009 were 8,183,907 and 7,901,327 shares, respectively.

Nine months ended March 31, 2010 compared to nine months ended March 31, 2009

Allied had net sales of \$34.4 million for the nine months ended March 31, 2010, down \$5.0 million, or 12.7%, from net sales of \$39.4 million in the prior year same period. Customer orders of \$33.1 million were \$5.0 million lower than the prior year same period. Purchase order releases were \$5.0 million lower than in the prior year same period. Purchase order release times depend on the scheduling practices of individual customers, and do vary over time.

\$99,000 of the decrease in the Company's sales compared to the same period last year are due to discontinuation of reimbursement from Abbott for product development activities to pursue development of a new carbon dioxide absorption product. Sales for the nine months ended March 31, 2009 include \$99,000 of such reimbursements.

Sales for the nine months ended March 31, 2010 and March 31, 2009 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®.

Domestic sales were down 11.4% from the prior year same period, while international business, which represented 18.1% of sales for the nine months of fiscal 2010, was down 18.3%. Orders for the Company's products for the nine months ended March 31, 2010 of \$33.1 million were \$5.0 million or 13.1% lower than orders for the prior year same period of \$38.1 million. Domestic orders are down 12.8% over the prior year same period while international orders, which represented 19.8% of orders for the first nine months of fiscal 2010, were 15.1% lower than orders for the prior year same period.

Gross profit for the nine months ended March 31, 2010 was \$8.2 million, or 23.8% of net sales, compared to \$8.7 million, or 22.1% of net sales, for the nine months ended March 31, 2009. Gross profit during the first nine months of fiscal 2010 was favorably impacted by cost savings initiatives which have reduced the cost of purchased materials and manufactured finished goods.

Selling, general and administrative expenses for the nine months ended March 31, 2010 were \$9.2 million compared to selling, general and administrative expenses of \$9.8 million for the nine months ended March 31 2009. Stock option expense increased approximately \$0.6 million due to the grant of immediately vested stock options to the Company's President and CEO. This increase was offset by a decrease of approximately \$0.6 million for compensation expense as a result of a reduction in the Company's workforce, a decrease of approximately \$46,000 for recruiting expenses, and a decrease of approximately \$80,000 for outside professional services compared to the same period of the prior year. Due to the low level of sales for the first nine months of fiscal 2010, sales commissions decreased \$154,000 compared to the same period of the prior year. Additionally, selling expenses for business travel decreased approximately \$210,000, vehicle expenses decreased approximately \$40,000, and expenses for trade shows decreased approximately \$110,000 compared to the same period of the prior year.

Loss from operations was \$1.0 million for the nine months ended March 31, 2010 compared to loss from operations of \$1.1 million for the nine months ended March 31, 2009. Interest income was \$4,403 for the nine months ended March 31, 2010 compared to interest income of \$54,155 for the nine months ended March 31, 2009. Allied had loss before benefit from income taxes in the first nine months of fiscal 2010 and fiscal 2009 of \$1.1 million. The Company recorded a tax benefit of \$0.4 million for the nine months ended March 31, 2010 and March 31, 2009.

Net loss for the first nine months of fiscal 2010 was \$0.7 million or \$0.09 per basic and diluted share compared to net loss of \$0.7 million or \$0.09 per basic and diluted share for the first nine months of fiscal 2009. The weighted average number of common shares outstanding, used in the calculation of basic and diluted earnings per share for the first nine months of fiscal 2010 and 2009 were 8,057,890 and 7,897,937 shares, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company believes that available resources and anticipated cash flows from operations are sufficient to meet operating requirements in the coming year.

The Company's working capital was \$17.5 million at March 31, 2010 compared to \$17.0 million at June 30, 2009. Cash increased \$1.3 million and income taxes receivable increased \$0.7 million. The current deferred income tax liability decreased \$0.3 million and accrued liabilities decreased \$0.3 million. At March 31, 2010 these increases in working capital were offset by a decrease in inventory of \$0.7 million, a decrease in other current assets of \$0.1 million, a \$0.5 million increase in accounts payable and a decrease in accounts receivable of \$0.8 million to \$5.4 million at March 31, 2010. Accounts receivable as measured in days of sales outstanding ("DSO") decreased to 42 DSO at March 31, 2010; down from 43 DSO at June 30, 2009.

Effective as of November 13, 2009, Allied Healthcare Products, Inc. (the "Company") terminated its revolving credit facility arrangement with Bank of America, N.A., as successor to LaSalle Bank National Association (the "Old Credit Agreement"). The Old Credit Agreement provided for borrowings of up to \$10,000,000 and was available through September 1, 2010. No loans were outstanding under the Old Credit Agreement as of November 13, 2009.

On November 17, 2009, in order to obtain replacement financing, the Company entered into a Loan and Security Agreement by and between Enterprise Bank & Trust and the Company (the "New Credit Agreement") pursuant to which the Company obtained a secured revolving credit facility with borrowing availability of up to \$7,500,000 (the "New Credit Facility"). The Company's obligations under the New Credit Facility are secured by certain assets of the Company pursuant to the terms and subject to the conditions set forth in the New Credit Agreement. See Note 5 – Financing to the Company's consolidated unaudited financial statements for more information concerning the New Credit Facility.

The prime rate was 3.25% on March 31, 2010.

At March 31, 2010 the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt.

In the event that economic conditions were to severely worsen for a protracted period of time, we believe that we will have borrowing capacity under credit facilities that will provide sufficient financial flexibility. The Company would have options available to ensure liquidity in addition to increased borrowing. Capital expenditures, which are budgeted at \$1.2 million for the fiscal year ended June 30, 2010, could be postponed.

Inflation has not had a material effect on the Company's business or results of operations during the first nine months of fiscal 2010.

Litigation and Contingencies

The Company becomes, from time to time, a party to personal injury litigation arising out of incidents involving the use of its products. The Company believes that any potential judgments resulting from these claims over its self-insured retention will be covered by the Company's product liability insurance.

Recently Issued Accounting Guidance

The impact and any associated risks related to the Company's critical accounting policies on business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended June 30, 2009.

See Note 1 – Summary of Significant Accounting and Reporting Policies for more information on recent accounting pronouncements and their impact, if any, on our consolidated financial statements. Management believes there have been no material changes to our critical accounting policies.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

At March 31, 2010, the Company did not have any debt outstanding. The revolving credit facility bears an interest rate using the commercial bank's prime-rate based interest rate for commercial loans as the basis, as defined in the loan agreement, and therefore is subject to additional expense should there be an increase in market interest rates.

The Company had no holdings of derivative financial or commodity instruments at March 31, 2010. Allied Healthcare Products has international sales; however these sales are denominated in U.S. dollars, mitigating foreign exchange rate fluctuation risk.

Item 4T. Controls and Procedures

(a) Disclosure Controls and Procedures.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation of those controls and procedures performed as of March 31, 2010, the Chief Executive Officer and Chief Financial Officer of the Company concluded that its disclosure controls and procedures were effective.

(b) Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

10.1 Employment Agreement by and between the Company and Earl Refsland, dated December 21, 2009 (filed herewith).

31.1 Certification of Chief Executive Officer (filed herewith)

31.2 Certification of Chief Financial Officer (filed herewith)

32.1 Sarbanes-Oxley Certification of Chief Executive Officer (furnished herewith)*

32.2 Sarbanes-Oxley Certification of Chief Financial Officer (furnished herewith)*

99.1 Press Release dated May 7, 2010 announcing third quarter earnings*

Notwithstanding any incorporation of this Quarterly Report on Form 10-Q in any other filing by the Registrant, Exhibits furnished herewith and designated with an asterisk () shall not be deemed incorporated by reference to any other filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 unless specifically otherwise set forth therein.

SIGNATURE

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

ALLIED HEALTHCARE PRODUCTS, INC.

/s/ Daniel C. Dunn
Daniel C. Dunn
Chief Financial Officer

Date: May 7, 2010