ALLIED HEALTHCARE PRODUCTS INC
Form 10-Q
February 13, 2015

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 December 31, 2014

¨ **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 Incorporation or organization)	(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 x 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 x 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 x

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

Yes ¨ No x

The number of shares of common stock outstanding at January 30, 2015 is 8,027,147 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, both in the United States and in our overseas markets, impacts of the U.S. Affordable Care Act, the outcome of litigation proceedings 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, 2014. 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.

STATEMENT OF OPERATIONS

(UNAUDITED)

	Three months ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
Net sales	$8,999,662	$8,749,406	$17,844,929	$17,457,703
Cost of sales	6,841,177	6,805,156	14,111,661	13,752,887
Gross profit	2,158,485	1,944,250	3,733,268	3,704,816
Selling, general and administrative expenses	2,193,501	2,835,881	4,465,789	5,458,082
Loss from operations	(35,016)	(891,631)	(732,521)	(1,753,266)
Other (income) expenses:				
Interest income	(799)	(1,476)	(1,554)	(3,366)
Other, net	10,533	8,761	21,958	17,484
	9,734	7,285	20,404	14,118
Loss before benefit from income taxes	(44,750)	(898,916)	(752,925)	(1,767,384)
Benefit from income taxes	-	-	-	(277,910)
Net loss	$(44,750)	$(898,916)	$(752,925)	$(1,489,474)
Basic loss per share	$(0.01)	$(0.11)	$(0.09)	$(0.19)
Diluted loss per share	$(0.01)	$(0.11)	$(0.09)	$(0.19)
Weighted average shares outstanding - basic	8,027,147	8,027,147	8,027,147	8,027,147
Weighted average shares outstanding - diluted	8,027,147	8,027,147	8,027,147	8,027,147

See accompanying Notes to Financial Statements.

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ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

ASSETS

	(Unaudited) December 31, 2014	June 30, 2014
Current assets:		
Cash and cash equivalents	$ 1,538,853	$ 1,366,762
Accounts receivable, net of allowances of $170,000	3,270,162	3,713,105
Inventories, net	9,619,449	9,406,098
Income tax receivable	27,591	17,166
Other current assets	550,192	410,098
Total current assets	15,006,247	14,913,229
Property, plant and equipment, net	8,382,338	8,935,601
Deferred income taxes	1,963,524	1,996,434
Other assets, net	159,388	187,163
Total assets	$ 25,511,497	$ 26,032,427

See accompanying Notes to Financial Statements.

(CONTINUED)

ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) December 31, 2014	June 30, 2014
Current liabilities:		
Accounts payable	$1,207,217	$1,068,222
Other accrued liabilities	1,747,243	1,624,186
Deferred income taxes	830,946	830,946
Total current liabilities	3,785,406	3,523,354
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; 10,427,878 shares issued at December 31,2014 and June 30, 2014; 8,027,147 shares outstanding at December 31, 2014 and June 30, 2014	104,279	104,279
Additional paid-in capital	48,555,178	48,585,236
Accumulated deficit	(5,952,578)	(5,199,654)
Less treasury stock, at cost; 2,400,731 shares at December 31, 2014 and June 30, 2014, respectively	(20,980,788)	(20,980,788)
Total stockholders' equity	21,726,091	22,509,073
Total liabilities and stockholders' equity	$25,511,497	$26,032,427

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF CASH FLOWS

(UNAUDITED)

	Six months ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(752,925)	$(1,489,474)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	667,127	616,064
Stock based compensation	2,853	6,575
Provision for doubtful accounts and sales returns and allowances	27,838	6,123
Deferred taxes	-	(277,910)
Changes in operating assets and liabilities:		
Accounts receivable	415,105	720,089
Inventories	(213,351)	(1,125,585)
Income tax receivable	(10,424)	(2,769)
Other current assets	(140,094)	(175,348)
Accounts payable	138,995	374,078
Other accrued liabilities	123,055	196,713
Net cash provided by (used in) operating activities	258,179	(1,151,444)
Cash flows from investing activities:		
Capital expenditures	(86,088)	(252,442)
Net cash used in investing activities	(86,088)	(252,442)
Net increase (decrease) in cash and cash equivalents	172,091	(1,403,886)
Cash and cash equivalents at beginning of period	1,366,762	3,687,919
Cash and cash equivalents at end of period	$1,538,853	$2,284,033

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited 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 financial statements and notes to the financial statements thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2014.

Recently Issued Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, we will adopt this ASU on January 1, 2017. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU and we are currently evaluating which transition approach to use and the full impact this ASU will have on our future financial statements.

The FASB has issued Accounting Standards Update (ASU) No. 2014-15, “Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” ASU 2014-15 establishes the responsibility of management to assess an organization’s ability to continue as a going concern and to provide related footnote disclosures. The ASU is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. We do not expect the adoption of this ASU to have an impact on our future financial statements.

Fair Value of Financial Instruments

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

2. Inventories

Inventories are comprised as follows:

	December 31, 2014	June 30, 2014
Work-in progress	$ 687,310	$ 616,474
Component parts	7,914,157	7,605,543
Finished goods	2,441,475	2,617,799
Reserve for obsolete and excess inventory	(1,423,493)	(1,433,718)
	$ 9,619,449	$ 9,406,098

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 and diluted shares outstanding for the three and six months ended December 31, 2014 and 2013 were 8,027,147.

4. Commitments and Contingencies

Legal Claims

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 results of operations, financial position, or cash flows.

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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. Among other things, Niagara seeks as damages the value of electricity received by the Company without charge. While the total value of electricity at issue in the litigation is not known with certainty, Niagara alleges in its Motion for Summary Judgment, filed on March 14, 2014, damages of approximately $492,000 in free electricity since May 2010. Alternatively, Niagara asserts that, in the event that the free power covenant is still enforceable, the Company is still responsible for delivery fees relating to any free power to which it is entitled. The Company filed its own Motion for Summary Judgment on March 14, 2014, seeking dismissal of Niagara's claims; and oral arguments on the motions were held on June 13, 2014. On October 1, 2014, the Court granted the Company's motion, denied Niagara's motion and ruled that the Company is entitled to receive electrical power pursuant to the power covenants. On October 26 and October 30, 2014, Niagara and other parties filed separate appeals of the trial court's decision and the case is schedule for a settlement hearing on March 19, 2015. As of December 31, 2014, the Company has not recorded a provision for this matter as management intends to defend against any further litigation and to enforce its rights under the subject power covenants.

Dräger Patent Litigation. On or about October 4, 2013, Dräger Medical GmbH and certain affiliates (the "Dräger Plaintiffs") filed a patent infringement lawsuit against the Company in the United States District Court for the District of Delaware, asserting that the Company infringes United States Patent Nos. 7,487,776 and 8,286,633, both protecting particular combinations of carbon dioxide absorption cartridges and adapters which fit on anesthesia machines. The Dräger Plaintiffs assert that the Company's sales of certain models of its Litholyme and Carbolime single-use carbon dioxide absorption cartridges infringe both patents. The Company answered the Complaint, asserting invalidity of the patents, non-infringement, and implied license under the doctrine of permissive repair.

On October 25, 2013, the Dräger Plaintiffs filed a motion for preliminary injunction requesting that the Company be enjoined from selling certain models of its Litholyme and Carbolime cartridges during the pendency of the litigation. A hearing on the motion for preliminary injunction was held on February 7, 2014. On March 24, 2014, the Court ruled in the Company's favor and denied Dräger's motion for a preliminary injunction, stating among other things that Dräger had not carried its burden of showing that the Company had infringed Dräger's patents. On June 20, 2014, the Company filed a motion seeking summary judgment based on the repair doctrine, which was the basis for the Court's denial of Dräger's motion for preliminary injunction. The Company's motion and Dräger's response is currently under submission to the Court.

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As of December 31, 2014, the Company has not recorded a provision for this matter because the Company cannot estimate a possible loss or range of loss for this matter because the Dräger Plaintiffs have not specified damages claimed and the proceedings are in the early stages. The Company intends to defend against any further litigation brought by the Dräger Plaintiffs and pursue counterclaims for invalidity, non-infringement, and implied license.

Employment Contract

The Company has entered into an employment contract with its chief executive officer with annual renewals. The contract includes termination without cause and change of control provisions, under which the chief executive officer is entitled to receive specified severance payments generally equal to two times ending annual salary if the Company terminates his employment without cause or he voluntarily terminates his employment with "good reason." "Good Reason" generally includes changes in the scope of his duties or location of employment but also includes (i) the Company's written election not to renew the Employment Agreement and (ii) certain voluntary resignations by the chief executive officer following a "Change of Control" as defined in the Agreement.

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. Currently, the agreement provides for borrowing availability of up to $5,000,000 (the "Credit Facility"). At December 31, 2014, the Company had $5,000,000 available for borrowing on the line of credit. 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 10, 2014 extending the maturity date to November 9, 2015. The Credit Facility will be available on a revolving basis until it expires on November 9, 2015, 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 (as defined in the Credit Agreement) executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to 3.50% in excess of the 30-day LIBOR rate. 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 30-day LIBOR rate was 0.17% on December 31, 2014.

At December 31, 2014 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 covenants associated with the Credit Facility at December 31, 2014.

6. Income Taxes

The Company accounts for income taxes under ASC Topic 740: "Income Taxes." Under ASC 740, the deferred tax provision is determined using the liability method, whereby deferred tax assets and liabilities are recognized based upon temporary differences between the financial statement and income tax bases of assets and liabilities using presently enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

In the three and six months ended December 31, 2014 the Company recorded the tax benefit of losses incurred in the amount of approximately $12,000 and $278,000, respectively. As the realization of the tax benefit of the net operating loss is not assured an additional valuation allowance of approximately $12,000 and $278,000 for the three and six months ended respectively was also recorded. The total valuation allowance recorded by the Company as of December 31, 2014 was approximately $1,078,000. To the extent that the Company's losses continue in future quarters, the tax benefit of those losses will be subject to a valuation allowance.

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

Results of Operations

Three months ended December 31, 2014 compared to three months ended December 31, 2013

Allied had net sales of $9.0 million for the three months ended December 31, 2014, up $0.3 million from net sales of $8.7 million in the prior year same quarter resulting from higher customer releases for shipment. Domestic sales were up 2.6% while international sales, which represented 27.1% of second quarter sales, were up 3.5% from the prior year same quarter.

Orders for the Company's products for the three months ended December 31, 2014 of $9.1 million were $0.1 million or 1.1% lower than orders for the prior year same quarter of $9.2 million. Domestic orders are down 0.7% over the prior year same quarter while international orders, which represented 26.6% of second quarter orders, were 1.9% lower than orders for the prior year same quarter. The Company continues to believe that the purchase of equipment and durable goods and the purchase of equipment by hospitals and municipalities have been cut to meet budgets and conserve cash due to the slow recovery of the economy since the recession in 2008 and uncertainty regarding the impact of the Affordable Care Act. Orders and sales remain below pre-recession levels.

Gross profit for the three months ended December 31, 2014 was $2.2 million, or 24.4% of net sales, compared to $1.9 million, or 21.8% of net sales, for the three months ended December 31, 2013. The $0.3 million increase in gross profit is primarily attributable to the increase in sales. Gross profit also improved because of lower manufacturing costs, including a $73,000 reduction in manufacturing salaries and benefits as a result of staffing reductions, a $29,000 reduction in scrap expense, and a $37,000 reduction in supplies expense.

Selling, general and administrative expenses for the three months ended December 31, 2014 were $2.2 million compared to selling, general and administrative expenses of $2.8 million for the three months ended December 31, 2013. Legal expenses are approximately $278,000 lower than in the prior year and salaries and benefit expenses are approximately $209,000 lower than in the prior year as a result of staff reductions executed in the third quarter of the prior year.

Loss from operations was $35,016 for the three months ended December 31, 2014 compared to loss from operations of $891,631 for the three months ended December 31, 2013.

Allied had a loss before benefit from income taxes in the second quarter of fiscal 2015 of $44,750 compared to loss before benefit from income taxes in the second quarter of fiscal 2014 of $898,916. The Company recorded a tax benefit of $0 for the three months ended December 31, 2014 and 2013. In the quarter ended December 31, 2014 the tax benefit of losses in the amount of approximately $12,000 was fully offset by a valuation allowance of an equivalent amount. To the extent that the Company's losses continue in future quarters, the tax benefit of those losses will be fully offset by a valuation allowance.

Net loss for the second quarter of fiscal 2015 was $44,750 or $0.01 per basic and diluted share compared to net loss of $898,916 or $0.11 per basic and diluted share for the second quarter of fiscal 2014. The weighted average number of common shares outstanding, used in the calculation of basic and diluted earnings per share for the second quarters of fiscal 2015 and 2014 were 8,027,147.

Six months ended December 31, 2014 compared to six months ended December 31, 2013

Allied had net sales of $17.8 million for the six months ended December 31, 2014, up $0.3 million, or 1.7% from net sales of $17.5 million in the prior year same period resulting from higher order levels and an increase in customer orders released for shipment. Domestic sales were up 0.3% from the prior year same period while international sales were up 8.0% from the prior year same period. International business represented 26.3% of sales for the first six months of fiscal 2015.

Orders for the Company's products for the six months ended December 31, 2014 of $18.5 million were $0.5 million or 2.8% higher than orders for the prior year same period of $18.0 million. Domestic orders are down 1.0% over the prior year same period while international orders, which represented 27.9% of orders for the first six months of fiscal 2015, were 11.8% higher than orders for the prior year same period. The Company believes that the increase in international orders and sales reflects continued acceptance of the Company's CO2 absorbant products and ventilation product offerings.

Gross profit for the six months ended December 31, 2014 was $3.7 million, or 20.8% of net sales, compared to $3.7 million, or 21.1% of net sales, for the six months ended December 31, 2013.

Selling, general and administrative expenses for the six months ended December 31, 2014 were $4.5 million compared to selling, general and administrative expenses of $5.5 million for the six months ended December 31, 2013. Legal expenses are approximately $331,000 lower than in the prior year and salaries and benefits are approximately $435,000 lower than in the prior year as the result of staff reductions made in the third quarter of the prior year.

Loss from operations was $732,521 for the six months ended December 31, 2014 compared to loss from operations of $1.8 million for the six months ended December 31, 2013. Allied had loss before benefit from income taxes in the first six months of fiscal 2015 of $752,925, compared to loss before benefit from income taxes in the first six months of fiscal 2014 of $1.8 million. The Company's tax provision net of valuation allowance reflects a tax benefit of $0 for the six months ended December 31, 2014 compared to a tax benefit of $277,910 for the six months ended December, 2013. In the six months ended December 31, 2014 the tax benefit of losses in the amount of approximately $278,000 was fully offset by a valuation allowance of equivalent amount. To the extent that the Company's losses continue in future quarters, the tax benefit of those losses will be fully offset by a valuation allowance.

Net loss for the six months ended December 31, 2014 was $752,925 or $0.09 per basic and diluted share compared to net loss of $1,489,474 or $0.19 per basic and diluted share for the first six months of fiscal 2014. The weighted average number of common shares outstanding, used in the calculation of basic and diluted earnings per share for the first six months of fiscal 2015 and 2014 was 8,027,147.

Liquidity and Capital Resources

The Company believes that available resources, including availability under a credit facility described below, are sufficient to meet operating requirements in the coming year.

The Company's working capital was $11.2 million at December, 2014 compared to $11.4 million at June 30, 2014. Cash increased by approximately $0.2 million and Inventories increased by approximately $0.2 million. During fiscal 2015, these increases in working capital were offset by a $0.4 million decrease in Accounts Receivable and a $0.1 million increase in Accounts Payable. Accounts Payable and Other Accrued Liabilities are subject to normal fluctuations in purchasing levels and the timing of payments within the quarter. Accounts Receivable declined primarily due to the decrease in Sales from the fourth quarter of fiscal year 2014. Accounts Receivable was $3.3 million at December 31, 2014, a decrease from $3.7 million at June 30, 2014. Accounts Receivable as measured in days sales outstanding ("DSO") was 35 DSO at December 31, 2014; down from 36 DSO at June 30, 2014. The Company does adjust product forecast, order quantities and safety stock based on changes in demand patterns in order to manage inventory levels.

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 has a secured revolving credit facility with borrowing availability of up to $5,000,000 (the "Credit Facility"). At December 31, 2014, the Company had $5,000,000 available for borrowing on the line of credit. 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. See Note 5 – Financing to the Company's unaudited financial statements for more information concerning the Credit Facility.

Any advances under the Credit Facility will be made pursuant to a Revolving Credit Note (as defined in the Credit Agreement) executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to the 30-day LIBOR rate plus 3.50%. Advances may be prepaid in whole or in part without premium or penalty. The 30-day LIBOR rate was 0.17% on December 31, 2014.

Management has implemented cost saving measures which it believes will reduce the Company's usage of cash, including overhead reductions and deferral of non-essential capital expenditures, however there are no assurances that these measures will be successful. If these cost saving measures are not successful, the Company may need to borrow under the Credit Facility to fund its operations. The Credit Facility expires on November 9, 2015, at which time any outstanding borrowings would be due and payable, with interest. If the Company does not have sufficient cash to repay any outstanding principal and interest under the Credit Facility, it would be required to refinance the Credit Facility. While the Company believes that in such event it would have a sufficient borrowing base to secure the necessary financing, the Company could incur additional costs due to higher interest rates or fees. At December 31, 2014 the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt.

Inflation has not had a material effect on the Company's business or results of operations during the first six months of fiscal 2015.

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. See Part II, Item 1 – Legal Proceedings, below, for more information concerning litigation.

Critical Accounting Policies

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 the Company's 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, 2014.

Recently Issued Accounting Guidance

See Note 1 – Summary of Significant Accounting and Reporting Policies for more information on recent accounting pronouncements and their impact, if any, on the Company's 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 December 31, 2014, the Company did not have any debt outstanding. The revolving credit facility bears an interest rate using the 30-day LIBOR rate 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 while borrowing on the revolving credit facility.

The Company had no holdings of derivative financial or commodity instruments at December 31, 2014. The Company has international sales; however these sales are denominated in U.S. dollars, mitigating foreign exchange rate fluctuation risk.

Item 4. Controls and Procedures

Evaluation of 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 December 31, 2014, the Chief Executive Officer and Chief Financial Officer of the Company concluded that its disclosure controls and procedures were effective.

Changes in internal control over financial reporting

There were no changes in the Company’s internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the registrant’s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Dräger Medical GmbH, Draeger Medical Systems, Inc. and Draeger Medical Inc. v. Allied Healthcare Products, Inc., filed in the United States District Court for the District of Delaware, Case No. 1:13-cv-01656-SLR. On or about October 4, 2013, Dräger Medical GmbH and certain affiliates (the “Dräger Plaintiffs”) filed a patent infringement lawsuit against Allied in the District of Delaware, asserting that Allied infringes United States Patent Nos. 7,487,776 and 8,286,633, both protecting particular combinations of carbon dioxide absorption cartridges and adapters which fit on anesthesia machines. The Dräger Plaintiffs assert that Allied’s sales of certain models of its Litholyme and Carbolime single-use carbon dioxide absorption cartridges infringe both patents. Allied has answered the Complaint, asserting invalidity of the patents, non-infringement, and implied license under the doctrine of permissive repair.

On October 25, 2013, the Dräger Plaintiffs filed a motion for preliminary injunction requesting that the Company be enjoined from selling certain models of its Litholyme and Carbolime cartridges during the pendency of the litigation. A hearing on the motion for preliminary injunction was held on February 7, 2014. On March 24, 2014, the Court ruled in Allied's favor and denied Dräger's motion for a preliminary injunction, stating among other things that Dräger had not carried its burden of showing that Allied had infringed Dräger's patents. On June 20, 2014, the Company filed a motion seeking summary judgment based on the repair doctrine, which was the basis for the Court's denial of Dräger's motion for preliminary injunction. The Company's motion and Dräger's response is currently under submission to the Court.

As of December 31, 2014, the Company has not recorded a provision for this matter because the Company cannot estimate a possible loss or range of loss for this matter because the Dräger Plaintiffs have not specified damages claimed and the proceedings are in the early stages. The Company intends to defend against any further litigation brought by the Dräger Plaintiffs and pursue counterclaims for invalidity, non-infringement, and implied license.

Item 6. Exhibits

(a) Exhibits:

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)*

101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

*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.

**Filed herewith as Exhibit 101 are the following materials formatted in XBRL: (i) Statement of Operations, (ii) Balance Sheet, (iii) Statement of Cash Flows and (iv) Notes to Financial Statements.

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: February 13, 2015