

ALLIED HEALTHCARE PRODUCTS INC
Form 10-K
September 23, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year June 30, 2016

OR

**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) (zip code)

Registrant's telephone number, including area code (314) 771-2400

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| <u>Title of each class</u> | <u>Name of each exchange</u> <u>on which registered</u> |
|----------------------------|--|
| Common Stock, \$.01 | The NASDAQ Stock Market LLC |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes. No.

Indicate by check mark whether the registrant 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 (§229.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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 12 b-2 of the Exchange Act.

Large accelerated filer " Accelerated filer "
Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12 b-2). Yes " No
x

As of December 31, 2015, the last business day of the registrant's most recently completed second fiscal quarter; the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$4,988,275. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect to registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

As of September 2, 2016, there were 8,027,147 shares of common stock, \$0.01 par value (the "Common Stock"), outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement to be filed within 120 days after June 30, 2016 (portion) (Part III)

ALLIED HEALTHCARE PRODUCTS, INC.

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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, impacts of the U.S. Affordable Care Act and specific matters which relate directly to the Company’s operations and properties as discussed in Items 1, 1A, 3 and 7 of this Report. 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. Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission which are available on our website at www.alliedhpi.com under “Financial/SEC Filings.”

PART I

Item 1. Business

General

Allied Healthcare Products, Inc. (“Allied”, the “Company”, “we”, or “us”) manufactures a variety of respiratory products used in the health care industry in a wide range of hospital and alternate site settings, including sub-acute care facilities, home health care and emergency medical care. The Company’s product lines include respiratory care products, medical gas equipment and emergency medical products.

The Company’s products are marketed under well-recognized and respected brand names to hospitals, hospital equipment dealers, hospital construction contractors, home health care dealers, emergency medical products dealers and others. Allied’s product lines include:

Respiratory Care Products

- respiratory care/anesthesia products
- home respiratory care products

Medical Gas Equipment

- medical gas system construction products
- medical gas system regulation devices
- disposable oxygen and specialty gas cylinders
- portable suction equipment

Emergency Medical Products

- respiratory/resuscitation products
- trauma and patient handling products

The Company's principal executive offices are located at 1720 Sublette Avenue, St. Louis, Missouri 63110, and its telephone number is (314) 771-2400.

Markets and Products

In fiscal 2016, respiratory care products, medical gas equipment and emergency medical products represented approximately 25%, 55% and 20%, respectively, of the Company's net sales. In comparison, in fiscal 2015, respiratory care products, medical gas equipment and emergency medical products represented approximately 26%, 53%, and 21%, respectively, of the Company's net sales. The Company operates in a single industry segment and its principal products are described in the following table:

| Product | Description | Principal Brand Names | Primary Users |
|--|--|---|---|
| <i>Respiratory Care Products</i> | | | |
| Respiratory Care/Anesthesia Products | Large volume compressors; ventilator calibrators; humidifiers and mist tents; and carbon dioxide absorbent | Timeter; Carbolime®; Litholyme® | Hospitals and sub-acute facilities |
| Home Respiratory Care Products | O2 cylinders; pressure regulators; nebulizers; portable large volume compressors; portable suction equipment and disposable respiratory products | Timeter; B&F; Schuco | Patients at home |
| <i>Medical Gas Equipment</i> | | | |
| Construction Products | In-wall medical gas system components; central station pumps and compressors and headwalls | Chemetron; Oxequip | Hospitals and sub-acute facilities |
| Regulation Devices | Flowmeters; vacuum regulators; pressure regulators and related products | Chemetron; Oxequip; Timeter | Hospitals and sub-acute facilities |
| Disposable Cylinders | Disposable oxygen and gas cylinders | Lif-O-Gen | First aid providers and specialty gas distributors |
| Suction Equipment | Portable suction equipment and disposable suction canisters | Gomco; Allied; Schuco | Hospitals, sub-acute facilities and homecare products |
| <i>Emergency Medical Products</i> | | | |
| Respiratory/Resuscitation | Demand resuscitation valves; bag mask resuscitators; emergency transport ventilators, | LSP; Omni-Tech; | Emergency service providers |

| | | | |
|--------------------------------------|---|--------|-----------------------------|
| | oxygen regulators, SurgeX - surge suppressing post valve, mass casualty ventilation line, and the AHP300 Ventilator | Allied | |
| Trauma and Patient Handling Products | Spine immobilization products; pneumatic anti-shock garments, trauma burn kits and Xtra backboards | LSP | Emergency service providers |

Respiratory Care Products

Market. Respiratory care products are used in the treatment of acute and chronic respiratory disorders such as asthma, emphysema, bronchitis and pneumonia. Respiratory care products are used in both hospitals and alternate care settings. Sales of respiratory care products are made through distribution channels focusing on hospitals and other sub-acute facilities. Sales of home respiratory care products are made through durable medical equipment dealers through telemarketing, and by contract sales with national chains.

Respiratory Care/Anesthesia Products. The Company manufactures and sells a broad range of products for use in respiratory care and anesthesia delivery, including carbon dioxide absorbents. These products include large volume air compressors, calibration equipment, humidifiers, croup tents, equipment dryers and a complete line of respiratory disposable products such as oxygen tubing, facemasks, cannulas and ventilator circuits.

Home Respiratory Care Products. Allied's broad line of home respiratory care products include aluminum oxygen cylinders, oxygen regulators, pneumatic nebulizers, portable suction equipment and a full line of respiratory disposable products.

Medical Gas Equipment

Market. The market for medical gas equipment consists of hospitals, alternate care settings and surgery centers. The medical gas equipment group is broken down into three separate categories: construction products, regulation devices and suction equipment, and disposable cylinders.

Construction Products. Allied's medical gas system construction products consist of in-wall medical system components, central station pumps and compressors, and headwalls. These products are typically installed during construction or renovation of a health care facility and are built in as an integral part of the facility's physical plant. Typically, the contractor for the facility's construction or renovation purchases medical gas system components from manufacturers and ensures that the design specifications of the health care facility are met.

Allied's in-wall components, including outlets, manifolds, alarms, ceiling columns and zone valves, serve a fundamental role in medical gas delivery systems.

Central station pumps and compressors are individually engineered systems consisting of compressors, reservoirs, valves and controls designed to drive a hospital's medical gas and suction systems. Each system is designed specifically for a given hospital or facility, which purchases pumps and compressors from suppliers. The Company's sales of pumps and compressors are driven, in large part, by its share of the in-wall components market.

The Company's construction products are sold primarily to hospitals, alternate care settings and hospital construction contractors. The Company believes that these products are installed in more than three thousand hospitals in the United States. The Company believes that most hospitals and sub-acute care facility construction spending is for expansion or renovation of existing facilities. Many hospital systems and individual hospitals undertake major

renovations to upgrade their operations to improve the quality of care they provide, reduce costs and attract patients and personnel.

Regulation Devices and Suction Equipment. The Company's medical gas system regulation products include flowmeters, vacuum regulators and pressure regulators, as well as related adapters, fittings and hoses which measure, regulate, monitor and help transfer medical gases from walled piping or equipment to patients in hospital rooms, operating theaters or intensive care areas.

Portable suction equipment is typically used when in-wall suction is not available or when medical protocol specifically requires portable suction. The Company also manufactures disposable suction canisters, which are clear containers used to collect the fluids suctioned by in-wall or portable suction systems. The containers have volume calibrations, which allow the medical practitioner to measure the volume of fluids suctioned.

The market for regulation devices and suction equipment includes hospital and sub-acute care facilities. Sales of these products are made through the same distribution channel as our respiratory care products. The Company believes that it holds a significant share of the U.S. market in both regulation devices and suction equipment.

Disposable Cylinders. Disposable oxygen cylinders are designed to provide oxygen for short periods of time in emergency situations. Since they are not subjected to the same pressurization as standard containers, they are much lighter and less expensive than standard gas cylinders. The Company markets filled disposable oxygen cylinders through industrial safety distributors and similar customers, principally to first aid providers, restaurants, industrial plants and other customers that require oxygen for infrequent emergencies.

Emergency Medical Products

Market. Emergency medical products are used in the treatment of trauma-induced injuries. The Company's emergency medical products provide patient resuscitation or ventilation during cardiopulmonary resuscitation or respiratory distress as well as immobilization and treatment for burns. The Company expects that additional countries will develop trauma care systems in the future, although no assurance can be given that such systems will develop or that they will have a favorable impact on the Company. Sales of emergency medical products are made through specialized emergency medical products distributors to ambulance companies, fire departments and emergency medical systems volunteer organizations.

The emergency medical products are broken down into two categories: respiratory/resuscitator products and trauma patient handling products.

Respiratory/Resuscitation Products. The Company's respiratory/resuscitation products include demand resuscitation valves, portable resuscitation systems, bag masks and related products, emergency transport ventilators, precision oxygen regulators, minilators, multilators and humidifiers.

Demand resuscitation valves are designed to provide 100% oxygen to breathing or non-breathing patients. In an emergency situation, they can be used with a mask or tracheotomy tubes and operate from a standard regulated oxygen system. The Company's portable resuscitation systems provide fast, simple and effective means of ventilating a non-breathing patient during cardiopulmonary resuscitation and 100% oxygen to breathing patients on demand with minimal inspiratory effort. The Company also markets a full line of disposable and reusable bag mask resuscitators, which are available in a variety of adult and child-size configurations. Disposable mouth-to-mask resuscitation systems have the added advantage of reducing the risk of transmission of communicable diseases.

The Company's autovent transport ventilator can meet a variety of needs in different applications ranging from typical emergency medical situations to more sophisticated air and ground transport. Each autovent is accompanied by a patient valve, which provides effective ventilation during cardiopulmonary resuscitation or respiratory distress. When administration of oxygen is required at the scene of a disaster, in military field hospitals or in a multiple-victim

incident, Allied's minilators and multilators are capable of providing oxygen to one or a large number of patients.

The Company's transport and mass casualty ventilation line has been designed to meet the unique ventilation demands that affect everyday inter-hospital and intra-hospital transport scenarios, and amplify exponentially during a mass casualty event or pandemic. Our ventilators for transport and mass casualty are rugged, easy to operate, and capable of providing reliable ventilation even in unpredictable environments and conditions. Additionally, they are affordable to purchase and require little periodic maintenance, minimizing the cost of ownership over time.

To complement the family of respiratory/resuscitation products, the Company offers a full line of oxygen product accessories. This line of accessory products includes reusable aspirators, tru-fit masks, disposable cuffed masks and related accessories.

Trauma and Patient Handling Products. The Company's trauma and patient handling products include spine immobilization products, pneumatic anti-shock garments and trauma burn kits. Spine immobilization products include a backboard that is designed for safe immobilization of injury victims and provides a durable and cost effective means of emergency patient transportation and extrication. The infant/pediatric immobilization board is durable and scaled for children. The half back extractor/rescue vest is useful for both suspected cervical/spinal injuries and for mountain and air rescues. The Company's pneumatic anti-shock garments are used to treat victims experiencing hypovolemic shock. Allied's trauma burn kits contain a comprehensive line of products for the treatment of trauma and burns.

Sales and Marketing

Allied sells its products primarily to hospitals, hospital equipment dealers, hospital construction contractors, home health care dealers, emergency medical products dealers and others. The Company maintains a sales force of 17 sales professionals, all of whom are full-time employees of the Company.

The sales force includes seven domestic hospital, homecare and emergency specialists, four domestic construction specialists, and three international sales representatives. A total of three sales managers lead each of the sales groups. A product manager is responsible for the marketing activities of our product lines.

The domestic hospital specialists are responsible for sales of all Allied products with the exception of construction products within their territory. Sales of hospital products are accomplished through respiratory care/anesthesia distributors for the regulation devices, suction equipment, respiratory care/anesthesia products and disposable cylinders. The domestic construction specialists are responsible for sales of all Allied construction products within their territory. Emergency products are principally sold to ambulance companies, fire departments and emergency medical systems volunteer organizations through specialized emergency medical products distributors.

Construction products are sold direct to hospital construction contractors and through distributors.

The Company's international specialists sell all Allied products within their territory. Allied's net sales to foreign markets totaled 24% of total net sales in fiscal 2016, 23% in 2015 and 25% in 2014. International sales are made through a network of dealers, agents and U.S. exporters who distribute the Company's products throughout the world. Allied has market presence in Canada, Mexico, Central and South America, Europe, the Middle East and the Far East.

Manufacturing

Allied's manufacturing processes include fabrication, electro-mechanical assembly operations, plastics manufacturing, and chemical processing with automated packaging. A significant part of Allied's manufacturing operations involves electro-mechanical assembly of proprietary products and the Company is vertically integrated in most elements of metal machining and fabrication. Most of Allied's hourly employees are involved in machining, metal fabrication, plastics manufacturing and product assembly.

Allied manufactures small metal components from bar stock in a machine shop, which includes automatic screw machines, horizontal lathes and drill presses and computer controlled machining centers. The Company makes larger metal components from sheet metal using computerized punch presses, brake presses and shears. In its plastics manufacturing processes, the Company utilizes both extrusion and injection molding. In its chemical process, the Company utilizes mixing, drying, and sizing equipment. The Company believes that its production facilities and equipment are in good condition and sufficient to meet planned increases in volume over the next few years and that the conditions in local labor markets should permit the implementation of additional shifts and days operated.

Research and Development

Allied Healthcare Products' research and development group is responsible for the development of new products. This group is staffed with mechanical and electrical engineers.

During fiscal year 2016 the research and development group continued to support the launch of the AHP300 and AHP300P ventilators.

The group is actively working on other products that were not released during the fiscal year 2016.

Government Regulation

The Company's products and its manufacturing activities are subject to extensive and rigorous government regulation by federal and state authorities in the United States and other countries. In the United States, medical devices for human use are subject to comprehensive review by the United States Food and Drug Administration (the "FDA"). The Federal Food, Drug, and Cosmetic Act ("FDC Act"), and other federal statutes and regulations, govern or influence the research, testing, manufacture, safety, labeling, storage, record keeping, approval, advertising and promotion of such products. Noncompliance with applicable requirements can result in warning letters, fines, recall or seizure of products, injunction, refusal to permit products to be imported into or exported out of the United States, refusal of the government to clear or approve marketing applications or to allow the Company to enter into government supply contracts, or withdrawal of previously approved marketing applications and criminal prosecution.

The Company is required to file a premarket notification in the form of a premarket approval ("PMA") with the FDA before it begins marketing a new medical device that offers new technology that is currently not on the market. The Company also must file a premarket notification in the form of a 510(k) with the FDA before it begins marketing a new medical device that utilizes existing technology for devices that are currently on the market. The 510(k) submission process is also required when the Company makes a change or modifies an existing device in a manner that could significantly affect the device's safety or effectiveness.

Compliance with the regulatory approval process in order to market a new or modified medical device can be uncertain, lengthy and, in some cases, expensive. There can be no assurance that necessary regulatory approvals will be obtained on a timely basis, or at all. Delays in receipt or failure to receive such approvals, the loss of previously received approvals, or failure to comply with existing or future regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company manufactures and distributes a broad spectrum of respiratory therapy equipment, emergency medical equipment and medical gas equipment. To date, all of the Company's FDA clearances have been obtained through the 510(k) clearance process. These determinations are very fact specific and the FDA has stated that, initially, the manufacturer is best qualified to make these determinations, which should be based on adequate supporting data and documentation. The FDA however, may disagree with a manufacturer's determination not to file a 510(k) and require the submission of a new 510(k) notification for the changed or modified device. Where the FDA believes that the change or modification raises significant new questions of safety or effectiveness, the agency may require a manufacturer to cease distribution of the device pending clearance of a new 510(k) notification. Certain of the Company's medical devices have been changed or modified subsequent to 510(k) marketing clearance of the original device by the FDA. Certain of the Company's medical devices, which were first marketed prior to May 28, 1976, and therefore, grandfathered and exempt from the 510(k) notification process, also have been subsequently changed or modified. The Company believes that these changes or modifications do not significantly affect the devices' safety or effectiveness, or make a major change or modification in the devices' intended uses and, accordingly, submission of new 510(k) notification to the FDA is not required. There can be no assurance, however, that the FDA would agree

with the Company's determinations.

In addition, commercial distribution in certain foreign countries is subject to additional regulatory requirements and receipt of approvals that vary widely from country to country. The Company believes it is in compliance with regulatory requirements of the countries in which it sells its products.

The Medical Device Reporting regulation requires that the Company provide information to the FDA on deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. The Medical Device Tracking regulation requires the Company to adopt a method of device tracking of certain devices, such as ventilators, which are life-supporting or life-sustaining devices used outside of a device user facility, some of which are permanently implantable devices. The regulation requires that the method adopted by the Company will ensure that the tracked device can be traced from the device manufacturer to the person for whom the device is indicated (i.e., the patient). In addition, the FDA prohibits a company from promoting an approved device for unapproved applications and reviews a company's labeling for accuracy. Labeling and promotional activities also are in certain instances, subject to scrutiny by the Federal Trade Commission.

The Company's medical device manufacturing facilities are registered with the FDA, and have received ISO 9001 certification under the Medical Device Directive (MDD - European) for certain products in 1998, and ISO 13485 certification in 2002. The Company's St. Louis facility is ISO 9001:2008 certified and ISO13485:2003 certified. The Company's Stuyvesant Falls facility is ISO13485:2003 certified. The Company is subject to audit by the FDA, International Organization for Standardization ("ISO"), and European auditors for compliance with the Good Manufacturing Practices ("GMP"), the ISO, CMDCAS, and MDD regulations for medical devices. These regulations require the Company to manufacture its products and maintain its products and documentation in a prescribed manner with respect to design, manufacturing, testing and control activities. The Company also is subject to the registration and inspection requirements of state regulatory agencies.

There can be no assurance that any required FDA or other governmental approval will be granted, or, if granted, will not be withdrawn. Governmental regulation may prevent or substantially delay the marketing of the Company's proposed products and cause the Company to undertake costly procedures. In addition, the extent of potentially adverse government regulation that might arise from future administrative action or legislation cannot be predicted. Any failure to obtain, and maintain, such approvals could adversely affect the Company's ability to market its products or proposed products.

Sales of medical devices outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Medical products shipped to the European Community generally require CE certification. The letters "CE" are an abbreviation of Conformité Européenne, French for European conformity. Whether or not FDA approval has been obtained, approval of a device by a comparable regulatory authority of a foreign country generally must be obtained prior to the commencement of marketing in those countries. The time required to obtain such approvals may be longer or shorter than that required for FDA approval. In addition, FDA approval may be required under certain circumstances to export certain medical devices.

The Company is also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protections, fire hazard control and disposal of hazardous or potentially hazardous substances.

Patents, Trademarks and Proprietary Technology

The company owns and maintains domestic and foreign patents on several products it believes are useful to the business and provided the Company with an advantage over its competitors. During fiscal 2016 the company received a foreign patent on the Litholyme® carbon dioxide absorbent product. The company continues to seek U.S. and foreign patents on the EPV200 and AHP300 ventilators.

Patents which will expire in the period of 2016 to 2033 in the aggregate are believed to be of material importance in the operation of Allied's business. Allied believes no single patent, except that related to Litholyme®, is material in relation to Allied's future business as a whole. Although the expiration of an individual patent may lead to increased competition, other factors such as a competitor's need to obtain regulatory approvals prior to marketing a competitive product and the nature of the market, may allow Allied to continue to have commercial advantages after the expiration of the patent.

The company owns and maintains U.S. trademarks for Allied Healthcare Products Inc., Chemetron, Gomco, Oxequip, Lif-O-Gen, Life Support Products, Timeter, Vacutron and Schuco, its principle trademarks. Registrations for these trademarks are also owned and maintained in countries where such products are sold and such registrations are considered necessary to preserve the Company's proprietary rights therein.

Environmental and Safety Regulation

The Company is subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the treatment, storage and disposal of toxic and hazardous wastes. The Company is also subject to the Federal Occupational Safety and Health Act and similar state statutes. From time to time, the Company has been involved in environmental proceedings involving cleanup of hazardous waste. There are no such material proceedings currently pending. Costs of compliance with environmental, health and safety requirements have not been material to the Company. The Company believes it is in material compliance with all applicable environmental laws and regulations.

Competition

The Company has different competitors within each of its product lines. Many of the Company's principal competitors are larger than the Company and have greater financial and other resources. The Company competes primarily on the basis of price, quality and service. The Company believes that it is well positioned with respect to product cost, brand recognition, product reliability, and customer service to compete effectively in each of its markets.

Employees

At June 30, 2016, the Company had approximately 236 full-time employees. Approximately 139 employees in the Company's principal manufacturing facility located in St. Louis, Missouri, are covered by a collective bargaining agreement that will expire on May 31, 2018.

Executive Officers of the Registrant

This section provides information regarding the executive officers of the Company who are appointed by and serve at the pleasure of the Board of Directors:

| Name | Age | Position |
|------------------|-----|---|
| Earl R. Refsland | 73 | Director, President and Chief Executive Officer (1) |

Andrew D. Riley 40 Vice President of Operations (2)

Daniel C. Dunn 56 Vice President of Finance, Chief Financial Officer, Secretary & Treasurer (3)

(1) Mr. Refsland has been Director, President and Chief Executive Officer of the Company since September, 1999.

Mr. Riley has been Vice President — Operations since July, 2014. He previously held the position of Director of

(2) Operations and Plant Manager from January 2012 to July 2014. Prior to that time, Mr. Riley held multiple leadership positions at Owens Corning from 2005 to 2012.

Mr. Dunn has been Vice President — Finance, Chief Financial Officer, Secretary and Treasurer since July, 2001. He

(3) previously held the position of Director of Finance at MetalTek International from 1998 to 2001. Prior to that time,

Mr. Dunn held the position of Corporate Controller at Allied Healthcare Products, Inc. from 1994 to 1998.

Item 1A. Risk Factors

The Company's business, operations and financial condition are subject to various risks and uncertainties. You should carefully consider the risks and uncertainties described below, together with all of the other information in this annual report on Form 10-K and in the Company's other filings with the Securities and Exchange Commission ("SEC") before making any investment decision with respect to the Company's securities. The risks and uncertainties described below may not be the only ones the Company faces. Additional risks and uncertainties not presently known by the Company or that the Company currently deems immaterial may also affect the Company's business. If any of these known or unknown risks or uncertainties actually occur or develop, the Company's business, financial condition, and results of operations could change.

We participate in a highly competitive environment.

The medical device industry is characterized by rapid technological change, changing customer needs and frequent new product introductions. Our products may be rendered obsolete as a result of future innovations. We face intense competition from other manufacturers. Some of our competitors may be larger than we are and may have greater financial, technical, research, marketing, sales, distribution and other resources than we do. We believe that price competition will continue among products developed in our markets. Our competitors may develop or market technologies and products that are more effective or commercially attractive than any we are developing or marketing. Our competitors may succeed in obtaining regulatory approval and introducing or commercializing products before we do. Such developments could have a significant negative effect on our business, financial condition and results of operations. Even if we are able to compete successfully, we may not be able to do so in a profitable manner.

Decreased availability or increased costs of raw materials could increase our costs of producing our products.

We purchase raw materials, fabricated components and services from a variety of suppliers. Raw materials such as brass, plastics, and calcium hydroxide are considered key raw materials. We believe that our relationships with our suppliers are satisfactory and that alternative sources of supply are readily available. From time to time, however, the prices and availability of these raw materials fluctuate due to global market demands, which could impair the company's ability to procure necessary materials, or increase the cost of such materials. Inflationary and other increases in costs of these raw materials have occurred in the past and may recur from time to time. In addition, freight costs associated with shipping and receiving product and sales are impacted by fluctuations in the cost of oil and gas. A reduction in the supply or increase in the cost of those raw materials could impact our ability to manufacture our products and could increase the cost of production.

Changes in third party reimbursement could negatively impact our revenues and profitability.

The cost of a majority of medical care in the United States is funded by the U.S. Government through the Medicare and Medicaid programs and by private insurance programs, such as corporate health insurance plans. Although we do not receive payments for our products directly from these programs, home respiratory care providers and durable medical equipment suppliers, who are the primary customers for several of our products, depend heavily on payments from Medicare, Medicaid and private insurers as a major source of revenues. In addition, sales of certain of our products are affected by the extent of hospital and health care facility construction and renovation at any given time. The federal government indirectly funds a significant percentage of such construction and renovation costs through Medicare and Medicaid reimbursements. In recent years, governmentally imposed limits on reimbursement to hospitals and other health care providers have impacted spending for services, consumables and capital goods. A material decrease from current reimbursement levels or a material change in the method or basis of reimbursing health care providers is likely to adversely affect future sales of our products.

Our success depends upon the development of new products and product enhancements, which entails considerable time and expense.

We place a high priority on the development of new products to add to our product portfolio and on the development of enhancements to our existing products. Product development involves substantial expense and we cannot be certain that a completed product will generate sufficient revenue for our business to justify the resources that we devote to research and development related to such product. The time and expense required to develop new products and product enhancements is difficult to predict and we cannot assure you that we will succeed in developing, introducing and marketing new products and product enhancements. Our inability to successfully develop and introduce new or enhanced products on a timely basis or at all, or to achieve market acceptance of such products, could materially impair our business.

We are dependent on adequate protection of our patent and proprietary rights.

We rely on patents, trade secrets, trademarks, copyrights, know-how, license agreements and contractual provisions to establish and protect our intellectual property rights. However, these legal means afford us only limited protection and may not adequately protect our rights or remedies to gain or keep any advantages we may have over our competitors. We cannot assure you that others may not independently develop the same or similar technologies or otherwise obtain access to our technology and trade secrets. Our competitors, many of which have substantial resources and may make substantial investments in competing technologies, may apply for and obtain patents that will prevent, limit, or interfere with our ability to manufacture or market our products. Further, while we do not believe that any of our products or processes interfere with the rights of others, third parties may nonetheless assert patent infringement claims against us in the future.

Costly litigation may be necessary to enforce patents issued to us, to protect trade secrets or know-how we own, to defend us against claimed infringement of the rights of others or to determine the ownership, scope, or validity of our proprietary rights and the rights of others. Any claims of infringement against us may involve significant liabilities to third parties, could require us to seek licenses from third parties, and could prevent or delay us from manufacturing, selling, or using our products. The occurrence of such litigation or the effect of an adverse determination in any of this type of litigation could have a material adverse effect on our business, financial condition and results of operations.

Our business of manufacturing, marketing, and selling of medical devices involves the risk of liability claims and such claims could seriously harm our business, particularly if our insurance coverage is inadequate.

Our business exposes us to potential product liability claims that are inherent in the testing, production, marketing and sale of medical devices. Like other participants in the medical device market, we are from time to time involved in lawsuits, claims and proceedings alleging product liability and related claims such as negligence. If any current or future product liability claims become substantial, our reputation could be damaged significantly, thereby harming our business. We may be required to pay substantial damage awards as a result of any successful product liability claims. Any product liability claim against us, whether with or without merit, could result in costly litigation, and divert the time, attention, and resources of our management.

As a result of our exposure to product liability claims, we currently carry product liability insurance covering our products with policy limits per occurrence and in the aggregate that we have deemed to be sufficient. Our insurance may not cover certain product liability claims or our liability for any claims may exceed our coverage limits. Therefore, we cannot predict whether this insurance is sufficient, or if not, whether we will be able to obtain sufficient insurance to cover the risks associated with our business or whether such insurance will be available at premiums that are commercially reasonable. In addition, these insurance policies must be renewed annually. Although we have been able to obtain liability insurance, such insurance may not be available in the future on acceptable terms, if at all. A

successful claim against us or settlement by us with respect to uninsured liabilities or in excess of our insurance coverage, or our inability to maintain insurance in the future, or any claim that results in significant costs to or adverse publicity against us, could have a material adverse effect on our business, financial condition and results of operations.

We are subject to substantial domestic and international government regulation, including regulatory quality standards applicable to our manufacturing and quality processes. Failure by us to comply with these standards could have an adverse effect on our business, financial condition or results of operations.

The FDA regulates the approval, manufacturing, and sales and marketing of many of our products in the U.S. Significant government regulation also exists in Canada, Japan, Europe, and other countries in which we conduct business. As a device manufacturer, we are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation ("QSR") requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. In addition, the federal Medical Device Reporting regulations require us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections by the FDA. In the European Community, we are required to maintain certain ISO certifications in order to sell our products and must undergo periodic inspections by notified bodies to obtain and maintain these certifications. Failure to comply with current governmental regulations and quality assurance guidelines could lead to temporary manufacturing shutdowns, product recalls or related field actions, product shortages or delays in product manufacturing. Efficacy or safety concerns, an increase in trends of adverse events in the marketplace, and/or manufacturing quality issues with respect to our products could lead to product recalls or related field actions, withdrawals, and/or declining sales.

Our products may be subject to product recalls even after receiving FDA clearance or approval, which would harm our reputation and our business.

The FDA and similar governmental authorities in other countries in which our products are sold, have the authority to request and, in some cases, require the recall of our products in the event of material deficiencies or defects in design or manufacture. A government-mandated or voluntary recall by us could occur as a result of component failures, manufacturing errors or design defects. Any recall of product would divert managerial and financial resources, may harm our reputation with our customers and could damage our business.

We are exposed to certain credit risks, resulting primarily from customer sales.

Substantially all of our receivables are due from homecare providers, distributors, hospitals, and contractors. Our customers are located throughout the U.S. and around the world. We record an estimated allowance for uncollectible amounts based primarily on our evaluation of the payment pattern, financial condition, cash flows, and credit history of our customers, as well as current industry and economic conditions. Our inability to collect on our trade accounts receivable could substantially reduce our income and have a material adverse effect on our financial condition and results of operations.

Our common stock is thinly traded and its market price may fluctuate widely.

Our common stock is listed on the NASDAQ Capital Market but is thinly traded. As a result, stockholders may not be able to sell shares of common stock on short notice. Additionally, the market price of our common stock could be subject to significant fluctuations in response to quarter-to-quarter variation in our operating results, announcements of new products or services by us or our competitors, and other events or factors. For example, a shortfall in net sales or net income, or an increase in losses could have an immediate and significant adverse effect on the market price and volume fluctuations that have particularly affected the market prices of many micro and small capitalization companies and that have often been unrelated or disproportionate to the operating performance of these companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price for our common stock.

If a natural or man-made disaster strikes our manufacturing facilities, we may be unable to manufacture certain products for a substantial amount of time and our revenue could decline.

We have two manufacturing operations. In the event that one of these facilities were severely damaged or destroyed as a result of a natural or man-made disaster we would be forced to relocate production to other facilities and/or rely on third-party manufacturers. Such an event could have a material adverse effect on our business, results of operations and financial condition. Although we have insurance for damage to our property and the interruption of our business, this insurance may not be sufficient in scope or amount to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

If we are unable to hire or retain key employees, it could have a negative impact on our business.

Our failure to attract and retain skilled personnel could hinder the management of our business, our research and development, our sales and marketing efforts, and our manufacturing capabilities. However, there is no assurance that we will continue to be able to hire or retain key employees. We compete to hire new employees, and then must train them and develop their skills and competencies. Our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any unplanned turnover could deplete our institutional knowledge base and erode our competitive advantage.

The U.S. healthcare environment is changing in many ways, some of which may not be favorable to us, as a result of federal healthcare legislation enacted in 2010.

Our products and services are primarily intended to function within the current structure of the healthcare industry in the United States. In recent years, the healthcare industry has undergone significant changes designed to control costs. The use of managed care has increased; Medicare and Medicaid reimbursement levels have declined; distributors, manufacturers, healthcare providers have consolidated; and large, sophisticated purchasing groups have become more prevalent.

In March 2010, Congress approved, and the President signed into law, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the "Healthcare Reform Acts"). Among other things, the Healthcare Reform Acts seek to expand health insurance coverage to approximately 32 million uninsured Americans. Many of the significant changes in the Healthcare Reform Acts did not take effect until 2014, including a requirement that most Americans carry health insurance. The Healthcare Reform Acts contain many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid. Beginning in 2013, each medical device manufacturer must now pay a tax in an amount equal to 2.3% of the price for which the manufacturer sells its medical devices, as discussed in "Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations" below. We manufacture and sell devices that are subject to this tax. On December 18, 2015, The Consolidated Appropriations Act, 2016 was signed into law. This Act included a moratorium on the medical device tax during the period beginning on January 1, 2016, and ending on December 31, 2017.

We also could be adversely affected by, among other things, changes in the delivery or pricing of or reimbursement for medical devices.

Other provisions of this law as currently enacted, including an independent payment advisory board and pilot programs to evaluate alternative payment methodologies, could meaningfully change the way healthcare is developed and delivered, and may adversely affect our business and results of operations. Further, we cannot predict what healthcare programs and regulations will be ultimately implemented at the federal or state level, or the effect of any future legislation or regulation in the U.S. or internationally. However, any changes that lower reimbursements for our products, reduce medical procedure volumes or increase cost containment pressures on us or other participants in the healthcare industry could adversely affect our business and results of operations.

Regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements required due diligence efforts beginning in fiscal 2014, with initial disclosure requirements which began in May 2014. There were and continue to be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. The limited information provided by the suppliers in response to the survey in some cases did not identify the facilities used to process or the country of origin of the necessary conflict minerals in its products. As there may be only a limited number of suppliers offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

We have a history of net losses in fiscal 2014, 2015 and 2016 and we may not be able to return to profitability in the future, which may cause the market price of our common stock to decline.

We have a history of net losses. We reported a net loss of \$2.8 million in fiscal 2014, a net loss of \$1.8 million in fiscal 2015 and a net loss of \$2.3 million in fiscal 2016. We will need to generate and sustain increased sales levels in the future to become consistently profitable, and, even if we do, we may not be able to maintain or increase our level of profitability. We intend to improve our sales execution both domestically and internationally and also expand markets for our new ventilator products and our new carbon dioxide absorbent, Litholyme®. However, there is no guarantee that we will be successful in our efforts. We may also incur losses in the future for a number of reasons, including the other risks described in this Form 10-K, and unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of our common stock may significantly decrease.

If our stock price continues to remain below \$1.00, our common stock may be subject to delisting from The NASDAQ Stock Market.

As previously reported, on February 26, 2016, the Company received a notification from Nasdaq that it had failed to comply with Nasdaq's "Minimum Bid Price Rule," which requires that the Company's common stock generally trade above \$1.00 per share. In this original notification and in accordance with Nasdaq Rules, the Company was provided a period of 180 calendar days, or until August 24, 2016, to regain compliance with the Minimum Bid Price Rule. On April 6, 2016, listing of shares of our common stock was transferred from the Nasdaq Global Market to the Nasdaq Capital Market. In approving the transfer of the listing of our common stock, Nasdaq granted a second compliance period, running until February 21, 2017, to satisfy the Minimum Bid Price Rule, subject to (i) the Company meeting the continued listing requirements for initial listing on the Nasdaq Capital Market, with the exception of the Minimum Bid Price Rule and (ii) the Company undertaking to conduct a reverse stock split with the intent to raise the trading price of our common stock above \$1.00 per share.

The Company intends to seek approval from its shareholders for a reverse stock split at its 2016 annual meeting. However, there is no guarantee that a reverse stock split will result in a long term trading price of our common stock of greater than \$1.00 per share. In the event we do not regain compliance with the Minimum Bid Price Rule prior to February 21, 2017, NASDAQ will notify us that our common stock is subject to delisting. We may appeal the delisting determination to a NASDAQ hearing panel and the delisting will be stayed pending until the panel's determination. At such hearing, we would present a plan to regain compliance and NASDAQ would then subsequently render a decision. To the extent that we are unable to resolve the listing deficiency, there is a risk that our common stock may be delisted from NASDAQ, which would adversely impact liquidity of our common stock and potentially result in even lower bid prices for our common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company's headquarters are located in St. Louis, Missouri and the Company maintains manufacturing facilities in Missouri and New York. Set forth below is certain information with respect to the Company's manufacturing facilities at June 30, 2016.

| Location | Square Footage (Approximate) | Owned/ Leased | Activities/Products |
|----------------------------|--|----------------------|--|
| St. Louis, Missouri | 242,000 | Owned | Headquarters; medical gas equipment; respiratory care products; emergency medical products |
| Stuyvesant Falls, New York | 30,000 | Owned | Carbon dioxide absorbent |

In addition, the Company owns a 16.8-acre parcel of undeveloped land in Stuyvesant Falls, New York.

Item 3. *Legal Proceedings*

Product liability lawsuits are filed against the Company from time to time for various injuries alleged to have resulted from defects in the manufacture and/or design of the Company's products. Any such proceedings that are currently pending are not expected to have a material adverse effect on the Company. The Company maintains comprehensive general liability insurance coverage which it believes to be adequate for the continued operation of its business, including coverage of product liability claims.

In addition, from time to time the Company's products may be subject to product recalls in order to correct design or manufacturing flaws in such products. 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.

However, for these matters, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on the Company's financial condition as a whole, though the outcomes could be material to the Company's operating results for a particular period, depending, in part, upon the operating results for such period.

Item 4. *Mine Safety Disclosures*

None

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Allied Healthcare Products, Inc. trades on the NASDAQ Capital Market under the symbol AHPI. As of September 2, 2016, there were 135 record owners of the Company's common stock. The following tables summarize information with respect to the high and low prices for the Company's common stock as listed on the NASDAQ Global or Capital Market for each quarter of fiscal 2016 and 2015, respectively. The Company currently does not pay, and in the most recent fiscal years has not paid, any dividend on its common stock.

Common Stock Information

| 2016 | High | Low | 2015 | High | Low |
|-------------------|--------|--------|-------------------|--------|--------|
| September quarter | \$1.75 | \$1.14 | September quarter | \$2.66 | \$1.95 |
| December quarter | \$1.58 | \$0.99 | December quarter | \$3.70 | \$1.29 |
| March quarter | \$1.11 | \$0.63 | March quarter | \$1.90 | \$1.32 |
| June quarter | \$0.74 | \$0.50 | June quarter | \$1.85 | \$1.37 |

Information concerning securities authorized for issuance under equity compensation plans is incorporated by reference to the Company's proxy statement for the 2016 annual meeting of stockholders, which will be filed within 120 days after June 30, 2016.

Item 6. Selected Financial Data

(In thousands, except per share data)

| Year ended June 30, | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------|------------|------------|------------|-----------|
| Statement of Operations Data | | | | | |
| Net sales | \$35,952 | \$35,462 | \$36,371 | \$38,552 | \$43,446 |
| Cost of sales | 28,593 | 28,392 | 29,057 | 30,310 | 33,485 |
| Gross profit | 7,359 | 7,070 | 7,314 | 8,242 | 9,961 |
| Selling, general and administrative expenses | 9,279 | 8,763 | 10,423 | 10,736 | 10,611 |
| Loss from operations | (1,920) | (1,693) | (3,109) | (2,494) | (650) |
| Interest expense | - | - | - | - | - |
| Interest income | (3) | (3) | (5) | (12) | (27) |
| Other, net | 87 | 70 | 42 | (485) | 48 |
| Loss before provision for (benefit from) income taxes | (2,004) | (1,760) | (3,146) | (1,997) | (670) |
| Provision for (benefit from) income taxes | 301 | 17 | (340) | (740) | (246) |
| Net loss | \$(2,305) | \$(1,777) | \$(2,806) | \$(1,257) | \$(424) |
| Basic loss per share | \$(0.29) | \$(0.22) | \$(0.35) | \$(0.16) | \$(0.05) |
| Diluted loss per share | \$(0.29) | \$(0.22) | \$(0.35) | \$(0.16) | \$(0.05) |
| Basic weighted average common shares outstanding | 8,027 | 8,027 | 8,027 | 8,071 | 8,124 |
| Diluted weighted average common shares outstanding | 8,027 | 8,027 | 8,027 | 8,071 | 8,124 |

(In thousands)

| June 30, | 2016 | 2015 | 2014 | 2013 | 2012 |
|---------------------------|----------|----------|----------|----------|----------|
| Balance Sheet Data | | | | | |
| Working capital | \$10,018 | \$10,851 | \$11,390 | \$13,682 | \$16,006 |
| Total assets | 23,196 | 24,989 | 26,032 | 29,339 | 31,477 |
| Stockholders' equity | 18,272 | 20,693 | 22,509 | 25,315 | 26,777 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**Results of Operations**

The Company manufactures and markets respiratory products, including respiratory care products, medical gas equipment and emergency medical products. Set forth below is certain information with respect to amounts and percentages of net sales attributable to respiratory care products, medical gas equipment and emergency medical products for the fiscal years ended June 30, 2016, 2015, and 2014.

| Year ended June 30, | Dollars in thousands | | |
|----------------------------|----------------------|----------------------|---|
| | 2016 | | |
| | Net Sales | % of Total Net Sales | |
| Respiratory care products | \$ 9,077 | 25.2 | % |
| Medical gas equipment | 19,712 | 54.9 | % |
| Emergency medical products | 7,163 | 19.9 | % |
| Total | \$ 35,952 | 100.0 | % |

| Year ended June 30, | Dollars in thousands | | |
|----------------------------|----------------------|----------------------|---|
| | 2015 | | |
| | Net Sales | % of Total Net Sales | |
| Respiratory care products | \$ 9,222 | 26.0 | % |
| Medical gas equipment | 18,772 | 52.9 | % |
| Emergency medical products | 7,468 | 21.1 | % |
| Total | \$ 35,462 | 100.0 | % |

| Year ended June 30, | Dollars in thousands | | |
|----------------------------|----------------------|----------------------|---|
| | 2014 | | |
| | Net Sales | % of Total Net Sales | |
| Respiratory care products | \$ 9,688 | 26.6 | % |
| Medical gas equipment | 19,426 | 53.4 | % |
| Emergency medical products | 7,257 | 20.0 | % |
| Total | \$ 36,371 | 100.0 | % |

The following table sets forth, for the fiscal periods indicated, the percentage of net sales represented by the various income and expense categories reflected in the Company's Statement of Operations.

| Year ended June 30, | 2016 | 2015 | 2014 |
|--|---------|---------|---------|
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 79.5 | 80.1 | 79.9 |
| Gross profit | 20.5 | 19.9 | 20.1 |
| Selling, general and administrative expenses | 25.8 | 24.7 | 28.6 |
| Loss from operations | (5.3) | (4.8) | (8.5) |
| Other, net | 0.3 | 0.2 | 0.1 |
| Loss before benefit from income taxes | (5.6) | (5.0) | (8.6) |
| Provision for (benefit from) income taxes | 0.8 | 0.0 | (0.9) |
| Net loss | (6.4)% | (5.0)% | (7.7)% |

Critical Accounting Policies

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, income taxes, and contingencies and litigation. Estimates and judgments are based on historical experience and on various other factors that may be reasonable under the circumstances. Actual results may differ from these estimates. The following areas are considered to be the Company's most significant accounting policies:

Revenue recognition:

Revenue is recognized for all sales, including sales to agents and distributors, at the time products are shipped and title has transferred, provided that a purchase order has been received or a contract executed, there are not uncertainties regarding customer acceptance, the sales price is fixed and determinable and collectability is reasonably assured. Sales discounts, returns and allowances are included in net sales, and the provision for doubtful accounts is included in selling, general and administrative expenses. Additionally, it is the Company's practice to include revenues generated from freight billed to customers in net sales with corresponding freight expense included in cost of sales in the Statement of Operations. The Company reports sales taxes on sales transactions on a net basis in the Statement of Operations, and therefore does not include sales taxes in revenues or costs.

The sales price is fixed by the Company's acceptance of the buyer's firm purchase order. The sales price is not contingent, or subject to additional discounts. The Company's standard shipment terms are "F.O.B. shipping point" as stated in the Company's Terms and Conditions of Sale. The customer is responsible for obtaining insurance for and bears the risk of loss for product in-transit. Additionally, sales to customers do not include the right to return merchandise without the prior consent of the Company. In those cases where returns are accepted, product must be current and restocking fees must be paid by the respective customer. A provision has been made for estimated sales returns and allowances. These estimates are based on historical analysis of credit memo data and returns.

The Company does not provide installation services for its products. Most products shipped are ready for immediate use by the customer. The Company's in-wall medical system components, central station pumps and compressors, and headwalls do require installation by the customer. These products are typically purchased by a third-party contractor who is ultimately responsible for installation services. Accordingly, the customer purchase order or contract does not require customer acceptance of the installation prior to completion of the sale transaction and revenue recognition. The Company's standard payment terms are net 30 days from the date of shipment, and payment is specifically not subject to customer inspection or acceptance, as stated in the Company's Terms and Conditions of Sale. The buyer becomes obligated to pay the Company at the time of shipment. The Company requires credit applications from its customers and performs credit reviews to determine the creditworthiness of new customers. The Company requires letters of credit, where warranted, for international transactions. The Company also protects its legal rights under mechanics lien laws when selling to contractors.

The Company offers limited warranties on its products. The standard warranty period is one year. The Company's cost of providing warranty service for its products for the years ended June 30, 2016, June 30, 2015, and June 30, 2014 was \$89,895, \$176,169, and \$113,209, respectively. The related liability for warranty service amounted to \$100,000 and \$130,000 at June 30, 2016 and 2015, respectively.

Inventory reserve for obsolete and excess inventory:

Inventory is recorded net of a reserve for obsolete and excess inventory which is determined based on an analysis of inventory items with no usage in the preceding year and for inventory items for which there is greater than two years' usage on hand. This analysis considers those identified inventory items to determine, in management's best estimate, if parts can be used beyond one year, if there are alternate uses or at what values such parts may be disposed for. At June 30, 2016 and 2015, inventory is recorded net of a reserve for obsolete and excess inventory of \$1.5 million.

Income taxes:

The Company accounts for income taxes under the FASB Accounting Standards Codification ("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. Management uses a more likely than not criterion in its assessment and considers all available evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance for deferred tax assets is needed. In assessing the need for a valuation allowance the Company first considers the reversals of existing temporary deferred tax liabilities and available tax planning strategies. To the extent these items are not sufficient to cause the realization of deferred tax assets, the Company would then consider the availability of future taxable income only to the extent such income is considered likely to occur based on the Company's earnings history, current income trends and projections.

In light of its history of operating losses the Company does not rely on the existence of future taxable income as it currently cannot conclude future taxable income is likely to occur. The Company does rely on reversals of existing temporary deferred tax liabilities and tax planning strategies to the extent available to support the value of its existing deferred tax assets. The tax planning strategies available to the Company that it would use rather than allow the tax benefits of net operating loss carryovers to expire include the revocation of the LIFO method inventory and the recognition of a gain on the sale of the Company's excess land in Stuyvesant Falls, New York. As of June 30, 2016, the Company's deferred tax assets exceeded the amount supportable through reversals of existing deferred tax liabilities and tax planning strategies and a valuation allowance has been recorded for this amount.

Accounts receivable net of allowances:

Accounts receivable are recorded net of an allowance for doubtful accounts, which is determined based on an analysis of past due accounts including accounts placed with collection agencies, and an allowance for returns and credits, which is based on historical analysis of credit memo data and returns. The Company maintains an allowance for doubtful accounts to reflect the uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. At June 30, 2016 and 2015, accounts receivable is recorded net of allowances of \$170,000.

Valuation of Long-Lived Assets:

The impairment of long-lived assets is assessed when changes in circumstances (such as, but not limited to, a decrease in market value of an asset, current and historical operating losses or a change in business strategy) indicate that their carrying value may not be recoverable. This assessment is based on management's expectations and judgments regarding future business and economic conditions, future market values and disposal costs. Actual results and events could differ significantly from management's estimates. Based upon our most recent analysis, we believe that no impairment exists at June 30, 2016. There can be no assurance that future impairment tests will not result in a charge to net earnings (loss).

Self-insurance:

The Company maintains a self-insurance program for a portion of its health care costs. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and the estimated liability for claims incurred but not reported. As of June 30, 2016 and 2015, the Company had approximately \$175,000 and \$195,000, respectively, of

accrued liabilities related to health care claims. In order to establish the self-insurance reserves, the Company utilized actuarial estimates of expected claims based on analyses of historical data.

Share Based Compensation:

Allied calculates share based compensation using the Black-Sholes-Merton (“Black-Scholes”) option-pricing model, which requires the input of highly subjective assumptions including the expected stock price volatility. For the twelve-month periods ended June 30, 2016, 2015, and 2014, Allied recorded approximately \$3,000, \$5,000 and \$10,000, respectively, in share-based employee compensation. This compensation cost is included in the general and administrative expenses in the accompanying Statements of Operations.

Significant Factors Affecting Past and Future Operating Results

Medical Device Tax:

Beginning January 1, 2013, the Healthcare Reform Act imposed a tax to be paid by medical device manufacturers equal to 2.3% of the sale price of medical devices. Many of our products are subject to this tax. For the years ended June 30, 2016, 2015 and 2014, the Company recorded an expense of approximately \$158,000, \$300,000 and \$292,000, respectively. On December 18, 2015, The Consolidated Appropriations Act, 2016 was signed into law. This Act included a moratorium on the medical device tax during the period beginning on January 1, 2016, and ending on December 31, 2017.

Fiscal 2016 Compared to Fiscal 2015

The Company had a loss of \$2.0 million before taxes for fiscal 2016, compared to a loss of \$1.8 million before taxes for fiscal 2015. It recorded an income tax provision of \$301,431 in fiscal 2016, compared to an income tax provision of \$16,596 in fiscal 2015.

As previously disclosed in the Company's annual report on Form 10-K for the 2013 fiscal year, the realization of the Company's deferred tax assets have been based on the reversal of existing temporary deferred tax liabilities and tax planning strategies. For the year ended June 30, 2014 the Company's tax benefit of cumulative losses exceeded the supportable value of the deferred tax assets and a valuation allowance of \$800,203 had been established. For the year ended June 30, 2015 the Company recorded an additional allowance of \$618,709. For the year ended June 30, 2016 the Company recorded an additional allowances of \$393,814. The increase in the valuation allowance in 2016 was less than the tax benefits attributable to the current year net operating loss due to the net of reduction of tax benefits attributable to expiring options and additional depreciation differences and a decrease in the value of tax planning strategies recognized in 2016. To the extent that the Company's losses continue, the tax benefit of those losses would be fully offset by a valuation allowance.

Net sales for fiscal 2016 of \$36.0 million were \$0.5 million or 1.4% more than net sales of \$35.5 million in fiscal 2015. Domestically, sales increased by \$0.1 million dollars. Internationally, sales increased by \$0.4 million. International business is dependent upon hospital construction projects, and the development of medical facilities and emergency services in those regions in which the Company operates, as well as the economic and political climates in those international markets.

Orders for the Company's products for the year ended June 30, 2016 of \$33.7 million were \$2.7 million or 7.4% lower than orders for the year ended June 30, 2015 of \$36.4 million. Customer purchase order releases for the year ended June 30, 2016 and 2015 were \$34.9 million. Customer purchase order releases depend on the scheduling practices of individual customers and the status of construction projects. Higher customer releases, despite lower customer orders, led to higher sales.

Respiratory care product sales in fiscal 2016, which include homecare products, were \$9.1 million, which is \$0.1 million, or 1.1% lower than sales of \$9.2 million in the prior year. Respiratory care products also include carbon dioxide absorbents. For the year ended June 30, 2016 and 2015 the Company had carbon dioxide absorbent sales of Carbolime® and Litholyme® of \$3.4 million dollars.

Medical gas equipment sales, which include construction products, of \$19.7 million in fiscal 2016 were approximately \$0.9 million, or 4.8% higher than prior year levels of \$18.8 million. Domestically, sales of medical gas equipment in fiscal 2016 were \$0.1 million higher than in the prior year. Internationally, sales of medical gas equipment in fiscal 2016 were approximately \$0.8 million higher than in the prior year, primarily as a result of higher international customer releases. The Company continues to implement improvements to the sales management process which are intended to improve sales performance and increase market share for medical gas equipment, as well as other product lines.

Emergency medical product sales in fiscal 2016 of \$7.2 million were \$0.3 million or 4.0% lower than fiscal 2015 sales of \$7.5 million. International sales of emergency medical products decreased by \$0.6 million from the prior year while domestic sales increased by \$0.3 million.

International sales, which are included in the product lines discussed above, increased \$0.3 million, or 3.7%, to \$8.5 million in fiscal 2016 compared to sales of \$8.2 million in fiscal 2015. This increase in International sales reflects the timing of customer releases of orders for shipment, and a decrease in backlog from the prior year. In fiscal 2016, international sales of medical gas equipment, including construction products, increased by \$0.8 million dollars, sales of respiratory care products increased by approximately \$0.1 million, while international sales of emergency products decreased by approximately \$0.6 million

Gross profit in fiscal 2016 was \$7.4 million, or 20.5% of sales, compared to a gross profit of \$7.1 million, or 19.9% of sales in fiscal 2015. Gross profit was favorably impacted by the increase in sales during the period. Gross margins were favorably impacted by approximately \$0.1 million in cost improvements from lower commodity costs and purchasing improvements. The Company continues to review the cost of production and seek opportunities to lower those costs. Gross profit for 2016 was negatively impacted by approximately \$158,000 as a result of Medical Device Excise Tax (MDET) expense versus a negative impact of \$300,000 in 2015. Under the Patient Protection and Affordable Care Act, beginning on January 1, 2013, this tax is imposed on all U.S. sales of certain medical devices at the rate of 2.3% of the sale price of covered products. On December 18, 2015, The Consolidated Appropriations Act, 2016 was signed into law. This Act included a moratorium on the medical device tax during the period beginning on January 1, 2016, and ending on December 31, 2017.

The Company invested \$0.1 million in capital expenditures in both fiscal 2016 and fiscal 2015 for manufacturing equipment, plant maintenance, and computer systems. The Company continues to control cost and actively pursue methods to reduce its costs through automation, process changes, and purchasing initiatives.

Selling, General, and Administrative (“SG&A”) expenses for fiscal 2016 were \$9.3 million compared to SG&A expenses of \$8.8 million in fiscal 2015. Personnel cost, primarily salaries and fringe benefits, increased by approximately \$0.1 million and legal expense increased by approximately \$0.5 million.

Interest income in fiscal 2016 and 2015 was approximately \$3,000. Other expenses for the year ended June 30, 2016 was approximately \$87,000, compared to approximately \$70,000 in fiscal 2015.

The Company’s effective tax rate in 2016 was a provision of 15% compared to a provision of 1% in 2015. The increase in the effective tax rate was attributable to changes in the valuation allowance for indefinite lived depreciation

adjustments and a reduction in the state tax value attributable to the tax planning strategies.

Net loss in fiscal 2016 was \$2.3 million or \$0.29 per basic and diluted earnings per share, a increase from a net loss of \$1.8 million, or \$0.22 per basic and diluted earnings per share in fiscal 2015. In 2016 and 2015 the weighted number of shares used in the calculation of basic and diluted earnings per share was 8,027,147.

Fiscal 2015 Compared to Fiscal 2014

The Company had a loss of \$1.8 million before taxes for fiscal 2015, compared to a loss of \$3.1 million before taxes for fiscal 2014. It recorded an income tax provision of \$16,596 in fiscal 2015, compared to an income tax benefit of \$0.3 million in fiscal 2014.

As previously disclosed in the Company's annual report on Form 10-K for the 2013 fiscal year, the realization of the Company's deferred tax assets have been based on the reversal of existing temporary deferred tax liabilities and tax planning strategies. For the year ended June 30, 2014 the Company's tax benefit of cumulative losses exceeded the supportable value of the deferred tax assets and a valuation allowance of \$800,203 had been established. For the year ended June 30, 2015 the Company recorded an additional allowance of \$618,709. To the extent that the Company's losses continue, the tax benefit of those losses would be fully offset by a valuation allowance.

Net sales for fiscal 2015 of \$35.5 million were \$0.9 million or 2.5% less than net sales of \$36.4 million in fiscal 2014. Domestically, sales increased by \$0.1 million dollars. Internationally, sales decreased by \$1.0 million. International business is dependent upon hospital construction projects, and the development of medical facilities in those regions in which the Company operates.

Orders for the Company's products for the year ended June 30, 2015 of \$36.4 million were \$0.2 million or 0.6% higher than orders for the year ended June 30, 2014 of \$36.2 million. Customer purchase order releases for the year ended June 30, 2015 of \$34.9 million were \$0.4 million or 1.1% lower than customer purchase order releases of \$35.3 million from the prior fiscal year. Customer purchase order releases depend on the scheduling practices of individual customers. Lower customer releases, despite higher customer orders, led to lower sales.

Respiratory care product sales in fiscal 2015, which include homecare products, were \$9.2 million, which is \$0.5 million, or 5.2% lower than sales of \$9.7 million in the prior year. Respiratory care products also include carbon dioxide absorbents. For the year ended June 30, 2015 the Company had carbon dioxide absorbent sales of Carbolime® and Litholyme® of \$3.4 million dollars, compared with \$3.5 million for the year ended June 30, 2014.

Medical gas equipment sales, which include construction products, of \$18.8 million in fiscal 2015 were approximately \$0.6 million, or 3.1% lower than prior year levels of \$19.4 million. Domestically, sales of medical gas equipment in fiscal 2015 were \$0.4 million higher than in the prior year. Internationally, sales of medical gas equipment in fiscal 2015 were approximately \$1.0 million lower than in the prior year, primarily as a result of lower international customer releases.

Emergency medical product sales in fiscal 2015 of \$7.5 million were \$0.2 million or 2.7% higher than fiscal 2014 sales of \$7.3 million. International sales of emergency medical products increased by \$0.2 million from the prior year while domestic sales were flat.

International sales, which are included in the product lines discussed above, decreased \$1.0 million, or 10.9%, to \$8.2 million in fiscal 2015 compared to sales of \$9.2 million in fiscal 2014. In fiscal 2015, international sales of medical gas equipment, including construction products, decreased by \$1.1 million dollars, and sales of respiratory care products decreased by approximately \$0.1 million. International sales of emergency products increased by approximately \$0.2 million. International orders of \$9.0 million dollars were down \$0.1 million from prior year orders of \$9.1 million dollars. This difference between International orders and sales reflects the timing of customer releases of orders for shipment, and an increase in backlog. As discussed above, the Company's international shipments are dependent on hospital construction projects and the expansion of medical care in those regions. The decrease in international sales was concentrated in Latin America in 2015.

Gross profit in fiscal 2015 was \$7.1 million, or 19.9% of sales, compared to a gross profit of \$7.3 million, or 20.1% of sales in fiscal 2014. Gross profit was negatively impacted by the decrease in sales and production during the period. Gross margins were favorably impacted by approximately \$0.2 million in cost improvements from lower commodity costs, purchasing improvements, and improvements in operating efficiencies. The Company continues to review the cost of production and seek opportunities to lower those costs. Gross profit for 2015 was negatively impacted by approximately \$300,000, as a result of Medical Device Excise Tax (MDET) expense versus a negative impact of \$292,000 in 2014. Under the Patient Protection and Affordable Care Act, beginning on January 1, 2013, this tax was imposed on all U.S. sales of certain medical devices at the rate of 2.3% of the sale price of covered products in fiscal 2014 and 2015.

The Company invested \$0.1 million in capital expenditures in fiscal 2015 compared to \$0.4 million in fiscal 2014 for manufacturing equipment, plant maintenance, and computer systems. The Company continues to control cost and actively pursue methods to reduce its costs through automation and process changes.

Selling, General, and Administrative (“SG&A”) expenses for fiscal 2015 were \$8.8 million compared to SG&A expenses of \$10.4 million in fiscal 2014. Personnel cost, primarily salaries and fringe benefits, decreased by approximately \$0.6 million, as a result of staffing reductions in fiscal 2014. Legal expense decreased by approximately \$0.7 million and travel expense decreased by approximately \$0.2 million.

Interest income in fiscal 2015 was approximately \$3,000 compared to interest income of \$5,000 in fiscal 2014. Other expenses for the year ended June 30, 2015 was approximately \$70,000, compared to approximately \$42,000 in fiscal 2014.

The Company’s effective tax rate in 2015 was a provision of 1% caused by the recognition of certain state taxes, compared to a benefit of 11% in 2014. The benefit of its net operating loss carryforward was fully reserved in 2015. In 2014 a portion of the net operating loss benefit was recognized.

Net loss in fiscal 2015 was \$1.8 million or \$0.22 per basic and diluted earnings per share, a decrease from a net loss of \$2.8 million, or \$0.35 per basic and diluted earnings per share in fiscal 2014. In 2015 and 2014 the weighted number of shares used in the calculation of basic and diluted earnings per share was 8,027,147.

Financial Condition, Liquidity and Capital Resources

The following table sets forth selected information concerning Allied's financial condition at June 30:

| Dollars in thousands | 2016 | 2015 | 2014 |
|-------------------------|----------|----------|----------|
| Cash & cash equivalents | \$1,704 | \$2,040 | \$1,367 |
| Working Capital | \$10,018 | \$10,851 | \$11,390 |
| Total Debt | \$- | \$- | \$- |
| Current Ratio | 3.03:1 | 3.53:1 | 4.23:1 |

The Company’s working capital was \$10.0 million at June 30, 2016 compared to \$10.8 million at June 30, 2015. Cash decreased by approximately \$0.3 million, Inventory decreased by \$0.3 million, Accounts Payable increased by \$0.5 million and Accrued Liabilities increased by approximately \$0.2 million. During fiscal 2016, these decreases in working capital were offset by a \$0.5 million increase in Accounts Receivable. Accounts Receivable was \$4.1 million at June 30, 2016, an increase from \$3.6 million at June 30, 2015. Accounts Receivable as measured in days sales outstanding (“DSO”) is 40 DSO at June 30, 2016, up from 37 DSO at June 30, 2015. The Company does adjust product forecast, order quantities, and safety stock based on changes in demand patterns in order to manage inventory levels.

The net decrease in Cash for the fiscal year ended June 30, 2016 was \$0.3 million. The net increase in Cash for the fiscal year ended June 30, 2015 was \$0.7 million. Cash flows used in operating activities were approximately \$0.2 million for fiscal 2016 compared to cash flows provided by operating activities of approximately \$0.8 million for fiscal 2015. This decrease in Cash provided by operating activities includes a \$0.5 million increase in net loss, a decrease in Inventory of \$0.3 million, an increase in Accounts Payable of approximately \$0.5 million, and an increase of Other Accrued Liabilities of \$0.2 million. The change in Accounts Payable is primarily the result of the timing of payments between the two years, as the Company did not change its payment terms or policies.

Cash flows provided by operating activities for the fiscal year ended June 30, 2015 consisted of a net loss of \$1.8 million, supplemented by \$1.3 million in non-cash charges to operations for amortization and depreciation, an increase of Accounts Payable of \$0.3 million and decrease of Inventory of \$0.2 million, and an increase in accrued liabilities of \$0.5 million. Cash was used to make capital expenditures of \$0.1 million in fiscal 2016 and in 2015.

As of June 30, 2016, 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"). 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 Agreement was amended on November 9, 2015 extending the maturity date to November 9, 2016. Subject to the conditions and limitations set forth in the Credit Agreement, the Credit Facility will be available on a revolving basis until it expires on November 9, 2016, 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.

While the Credit Agreement provides for stated availability of \$5.0 million, in connection with renewal on November 9, 2015, a new covenant was added requiring the Company to maintain minimum "liquidity" of \$1.25 million. Liquidity is defined as the difference between cash and cash equivalents and the aggregate principal balance of borrowings under the Credit Agreement and is measured at the last day of each fiscal quarter, commencing on December 31, 2015. Based on the Company's cash and cash equivalents as of June 30, 2016, the Company would only be permitted to borrow up to \$.45 million as of such date. Decreases in the Company's cash position will effectively reduce the amount the Company is able to borrow and/or require accelerated repayments.

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. In addition, effective November 9, 2015, the Credit Agreement includes the minimum liquidity requirement described above. 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 0.45% on June 30, 2016.

At June 30, 2016, 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 June 30, 2016.

The following table summarizes the Company's contractual obligations at June 30, 2016:

| Contractual Obligations | Payments due by period | | | | |
|------------------------------------|------------------------|---------------------|--------------|--------------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-Term Debt | - | - | - | - | - |
| Capital Lease Obligations | - | - | - | - | - |
| Operating Leases | \$115,536 | \$67,373 | \$48,163 | - | - |
| Unconditional Purchase Obligations | - | - | - | - | - |
| Other Long-Term Obligations | - | - | - | - | - |
| Total Contractual Cash Obligations | \$115,536 | \$67,373 | \$48,163 | \$ - | \$ - |

Capital expenditures were \$0.1 million, \$0.1 million, and \$0.4 million in fiscal 2016, 2015, and 2014, respectively. The Company made these capital expenditures with an aim to improve efficiency, save costs, develop new products, and maintain plant capacity. The Company believes that cash flows from operations and available borrowings under its credit facilities will be sufficient to finance fixed payments and planned capital expenditures of \$0.2 million in 2017.

Cash flows from operations may be negatively impacted by decreases in sales, market conditions, and adverse changes in working capital. In the event that economic conditions were to severely worsen for a protracted period of time, we believe that we would be able to procure a replacement credit facility, and our borrowing capacity under those arrangements would provide sufficient financial flexibility although the costs of any such replacement financing may be materially greater than under the Credit Agreement. At June 30, 2016, the Company had no bank debt. During fiscal 2016, 2015 and 2014 there were no borrowings or repayments under the Credit Agreement.

The Company's credit facility will be available until it expires on November 9, 2016. The Bank has indicated that it does not intend to renew the credit facility when it expires on November 9, 2016. The Company will consider alternative sources of credit financing to replace the credit facility if necessary.

Inflation has not had a material effect on the Company's business or results of operations. The Company makes its foreign sales in U.S. dollars and, accordingly, sales proceeds are not affected by exchange rate fluctuations, although the effect on its customers does impact the pace of incoming orders.

Quarterly Results

The following table sets forth selected operating results for the eight quarters ended June 30, 2016. The information for each of these quarters is unaudited, but includes all normal recurring adjustments which the Company considers necessary for a fair presentation thereof. These operating results, however, are not necessarily indicative of results for any future period. Further, operating results may fluctuate as a result of the timing of orders, the Company's product and customer mix, the introduction of new products by the Company and its competitors, and overall trends in the health care industry and the economy. While these patterns have an impact on the Company's quarterly operations, the Company is unable to predict the extent of this impact in any particular period.

Dollars in thousands, except per share data

| | June 30, 2016 | March 31, 2016 | Dec. 31, 2015 | Sept. 30, 2015 | June 30, 2015 | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
|----------------------------------|------------------|----------------------|------------------|-------------------|------------------|----------------------|------------------|-------------------|
| Three months ended, Net sales | \$ 9,803 | \$ 8,840 | \$ 8,846 | \$ 8,463 | \$ 9,114 | \$ 8,503 | \$ 9,000 | \$ 8,845 |
| Gross profit | 2,257 | 1,626 | 1,779 | 1,698 | 1,638 | 1,699 | 2,158 | 1,575 |
| Income (loss) from operations | 166 | (762) | (688) | (635) | (472) | (489) | (35) | (698) |
| Net loss | (282) | (784) | (709) | (530) | (521) | (503) | (45) | (708) |
| Basic loss per share | (0.03) | (0.10) | (0.09) | (0.07) | (0.06) | (0.06) | (0.01) | (0.09) |
| Diluted loss per share | (0.03) | (0.10) | (0.09) | (0.07) | (0.06) | (0.06) | (0.01) | (0.09) |

Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts will not necessarily equal the total for the year.

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 such claims over its self-insured retention will be covered by the Company's product liability insurance.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements.

Recently Issued Accounting Pronouncements

See Item 8, Note 2 “Summary of Significant Accounting Policies” for a discussion of recent accounting pronouncements and their impact on the Company’s financial statements, if any.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2016, the Company did not have any debt outstanding. The revolving credit facility bears an interest rate using the commercial bank’s “floating reference rate” or LIBOR 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 June 30, 2016. Allied has international sales; however these sales are denominated in U.S. dollars, mitigating foreign exchange rate fluctuation risk.

Item 8. *Financial Statements and Supplementary Data*

The following described financial statements of Allied Healthcare Products, Inc. are included in response to this item:

Report of Independent Registered Public Accounting Firm.

Statement of Operations for the fiscal years ended June 30, 2016, 2015 and 2014.

Balance Sheet for the fiscal years ended June 30, 2016 and 2015.

Statement of Changes in Stockholders' Equity for the fiscal years ended June 30, 2016, 2015 and 2014.

Statement of Cash Flows for the fiscal years ended June 30, 2016, 2015 and 2014.

Notes to Financial Statements.

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Allied Healthcare Products, Inc.

We have audited the accompanying balance sheet of Allied Healthcare Products, Inc. (the Company) as of June 30, 2016 and 2015, and the related statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allied Healthcare Products, Inc. as of June 30, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2016 in conformity with accounting principles generally accepted in the United States of America.

/s/ RubinBrown LLP

St. Louis, Missouri

September 23, 2016

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF OPERATIONS

| Year ended June 30, | 2016 | 2015 | 2014 |
|---|----------------|----------------|----------------|
| Net sales | \$35,952,487 | \$35,461,769 | \$36,370,616 |
| Cost of sales | 28,592,752 | 28,392,171 | 29,056,367 |
| Gross profit | 7,359,735 | 7,069,598 | 7,314,249 |
| Selling, general and administrative expenses | 9,279,061 | 8,763,335 | 10,423,133 |
| Loss from operations | (1,919,326) | (1,693,737) | (3,108,884) |
| Other (income) expenses: | | | |
| Interest income | (2,782) | (3,041) | (4,818) |
| Interest expense | - | - | - |
| Other, net | 86,856 | 70,018 | 41,660 |
| | 84,074 | 66,977 | 36,842 |
| Loss before provision for (benefit from) income taxes | (2,003,400) | (1,760,714) | (3,145,726) |
| Provision for (benefit from) income taxes | 301,431 | 16,596 | (339,813) |
| Net loss | \$(2,304,831) | \$(1,777,310) | \$(2,805,913) |
| Basic loss per share: | \$(0.29) | \$(0.22) | \$(0.35) |
| Diluted loss per share: | \$(0.29) | \$(0.22) | \$(0.35) |
| Weighted average shares outstanding – Basic | 8,027,147 | 8,027,147 | 8,027,147 |
| Weighted average shares outstanding – Diluted | 8,027,147 | 8,027,147 | 8,027,147 |

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

| | June 30, 2016 | June 30, 2015 |
|--|---------------|---------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,703,663 | \$ 2,039,946 |
| Accounts receivable, net of allowances of \$170,000 | 4,094,462 | 3,574,674 |
| Inventories, net | 8,875,270 | 9,190,911 |
| Income tax receivable | 12,555 | 12,487 |
| Other current assets | 255,711 | 328,756 |
| Total current assets | 14,941,661 | 15,146,774 |
| Property, plant and equipment, net | 6,747,570 | 7,821,206 |
| Deferred income taxes | 1,430,385 | 1,889,872 |
| Other assets, net | 76,065 | 131,615 |
| Total assets | \$ 23,195,681 | \$ 24,989,467 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,864,603 | \$ 1,368,797 |
| Other accrued liabilities | 2,341,203 | 2,159,566 |
| Deferred income taxes | 717,420 | 767,907 |
| Total current liabilities | 4,923,226 | 4,296,270 |
| Commitments and contingencies (Notes 4 and 9) | | |
| 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 June 30, 2016 and June 30, 2015; 8,027,147 shares outstanding at June 30, 2016 and June 30, 2015 | 104,279 | 104,279 |
| Additional paid-in capital | 48,430,759 | 48,546,670 |
| Accumulated deficit | (9,281,795) | (6,976,964) |
| Less: treasury stock, at cost; 2,400,731 shares at June 30, 2016 and 2015 | (20,980,788) | (20,980,788) |
| Total stockholders' equity | 18,272,455 | 20,693,197 |
| Total liabilities and stockholders' equity | \$ 23,195,681 | \$ 24,989,467 |

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total |
|---|-----------------|----------------------------------|------------------------|-------------------|---------------|
| Balance, June 30, 2013 | \$ 104,279 | \$ 48,584,999 | \$ (2,393,741) | \$ (20,980,788) | \$ 25,314,749 |
| Stock based compensation | - | 9,655 | - | - | 9,655 |
| Reversal of deferred tax provision, stock options forfeited | - | (9,418) | - | - | (9,418) |
| Net loss for the year ended June 30, 2014 | - | - | (2,805,913) | - | (2,805,913) |
| Balance, June 30, 2014 | 104,279 | 48,585,236 | (5,199,654) | (20,980,788) | 22,509,073 |
| Stock based compensation | - | 4,956 | - | - | 4,956 |
| Reversal of deferred tax provision, stock options forfeited | - | (43,522) | - | - | (43,522) |
| Net loss for the year ended June 30, 2015 | - | - | (1,777,310) | - | (1,777,310) |
| Balance, June 30, 2015 | 104,279 | 48,546,670 | (6,976,964) | (20,980,788) | 20,693,197 |
| Stock based compensation | - | 2,946 | - | - | 2,946 |
| Reversal of deferred tax provision, stock options forfeited | - | (118,857) | - | - | (118,857) |
| Net loss for the year ended June 30, 2016 | - | - | (2,304,831) | - | (2,304,831) |
| Balance, June 30, 2016 | \$ 104,279 | \$ 48,430,759 | \$ (9,281,795) | \$ (20,980,788) | \$ 18,272,455 |

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.**STATEMENT OF CASH FLOWS**

| Year ended June 30, | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|
| Cash flows from operating activities: | | | |
| Net loss | \$(2,304,831) | \$(1,777,310) | \$(2,805,913) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 1,228,485 | 1,311,111 | 1,280,796 |
| Stock based compensation | 2,946 | 4,956 | 9,655 |
| Provision for doubtful accounts and sales returns and allowances | 2,859 | 61,877 | 18,852 |
| Deferred tax benefit | 290,145 | - | (352,746) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (522,647) | 76,554 | 490,013 |
| Inventories | 315,641 | 215,187 | (67,755) |
| Income tax receivable | (68) | 4,679 | 19,600 |
| Other current assets | 73,045 | 81,340 | 10,880 |
| Accounts payable | 495,806 | 300,575 | (248,980) |
| Deferred revenue | - | - | - |
| Other accrued liabilities | 181,636 | 535,381 | (237,055) |
| Net cash provided by (used in) operating activities | (236,983) | 814,350 | (1,882,653) |
| Cash flows from investing activities: | | | |
| Capital expenditures | (99,300) | (141,166) | (438,504) |
| Net cash used in investing activities | (99,300) | (141,166) | (438,504) |
| Net increase (decrease) in cash and cash equivalents | (336,283) | 673,184 | (2,321,157) |
| Cash and cash equivalents at beginning of year | 2,039,946 | 1,366,762 | 3,687,919 |
| Cash and cash equivalents at end of year | \$1,703,663 | \$2,039,946 | \$1,366,762 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$- | \$- | \$- |
| Income taxes | \$12,527 | \$15,987 | \$17,999 |
| Non-cash investing and financing activity | | | |
| Deferred tax provision on stock options forfeited and reclassified to additional paid in capital | \$118,857 | \$43,522 | \$9,418 |

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization

Allied Healthcare Products, Inc. (the “Company” or “Allied”) is a manufacturer of respiratory products used in the health care industry in a wide range of hospital and alternate site settings, including post-acute care facilities, home health care and trauma care. The Company’s product lines include respiratory care products, medical gas equipment and emergency medical products.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by Allied are described below.

Use of estimates

The policies utilized by the Company in the preparation of the financial statements conform to accounting principles generally accepted in the United States of America, and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Revenue recognition

Revenue is recognized for all sales, including sales to agents and distributors, at the time products are shipped and title has transferred, provided that a purchase order has been received or a contract executed, there are not uncertainties regarding customer acceptance, the sales price is fixed and determinable and collectability is reasonably assured. Sales discounts, returns and allowances are included in net sales, and the provision for doubtful accounts is included in selling, general and administrative expenses. Additionally, it is the Company’s practice to include revenues generated from freight billed to customers in net sales with corresponding freight expense included in cost of sales in the Statement of Operations. The Company reports sales taxes on sales transactions on a net basis in the Statement of Operations, and therefore does not include sales taxes in revenues or costs.

The sales price is fixed by Allied's acceptance of the buyer's firm purchase order. The sales price is not contingent, or subject to additional discounts. Allied's standard shipment terms are "F.O.B. shipping point" as stated in Allied's Terms and Conditions of Sale. The customer is responsible for obtaining insurance for and bears the risk of loss for product in-transit. Additionally, sales to customers do not include the right to return merchandise without the prior consent of Allied. In those cases where returns are accepted, product must be current and restocking fees must be paid by the respective customer. A provision has been made for estimated sales returns and allowances. These estimates are based on historical analysis of credit memo data and returns.

Allied does not provide installation services for its products. Most products shipped are ready for immediate use by the customer. The Company's in-wall medical system components, central station pumps and compressors, and headwalls do require installation by the customer. These products are typically purchased by a third-party contractor who is ultimately responsible for installation services. Accordingly, the customer purchase order or contract does not require customer acceptance of the installation prior to completion of the sale transaction and revenue recognition. Allied's standard payment terms are net 30 days from the date of shipment, and payment is specifically not subject to customer inspection or acceptance, as stated in Allied's Terms and Conditions of Sale. The buyer becomes obligated to pay Allied at the time of shipment. Allied requires credit applications from its customers and performs credit reviews to determine the creditworthiness of new customers. Allied requires letters of credit, where warranted, for international transactions. Allied also protects its legal rights under mechanics lien laws when selling to contractors.

The Company offers limited warranties on its products. The standard warranty period is one year. The Company's cost of providing warranty service for its products for the years ended June 30, 2016, June 30, 2015, and June 30, 2014 was \$89,895, \$176,169, and \$113,209, respectively. The related liability for warranty service amounted to \$100,000 and \$130,000 at June 30, 2016 and 2015, respectively.

Marketing and Advertising Costs

Promotional and advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the Statement of Operations. Advertising expenses for the years ended June 30, 2016, 2015 and 2014 were \$15,699, \$32,675, and \$17,904, respectively.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents.

The Company maintains funds in bank accounts that, at times, may exceed the limit insured by the Federal Deposit Insurance Corporation. The risk of loss attributable to these uninsured balances is mitigated by depositing funds only in high credit quality financial institutions. The Company has not experienced any losses in such accounts.

Foreign currency transactions

Allied has international sales which are denominated in U.S. dollars, the functional currency for these transactions.

Accounts receivable and concentrations of credit risk

Accounts receivable are recorded at the invoiced amount. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses based on past experience and an analysis of current amounts due, and historically such losses have been within

management's expectations. The Company maintains an allowance for doubtful accounts to reflect the uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. The Company's customers can be grouped into three main categories: medical equipment distributors, construction contractors and health care institutions. At June 30, 2016, the Company believes that it has no significant concentration of credit risk.

Inventories

Inventories are stated at the lower of cost, determined using the last-in, first-out ("LIFO") method, or market. If the first-in, first-out method (which approximates replacement cost) had been used in determining cost, inventories would have been \$2,286,022 and \$2,383,104 higher at June 30, 2016 and 2015, respectively. Changes in the LIFO reserve are included in cost of sales. Cost of sales was reduced by \$86,698, \$0, and \$0 in fiscal 2016, 2015, and 2014 respectively, as a result of LIFO liquidations. Costs in inventory include raw materials, direct labor and manufacturing overhead.

Inventory is recorded net of a reserve for obsolete and excess inventory which is determined based on an analysis of inventory items with no usage in the preceding year and for inventory items for which there is greater than two years' usage on hand. The reserve for obsolete and excess inventory was \$1,498,915 and \$1,472,956 at June 30, 2016 and 2015, respectively.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 35 years. Expenditures for repairs, maintenance and renewals are charged to income as incurred. Expenditures, which improve an asset or extend its estimated useful life, are capitalized. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Impairment of long-lived assets

The Company evaluates impairment of long-lived assets under the provisions of ASC Topic 360: “Property, Plant and Equipment.” ASC 360 provides a single accounting model for long-lived assets to be disposed of and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under ASC 360, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss will be recognized. No impairment losses of long-lived assets or identifiable intangibles were recorded by the Company for fiscal years ended June 30, 2016, 2015, and 2014.

Collective Bargaining Agreement

At June 30, 2016, the Company had approximately 236 full-time employees. Approximately 139 employees in the Company’s principal manufacturing facility located in St. Louis, Missouri, are covered by a collective bargaining agreement that will expire on May 31, 2018.

Self-insurance

The Company maintains a self-insurance program for a portion of its health care costs. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and the estimated liability for claims incurred but not reported. As of June 30, 2016 and 2015, the Company had \$175,000 and \$195,000 respectively, of accrued liabilities related to health care claims. In order to establish the self-insurance reserves, the Company utilized actuarial estimates of expected claims based on analyses of historical data.

Fair value of financial instruments

The Company’s financial instruments include 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.

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 assessing the need for a valuation allowance the Company first considers the reversals of existing temporary deferred tax liabilities and available tax planning strategies. To the extent these items are not sufficient to cause the realization of deferred tax assets, the Company considers the availability of future taxable income to the extent such income is considered likely to occur based on the Company's earnings history, current income trends and projections.

In light of its history of operating losses the Company does not rely on the existence of future taxable income as it currently cannot conclude future taxable income is likely to occur. The Company does rely on reversals of existing temporary deferred tax liabilities and tax planning strategies to the extent available to support the value of its existing deferred tax assets. As of June 30, 2014, the Company's deferred tax assets exceeded the amount supportable through reversals of existing deferred tax liabilities and tax planning strategies causing a valuation allowance to be recorded against the excess deferred tax assets. Additions to the valuation allowance were recorded in 2015 and 2016 for the unrealizable value of deferred tax assets.

The Company recognizes tax liabilities when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. To the extent the Company deems it necessary to record a liability for its tax positions, the current portion of the liability is included in income taxes payable and the noncurrent portion is included in other liabilities on the balance sheet. If upon the final tax outcome of these matters the ultimate liability is different than the amounts recorded, such differences are reflected in income tax expense in the period in which such determination is made. The Company files a federal and multiple state income tax returns. With few exceptions the Company's federal and state income tax returns are open for fiscal years ending after June 30, 2013.

The Company classifies interest expenses on taxes payable as interest expense. Penalties are classified as a component of other expenses.

Research and development costs

Research and development costs are expensed as incurred and are included in selling, general and administrative expenses. Research and development expenses for the years ended June 30, 2016, 2015 and 2014 were \$463,902, \$528,285, and \$657,356, respectively.

Earnings per share

Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the year. 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 year. The weighted average number of basic and diluted shares outstanding for the years ended June 30, 2016, 2015 and 2014 was 8,027,147 shares. The dilutive effect of the Company's employee and director stock option plans are determined by use of the treasury stock method. There are no potential common shares excluded from the calculation of net loss per share, as their effect would be anti-dilutive for the years ended June 30, 2016, 2015 and 2014 respectively.

The following information is necessary to calculate earnings per share for the periods presented:

| Year ended June 30, | 2016 | 2015 | 2014 |
|---------------------|------|------|------|
|---------------------|------|------|------|

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| | | | | |
|--|--|----------------|----------------|----------------|
| Net loss, as reported | | | | |
| | | \$ (2,304,831) | \$ (1,777,310) | \$ (2,805,913) |
| Weighted average common shares outstanding | | 8,027,147 | 8,027,147 | 8,027,147 |
| Effect of dilutive stock options | | - | - | - |
| Weighted average diluted common shares outstanding | | 8,027,147 | 8,027,147 | 8,027,147 |
| Net loss per common share | | | | |
| Basic | | \$ (0.29 |) \$ (0.22 |) \$ (0.35 |
| Diluted | | \$ (0.29 |) \$ (0.22 |) \$ (0.35 |
| Employee stock options excluded from computation of diluted income per share amounts because their effect would be anti-dilutive | | - | - | - |

Employee stock-based compensation

The company follows the provisions of ASC Topic 718: “Compensation – Stock Compensation”, which sets accounting requirements for “share-based” compensation to employees, including employee stock purchase plans, and requires companies to recognize in the statement of operations the grant-date fair value of the stock options and other equity-based compensation.

The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following table summarizes the weighted average assumptions utilized in the Black-Scholes option pricing model for options granted during the fiscal years ended June 30, 2016, 2015 and 2014.

| | 2016 | 2015 | 2014 |
|---|--------|--------|--------|
| Weighted-average fair value | \$0.39 | \$0.70 | \$1.04 |
| Weighted-average volatility | 30 % | 44 % | 45 % |
| Weighted-average expected life (in years) | 6.0 | 6.0 | 6.0 |
| Weighted-average risk-free interest rate | 1.91 % | 1.85 % | 1.68 % |
| Dividend yield | 0 % | 0 % | 0 % |

Expected volatility is based on the historical volatility of the Company’s common stock to estimate future volatility. The risk-free rates are taken from rates as published by the Federal Reserve and represent the yields on actively traded treasury securities for terms equal or approximately equal to the expected terms of the options. The expected term is calculated using the SEC Staff Accounting Bulletin 107 (ASC 718-10-S99) simplified method. The dividend yield is zero based on the fact that the Company has no intention of paying dividends in the near term.

Share-based compensation expense included in the Statement of Operations for the fiscal years ended June 30, 2016, 2015 and 2014 was approximately \$3,000, \$5,000 and \$10,000, respectively. Unrecognized share-based compensation cost related to unvested stock options as of June 30, 2016 amounts to approximately \$1,000. The cost is expected to be recognized over the next fiscal year.

The Company recognized an income tax benefit for share-based compensation arrangements of approximately \$4,000 for the year ended June 30, 2014. The income tax benefit for the years ended June 30, 2016 and 2015 of approximately \$1,000 and \$2,000, respectively, were fully offset by an increase in the deferred tax asset valuation allowance.

No stock options were exercised during fiscal years 2016, 2015 and 2014.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU” or “Update”) 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. On July 9, 2015 the FASB voted to defer the effective date of this standard by one year to December 15, 2017 for the interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU. We are currently evaluating which transition approach to use and the full impact this ASU will have on our future financial statements.

In August 2014, the FASB issued ASU No. 2014-15, to communicate amendments to FASB Account Standards Codification Subtopic 205-40, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The ASU requires management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity’s ability to continue as a going concern exists. Management will be required to make this evaluation for both annual and interim reporting periods. Management will have to make certain disclosures if it concludes that substantial doubt exists or when it plans to alleviate substantial doubt about the entity’s ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016 and for interim reporting periods starting in 2017. Early adoption is permitted. We currently believe there will be no impact on our financial statement disclosures.

In April 2015, the FASB issued ASU No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. This ASU requires companies to present debt issuance costs as a direct deduction from the carrying value of that debt liability. ASU 2015-03 does not impact the recognition and measurement guidance for debt issuance costs. This ASU is effective for annual reporting periods beginning after December 15, 2015 and early adoption is permitted. Accordingly, we will adopt this ASU on July 1, 2016. Companies are required to use a retrospective approach and we currently believe there will be no impact on our financial statement disclosures.

In July 2015, the FASB issued ASU No. 2015-11 to simplify the subsequent measurement of inventory. Under this new standard, an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments in this guidance should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact to our future financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (“ASU 2015-17”), *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The amendments in ASU 2015-17 seek to simplify the presentation of deferred income taxes and require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early application permitted for all entities as of the beginning of an interim or annual reporting period. The Company is in the process of evaluating the impact of this update on its financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to recognize assets and liabilities for leases with lease terms of more than 12 months and disclose key information about leasing arrangements. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The update is effective for reporting periods beginning after December 15, 2018. Early adoption is

permitted. The Company is in the process of evaluating the impact of this update on its financial statements.

In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”). ASU 2016-08 further clarifies principal and agent relationships within ASU 2014-09. Similar to ASU 2014-09, the effective date will be the first quarter of fiscal year 2018 with early adoption permitted in the first quarter of fiscal year 2017. The Company is evaluating the impact that adoption of this new standard will have on its financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 is intended to simplify several aspects of accounting for share-based payment awards. The effective date will be the first quarter of fiscal year 2018, with early adoption permitted. The Company is evaluating the impact that adoption of this new standard will have on its financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing" ("ASU 2016-10"). The amendments in ASU 2016-10 are expected to reduce the cost and complexity of applying the guidance on identifying promised goods or services in contracts with customers and to improve the operability and understandability of licensing implementation guidance related to the entity's intellectual property. Similar to ASU 2014-09, the effective date will be the first quarter of fiscal year 2018 with early adoption permitted in the first quarter of fiscal year 2017. The Company is evaluating the impact that adoption of this new standard will have on its financial statements.

3. Financing

As of June 30, 2016, 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"). 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 Agreement was amended on November 9, 2015 extending the maturity date to November 9, 2016. Subject to the conditions and limitations set forth in the Credit Agreement, the Credit Facility will be available on a revolving basis until it expires on November 9, 2016, 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.

While the Credit Agreement provides for stated availability of \$5.0 million, in connection with renewal on November 9, 2015, a new covenant was added requiring the Company to maintain minimum "liquidity" of \$1.25 million. Liquidity is defined as the difference between cash and cash equivalents and the aggregate principal balance of borrowings under the Credit Agreement and is measured at the last day of each fiscal quarter, commencing on December 31, 2015. Based on the Company's cash and cash equivalents as of June 30, 2016, the Company would only be permitted to borrow up to \$.45 million as of such date. Decreases in the Company's cash position will effectively reduce the amount the Company is able to borrow and/or require accelerated repayments.

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. In addition, effective November 9, 2015, the Credit Agreement includes the minimum liquidity

requirement described above. 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 Bank has indicated that it does not intend to renew the credit facility when it expires on November 9, 2016. The Company will consider alternative sources of credit financing to replace the credit facility if necessary.

The 30-day LIBOR rate was 0.45% on June 30, 2016.

At June 30, 2016, 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 June 30, 2016.

4. Lease Commitments

The Company leases certain of its equipment under non-cancelable operating lease agreements. Minimum lease payments under operating leases at June 30, 2016 are as follows:

| Fiscal Year | Operating Leases |
|------------------------------|------------------|
| 2017 | 67,373 |
| 2018 | 45,676 |
| 2019 | 2,487 |
| Total minimum lease payments | \$ 115,536 |

Rental expense incurred on operating leases in fiscal 2016, 2015, and 2014 totaled \$143,683, \$184,151 and \$236,826, respectively.

5. Income Taxes

The provision for (benefit from) income taxes consists of the following:

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| | 2016 | 2015 | 2014 |
|---------------------|-----------|-----------|--------------|
| Current: | | | |
| Federal | \$- | \$- | \$- |
| State | 11,286 | 16,596 | 12,933 |
| Total current | 11,286 | 16,596 | 12,933 |
| Deferred: | | | |
| Federal | (100,174) | (552,167) | (1,050,750) |
| State | (3,495) | (66,542) | (102,199) |
| Valuation Allowance | 393,814 | 618,709 | 800,203 |
| Total deferred | 290,145 | - | (352,746) |
| | \$301,431 | \$16,596 | \$(339,813) |

A reconciliation of income taxes, with the amounts computed at the statutory federal rate is as follows:

| | 2016 | 2015 | 2014 |
|--|-------------|-------------|---------------|
| Computed tax at federal statutory rate | (\$681,156) | (\$598,643) | (\$1,069,547) |
| State income taxes, net of federal tax (benefit) provision | (38,971) | (29,799) | (62,712) |
| Non deductible expenses | 13,915 | 14,683 | 18,141 |
| Federal research credit | (15,144) | (6,738) | (15,328) |
| Book tax depreciation adjustment | 517,736 | - | - |
| Stock Options - Expired | 122,508 | - | - |
| Other, net | (11,271) | 18,384 | (10,570) |
| Valuation Allowance | 393,814 | 618,709 | 800,203 |
| Total | \$ 301,431 | \$ 16,596 | (\$339,813) |

The deferred tax assets and deferred tax liabilities recorded on the balance sheet as of June 30, 2016 and 2015 are as follows:

| | 2016 | | 2015 | |
|---|---------------------|--------------------------|---------------------|--------------------------|
| | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities |
| Current: | | | | |
| Bad debts | \$40,000 | \$— | \$40,000 | \$— |
| Prepaid expenses | — | 16,173 | — | 20,093 |
| Accrued liabilities | 391,645 | — | 352,469 | — |
| Inventory | — | 1,134,160 | — | 1,140,283 |
| | 431,645 | 1,150,333 | 392,469 | 1,160,376 |
| Non Current: | | | | |
| Depreciation | — | 841,040 | — | 470,768 |
| Net operating loss and credit carryforwards | 4,062,817 | — | 3,522,219 | — |
| Intangible assets | 3,635 | — | 2,471 | — |
| Accrued pension liability | 26,098 | — | 27,656 | — |
| Stock options | 68,688 | — | 321,845 | — |
| Other | — | 75,819 | — | 94,639 |
| | 4,161,238 | 916,859 | 3,874,191 | 565,407 |
| Valuation Allowance | (1,812,726) | — | (1,418,912) | — |
| Total deferred taxes | \$2,780,157 | \$ 2,067,192 | \$2,847,748 | \$ 1,725,783 |

At June 30, 2016, there were \$10.1 million dollars of federal net operating loss carryforwards which will expire in 2031 through 2036. In addition, the Company has state tax net operating losses of approximately \$5.9 million on a post-apportioned basis that expire in varying years from 2029 through 2036.

The Company files a federal and multiple state income tax returns. With few exceptions the Company's federal and state income tax returns are open for fiscal years ending after June 30, 2013.

Management of the Company is not aware of any additional uncertain tax positions taken on its federal or state income tax filings for open tax years.

6. Employee Retirement Benefits

The Company offers a retirement savings plan under Section 401(k) of the Internal Revenue Code to certain eligible salaried employees. Each employee may elect to enter a written salary deferral agreement under which a portion of such employee's pre-tax earnings may be contributed to the plan.

During the fiscal years ended June 30, 2016, 2015 and 2014, the Company made contributions of \$228,854, \$221,508, and \$277,374, respectively, to the retirement savings plan. The Company contributes 2% of eligible salaried employee's annual income to the plan. In addition, the Company provides a 25% match on the first 8% of employee deferrals for eligible employees.

The risk of participating in multi-employer pension plan is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

The Company's participation in a multi-employer pension plan for the year ended June 30, 2016, is outlined in the table below. The "EIN/PN" column provides the Employee Identification Number (EIN) and the three-digit plan number (PN). The most recent Pension Protection Act (PPA) zone status for 2015 and 2014 is for the plan year-ends as indicated below. The zone status is based on information that the Company obtained from the annual funding notice for District No. 9 International Association of Machinists and Aerospace Workers Pension Trust. Among other factors, plans in the red zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. In addition to regular plan contributions, the Company may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last column lists the expiration date(s) of the collective-bargaining agreement (CBA) to which the plan is subject.

| Pension Trust Fund | EIN/PN | PPA Zone Status | | FIP/RP Status Pending/Implemented | Contributions by the Company | | | Surcharge Imposed | Expiration Date |
|--|----------------|---------------------|---------------------|-----------------------------------|------------------------------|-----------|-----------|-------------------|-----------------|
| | | 2015 | 2014 | | 2016 | 2015 | 2014 | | |
| District No. 9 International Association of Machinist and Aerospace Workers Pension Plan | 51-0138317/001 | Green 12/31/2014 | Green 12/31/2013 | N/A | \$279,968 | \$287,385 | \$293,377 | No | 5/31/2016 |

The Company was not listed in the Form 5500 for the above plan as of the plan year ends as providing more than 5 percent of total contributions.

7. Stock Based Compensation

The Company has established a 1999 Incentive Stock Plan and a 2009 Incentive Stock Plan (collectively the “Employee Plans”). The Employee Plans provide for the granting of options to the Company's executive officers and key employees to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 1,600,000 shares of common stock may be granted under the Employee Plans. Options generally become exercisable ratably over a four year period or one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the first or second anniversary of the date granted. The right to exercise the options generally expires in ten years from the date of grant, or earlier if an option holder ceases to be employed by the Company.

In addition, the Company has established a 2005 Directors Non-Qualified Stock Option Plan and a 2013 Incentive Plan for Non-Employee Directors (collectively the “Directors Plans”). The Directors Plans provide for the granting of options to the Company's directors who are not employees of the Company to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 150,000 shares of common stock may be granted under the Directors Plans. Options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of the date granted, except for certain options which become exercisable with respect to all of the shares covered thereby one year after the grant date. The right to exercise the options expires in ten years from the date of grant, or earlier if an option holder ceases to be a director of the Company.

Upon stock-settled compensation exercises and awards, the Company issues new shares of common stock.

A summary of stock option transactions in fiscal 2014, 2015 and 2016, respectively, pursuant to the Employee Plans and the Directors Plans is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|------------------------------|-----------|---------------------------------------|---|---------------------------------|
| June 30, 2013 | 472,500 | \$ 4.34 | | |
| Options Granted | 6,000 | \$ 2.31 | | |
| Options Exercised | 0 | \$ 0.00 | | |
| Options Forfeited or Expired | (12,500) | \$ 4.74 | | |
| June 30, 2014 | 466,000 | \$ 4.30 | 2.3 | \$ 660 |
| Options Granted | 6,000 | \$ 1.58 | | |
| Options Exercised | 0 | \$ 0.00 | | |
| Options Forfeited or Expired | (49,000) | \$ 4.80 | | |
| June 30, 2015 | 423,000 | \$ 4.20 | 1.3 | \$ - |
| Options Granted | 6,000 | \$ 1.17 | | |
| Options Exercised | 0 | \$ 0.00 | | |
| Options Forfeited or Expired | (329,000) | \$ 4.28 | | |
| June 30, 2016 | 100,000 | \$ 3.78 | 4.5 | \$ - |
| Exercisable at June 30, 2016 | 94,000 | \$ 3.95 | 4.2 | \$ - |

The following table provides additional information for options outstanding and exercisable at June 30, 2016:

Options Outstanding

| Range of Exercise Prices | Number | Weighted Average | Weighted Average |
|--------------------------|---------|------------------|------------------|
| | | Remaining Life | Exercise Price |
| 1.17 - 3.49 | 24,000 | 7.9 years | \$ 1.91 |
| 3.50 - 3.50 | 30,000 | 5.2 years | \$ 3.50 |
| 3.51 - 6.73 | 46,000 | 2.3 years | \$ 4.93 |
| \$ 1.17 - 6.73 | 100,000 | 4.5 years | \$ 3.78 |

Options Exercisable

| Range of Exercise Prices | Number | Weighted Average |
|--------------------------|--------|------------------|
| | | Exercise Price |
| 1.17 - 3.49 | 18,000 | \$ 2.16 |
| 3.50 - 3.50 | 30,000 | \$ 3.50 |
| 3.51 - 6.73 | 46,000 | \$ 4.93 |
| \$ 1.17 - 6.73 | 94,000 | \$ 3.95 |

See Note 2 for discussion of accounting for stock awards and related fair value disclosures.

8. Supplemental Balance Sheet Information

| | June 30, | | |
|--|--------------------|--------------------|--------------------|
| | 2016 | 2015 | |
| Inventories | | | |
| Work in progress | \$431,802 | \$545,410 | |
| Component parts | 7,374,776 | 7,721,413 | |
| Finished goods | 2,567,607 | 2,397,044 | |
| Reserve for obsolete and excess inventory | (1,498,915) | (1,472,956) | |
| | \$8,875,270 | \$9,190,911 | |
| | | | |
| | | | |
| | | | |
| | | | |
| Property, plant and equipment | | | |
| Machinery and equipment | 3-10 | \$14,399,008 | \$14,693,789 |
| Buildings | 28-35 | 13,055,628 | 13,052,328 |
| Land and land improvements | 5-7 | 662,402 | 934,216 |
| | | | |
| Total property, plant and equipment at cost | | 28,117,038 | 28,680,333 |
| Less accumulated depreciation and amortization | | (21,369,468) | (20,859,127) |
| | | \$6,747,570 | \$7,821,206 |

Depreciation expense was approximately \$1.2 million, \$1.3 million, and \$1.2 million for the fiscal years ended June 30, 2016, 2015 and 2014, respectively.

| | | |
|------------------------------|--------------------|--------------------|
| Other accrued liabilities | | |
| Accrued compensation expense | \$1,099,935 | \$1,201,099 |
| Customer deposits | 859,307 | 589,276 |
| Other | 381,961 | 369,191 |
| | \$2,341,203 | \$2,159,566 |

9. 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.

Stuyvesant Falls Power Litigation. The Company is currently involved in litigation with Niagara Mohawk Power Corporation d/b/a National Grid (“Niagara”), which provides electrical power to the Company’s facility in Stuyvesant Falls, New York, and one other party. 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. After the commencement of the litigation, Niagara began sending invoices to the Company for electricity used at the Company’s Stuyvesant Falls plant. 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. The total value of electricity at issue in the litigation is not known with certainty and Niagara has alleged different amounts of damages. Niagara alleged in its Second Amended Verified Complaint, dated February 6, 2012, damages of approximately \$469,000 in free electricity from May 2003 through May 2010. Niagara also alleged in its Motion For Summary Judgment, filed on March 14, 2014, damages of approximately \$492,000 in free electricity from May 2010 through the date of the filing. In April 2015, Allied received an invoice for electrical power at the Stuyvesant Falls plant with an “Amount Due” balance of \$696,000 as of March 31, 2015 without any description as to the period of time covered by the invoice.

The Company filed a 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 the other party filed separate notices of appeal of the Court's decision. On March 31, 2016 the Supreme Court of New York, Appellate Division, Third Department reversed the trial court decision and held that the free power covenants are no longer enforceable. The Company intends to appeal this ruling and exercise all available options to enforce the free power covenants which have been in place for over 100 years.

The appellate decision terminated the enforceability of the free power covenants as of March 31, 2016. The appellate decision did not order the Company to pay any amounts for power consumed prior to such date and the Company believes that it is not liable for any such damages as a result of the appellate decision. As of June 30, 2016, the Company has not recorded a provision for this matter. The Company commenced paying for power at the Stuyvesant Falls facility in April 2016.

Employment Contract

In March 2007, the Company entered into a three year employment contract with its chief executive officer. The contract is subject to automatic annual renewals after the initial term unless notification is given. The contract was amended and restated in December 2009 without extending its term. 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.

10. Segment Information

The Company operates in one segment consisting of the manufacturing, marketing and distribution of a variety of respiratory products used in the health care industry to hospitals, hospital equipment dealers, hospital construction contractors, home health care dealers and emergency medical product dealers. The Company's product lines include respiratory care products, medical gas equipment and emergency medical products. The Company does not have any one single customer that represents more than 10 percent of total sales. Sales by region, and by product, are as follows:

Sales by Region

| | 2016 | 2015 | 2014 |
|------------------------|--------------|--------------|--------------|
| Domestic United States | \$27,437,238 | \$27,304,353 | \$27,214,060 |
| Europe | 773,129 | 639,641 | 858,735 |
| Canada | 916,528 | 769,749 | 758,392 |
| Latin America | 3,168,891 | 3,343,361 | 4,291,530 |
| Middle East | 843,092 | 911,241 | 1,214,389 |
| Far East | 2,803,451 | 2,466,614 | 2,011,714 |
| Other International | 10,158 | 26,810 | 21,796 |
| | \$35,952,487 | \$35,461,769 | \$36,370,616 |

Sales by Product

| | 2016 | 2015 | 2014 |
|----------------------------|--------------|--------------|--------------|
| Respiratory care products | \$9,077,370 | \$9,221,764 | \$9,688,486 |
| Medical gas equipment | 19,712,286 | 18,772,376 | 19,425,522 |
| Emergency medical products | 7,162,831 | 7,467,629 | 7,256,608 |
| | \$35,952,487 | \$35,461,769 | \$36,370,616 |

11. Quarterly Financial Data (unaudited)

Summarized quarterly financial data for fiscal 2016 and 2015 appears below (all amounts in thousands except per share amounts):

| | June 30, 2016 | March 31, 2016 | Dec. 31, 2015 | Sept. 30, 2015 | June 30, 2015 | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
|----------------------------------|------------------|----------------------|------------------|-------------------|------------------|----------------------|------------------|-------------------|
| Three months ended, Net sales | \$ 9,803 | \$ 8,840 | \$ 8,846 | \$ 8,463 | \$ 9,114 | \$ 8,503 | \$ 9,000 | \$ 8,845 |
| Gross profit | 2,257 | 1,626 | 1,779 | 1,698 | 1,638 | 1,699 | 2,158 | 1,575 |
| Income (Loss) from operations | 166 | (762) | (688) | (635) | (472) | (489) | (35) | (698) |
| Net loss | (282) | (784) | (709) | (530) | (521) | (503) | (45) | (708) |

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| | | | | | | | | |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Basic loss per share | (0.03) | (0.10) | (0.09) | (0.07) | (0.06) | (0.06) | (0.01) | (0.09) |
| Diluted loss per share | (0.03) | (0.10) | (0.09) | (0.07) | (0.06) | (0.06) | (0.01) | (0.09) |

Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts will not necessarily equal the total for the year.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In connection with our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, as required under Rule 13a-15(b) of the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the date of such evaluation to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

(b) Internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, which is defined as a process designed by, or under supervision of, our principal executive and principle financial officer and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. However these inherent limitations are known features of the financial reporting process. It is possible to design into the process safeguards to reduce, though not eliminate, the risk that misstatements are not prevented or detected on a timely basis.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on this assessment, our management concluded that, as of June 30, 2016, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes to the Company's internal controls over financial reporting during the fourth quarter that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

A list of our executive officers and biographical information appears at the end of Item 1, in Part I of this report. A definitive proxy statement is expected to be filed with the Securities and Exchange Commission within 120 days after June 30, 2016. The information required by this item is set forth under the caption "Election of Directors", under the caption "Executive Officers", and under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the definitive proxy statement, which information is incorporated herein by reference thereto.

Item 11. Executive Compensation

The information required by this item is set forth under the caption "Executive Compensation" in the definitive proxy statement, which information is incorporated herein by reference thereto.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the definitive proxy statement, which information is incorporated herein by reference thereto.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

None

Item 14. *Principal Accounting Fees and Services*

The information required by this item will appear in the section entitled "Audit Fees" included in the definitive proxy statement relating to the 2016 Annual Meeting of stockholders and such information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

The following financial statements of the Company are included in response to Item 8:

Statement of Operations for the years ended June 30, 2016, 2015, and 2014

Balance Sheet at June 30, 2016 and 2015

Statement of Changes in Stockholders' Equity for the years ended June 30, 2016, 2015 and 2014

Statement of Cash Flows for the years ended June 30, 2016, 2015 and 2014

Notes to Financial Statements

Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedule

Financial statement schedules which are not required under applicable regulations or related instructions and notes thereto or which are inapplicable have been omitted.

3. Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as part of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By:

/s/ Earl R. Refsland

Earl R. Refsland

President and Chief Executive Officer

/S/ Daniel C. Dunn

Daniel C. Dunn

Vice President, Chief Financial Officer, and Secretary

Dated: September 23, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on September 23rd, 2016.

| Signatures | Title |
|-----------------------|--|
| * John D. Weil | Chairman of the Board |
| * Earl R. Refsland | President, Chief Executive Officer and Director (Principal Executive Officer) |
| * William A. Peck | Director |
| * Joseph Root | Director |

*

Judy Graves. Director

* By: /s/ Earl R. Refsland
Earl R. Refsland

Attorney-in-Fact

* Such signature has been affixed pursuant to Power of Attorney.

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INDEX TO EXHIBITS

Exhibit

No. Description

- Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3(1) to the Company's
3.1 Registration Statement on Form S-1, as amended, Registration No. 33-40128, filed with the Commission on May
8, 1991 (the "Registration Statement") and incorporated herein by reference)
- 3.2 By-Laws of the Registrant (filed as Exhibit 3(2) to the Registration Statement and incorporated herein by
reference)
- 10.1 NCG Trademark License Agreement, dated April 16, 1982, between Liquid Air Corporation and Allied
Healthcare Products, Inc. (filed as Exhibit 10(24) to the Registration Statement and incorporated herein by
reference)
- 10.2 Employee Stock Purchase Plan (filed as Exhibit 10(3) to the Company's Annual Report on Form 10-K for the year
ended June 30, 1998 and incorporated by reference)
- 10.3 Form of Indemnification Agreement with officers and directors (filed with the Commission as Exhibit 10.22 to
the 2002 Form 10-K and incorporated herein by reference).
- 10.4 Amended and restated Employment Agreement dated December 21, 2009 by and between Allied Healthcare
Products, Inc. and Earl Refsland (incorporated by reference to 10-Q filed May 7, 2010)
- 10.4.1 Change of Control Agreement Employment Agreement dated March 16, 2007 by and between Allied
Healthcare Products, Inc. and certain executive officers (incorporated by reference to 8-K filed March 16, 2007
with event date of March 16, 2007)
- 10.4.2 Change of Control Agreement Employment Agreement dated July 1, 2014 by and between Allied Healthcare
Products, Inc. and Andrew Riley (filed herewith).
- 10.5 Allied Healthcare Products, Inc. 1999 Incentive Stock Plan (filed with the Commission as Exhibit 10(26) to the
1999 Form 10-K and incorporated herein by reference)

10.6 Allied Healthcare Products, Inc. 2009 Incentive Stock Plan (filed with Commission as Appendix A to the 2009 Proxy Statement on Schedule 14A)

10.7 Loan and Security Agreement dated November 17, 2009 by and between the Company and Enterprise Bank & Trust, including Revolving Credit Note (incorporated by reference to 8-K filed November 18, 2009 with event date of November 13, 2009)

10.8 Patent License Agreement, dated June 8, 2012, by and between Allied Healthcare Products, Inc. and Armstrong Medical Limited (filed with the Commission as Exhibit 10.12 to the 2012 Form 10-K and incorporated herein by reference).

23.1 Consent of RubinBrown LLP (filed herewith)

24 Form of Power of Attorney – (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 (provided herewith)*

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

101 Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016, is formatted in XBRL interactive data files: (i) Statement of Operations for the fiscal years ended June 30, 2016, 2015 and 2014; (ii) Balance Sheet at June 30, 2016 and June 30, 2015; (iii) Statement of Changes in Stockholders' Equity for the fiscal years ended June 30, 2016, 2015 and 2014; (iiii) Statement of Cash Flows for the fiscal years ended June 30, 2016, 2015 and 2014; and (v) Notes to Financial Statements.

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.

