ALLIED HEALTHCARE PRODUCTS INC
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

For the transition period from________ to ________

Commission File Number: 0-19266

ALLIED HEALTHCARE PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

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

1720 Sublette Avenue, St. Louis, Missouri 63110

(Address of principal executive offices, including zip code)

(314) 771-2400

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company x

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares of common stock outstanding at November 1, 2018 is 4,013,537 shares.

INDEX

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

Statements contained in this Report, which are not historical facts or information, are "forward-looking statements." Words such as "believe," "expect," "intend," "will," "should," and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome and future results of operations, and financial condition to be materially different than stated or anticipated based on the forward-looking statements. Such risks and uncertainties include both general economic risks and uncertainties, risks and uncertainties affecting the demand for and economic factors affecting the delivery of health care services, both in the United States and in our overseas markets, impacts of the U.S. Affordable Care Act, our history of net losses and negative cash flows and other specific matters which relate directly to the Company's operations and properties as discussed in the Company's annual report on Form 10-K for the year ended June 30, 2018. 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.

2

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF OPERATIONS

(UNAUDITED)

	Three months ended September 30, 2018	2017
Net sales	$7,268,897	$7,896,853
Cost of sales	6,390,071	6,539,784
Gross profit	878,826	1,357,069
Selling, general and administrative expenses	2,105,143	2,124,468
Loss from operations	(1,226,317)	(767,399)
Other (income) expenses:		
Interest expense	8,288	-
Interest income	(30)	(215)
Other, net	-	52
	8,258	(163)
Loss before benefit from income taxes	(1,234,575)	(767,236)
Benefit from income taxes	-	-
Net loss	$(1,234,575)	$(767,236)
Basic and diluted loss per share	$(0.31)	$(0.19)
Weighted average shares outstanding - basic and diluted	4,013,537	4,013,537

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

ASSETS

	(Unaudited) September 30, 2018	June 30, 2018
Current assets:		
Cash and cash equivalents	$ 800	$ 136,112
Accounts receivable, net of allowances of $163,916 and $170,000, respectively	3,203,422	3,747,993
Inventories, net	8,551,678	7,830,541
Income tax receivable	20,098	12,178
Other current assets	210,347	250,605
Total current assets	11,986,345	11,977,429
Property, plant and equipment, net	4,604,046	4,823,149
Deferred income taxes	520,663	520,663
Total assets	$ 17,111,054	$ 17,321,241

See accompanying Notes to Financial Statements.

(CONTINUED)

4

ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) September 30, 2018	June 30, 2018
Current liabilities:		
Revolving credit facility	$ 377,960	-
Accounts payable	2,030,059	$ 1,473,618
Other accrued liabilities	1,939,930	1,850,683
Total current liabilities	4,347,949	3,324,301
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding	-	-
Series A preferred stock; $0.01 par value; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock; $0.01 par value; 30,000,000 shares authorized; 5,213,902 shares issued at September 30, 2018 and June 30, 2018; 4,013,537 shares outstanding at September 30, 2018 and June 30, 2018	52,139	52,139
Additional paid-in capital	48,488,960	48,488,220
Accumulated deficit	(14,797,206)	(13,562,631)
Less treasury stock, at cost; 1,200,365 shares at September 30, 2018 and June 30, 2018	(20,980,788)	(20,980,788)
Total stockholders' equity	12,763,105	13,996,940
Total liabilities and stockholders' equity	$ 17,111,054	$ 17,321,241

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF CASH FLOWS

(UNAUDITED)

	Three months ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(1,234,575)	$(767,236)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	219,103	240,553
Stock based compensation	740	645
Provision for doubtful accounts and sales returns and allowances	986	1,090
Changes in operating assets and liabilities:		
Accounts receivable	543,585	(73,034)
Inventories	(721,137)	(621,959)
Income tax receivable	(7,920)	(900)
Other current assets	40,258	(16,331)
Accounts payable	556,441	128,404
Other accrued liabilities	89,247	357,314
Net cash used in operating activities	(513,272)	(751,454)
Cash flows from financing activities:		
Borrowings under revolving credit agreement	8,140,086	-
Payments under revolving credit agreement	(7,762,126)	-
Net cash used in financing activities	377,960	-
Net decrease in cash and cash equivalents	(135,312)	(751,454)
Cash and cash equivalents at beginning of period	136,112	995,704
Cash and cash equivalents at end of period	$800	$244,250

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited financial statements of Allied Healthcare Products, Inc. (the “Company”) have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the financial statements and notes to the financial statements thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2018.

Adoption of new revenue recognition standard

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard that amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. The FASB subsequently issued additional, clarifying standards to address issues arising from implementation of the new revenue recognition standard. The new revenue recognition standard and clarifying standards require an entity to recognize revenue when control of promised goods or services is transferred to the customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this new standard as of July 1, 2018, by applying the modified-retrospective method to those contracts that were not completed as of that date.

The results for reporting periods beginning after July 1, 2018, are presented in accordance with the new standard, although comparative information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. See Note 2, Summary of Significant Accounting Policies, to the financial statements in our Annual Report on Form 10-K for the year ended June 30, 2018.

The cumulative impact on accumulated deficit as a result of the adoption of this standard did not have a material impact on the Company’s historical net losses and, therefore, no adjustment was made to the opening balance of accumulated deficit. In addition, the impact on reported total revenues and operating income as compared to what reported amounts would have been under the prior standard was also immaterial. The Company expects the impact of adoption in future periods to also be immaterial. The accounting policies under the new standard were applied prospectively and are described below. See Note 2, Revenues.

Recently Issued Accounting Guidance

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.

Fair Value of Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and the revolving credit facility. The carrying amounts for cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short maturity of these instruments. The carrying amount of the revolving credit facility approximates fair value due to the debt having a variable interest rate.

2. Revenues

The Company’s revenues are derived primarily from the sales of respiratory products, medical gas equipment and emergency medical products. The products are generally sold directly to distributors, customers affiliated with buying groups, individual customers and construction contractors, throughout the world.

The Company recognizes revenue from product sales upon the transfer of control, which is generally upon shipment or delivery, depending on the delivery terms set forth in the customer contract. Payment terms between Allied and its customers vary by the type of customer, country of sale, and the products offered. The term between invoicing and the payment due date is not significant.

Management exercises judgment in estimating variable consideration. Provisions for early payment discounts, rebates and returns and other adjustments are provided for in the period the related sales are recorded. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales.

The Company provides rebates to wholesalers. Rebate amounts are based upon purchases using contractual amount for each product sold. Factors used in the rebate calculations include the identification of which products have been sold subject to a rebate and the customer or price terms that apply. Using known contractual allowances, the Company estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when it records the sale of the product. Settlement of the rebate generally occurs in the month following the sale.

The Company regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs. Historically, adjustments to prior years’ rebate accruals have not been material to net income.

Other allowances charged against gross sales include cash discounts and returns, which are not significant. Cash discounts are known within 15 to 30 days of sale, and therefore can be reliably estimated. Returns can be reliably estimated because the Company’s historical returns are low, and because sales return terms and other sales terms have remained relatively unchanged for several periods. Product warranties are also not significant.

The Company does not allocate transaction price as the Company has only one performance obligation and its contracts do not span multiple periods.

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	
	Three months ended September 30,	
	2018	2017
Domestic United States	$5,777,984	$5,962,687
Europe	113,156	126,961
Canada	158,160	163,283
Latin America	509,713	641,768
Middle East	92,595	117,908
Far East	615,867	883,149
Other International	1,422	1,097
	$7,268,897	$7,896,853

	Sales by Product	
	Three months ended September 30,	
	2018	2017
Respiratory care products	$2,076,304	$2,053,357
Medical gas equipment	3,672,592	4,220,397
Emergency medical products	1,520,001	1,623,099
	$7,268,897	$7,896,853

3. Inventories

Inventories are comprised as follows:

	September 30, 2018	June 30, 2018
Work-in progress	$ 516,965	$ 388,252
Component parts	7,434,538	6,775,870
Finished goods	2,219,592	2,285,836
Reserve for obsolete and excess inventories	(1,619,417)	(1,619,417)
	$ 8,551,678	$ 7,830,541

4. Earnings per share

Basic earnings per share are based on the weighted average number of shares of all common stock outstanding during the period. Diluted earnings per share are based on the sum of the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The number of basic and diluted shares outstanding for the three months ended September 30, 2018 and 2017 were 4,013,537.

5. 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's application for leave to appeal this ruling was dismissed as premature by the New York Court of Appeals on September 20, 2016. On May 26, 2017 the Company again moved for leave to appeal the March 31, 2016 decision. That motion was granted on October 7, 2017 by the New York State Court of Appeals. The Company filed its brief and record on January 26, 2018. Niagara and the other party to the lawsuit, Albany Engineering Corporation, filed their responses on July 16, 2018 and the Company filed its reply on August 14, 2018. The matter will next be scheduled for argument, most likely in 2019.

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. On December 21, 2016, Niagara filed a motion to the trial court asking that it hold additional proceedings to establish what damages, if any, are owed to Niagara as the result of the appellate decision. The Company filed its response on January 23, 2017. On April 25, 2017, the court denied Niagara's motion in its entirety finding that no damages could be awarded based on the Appellate Division's decision. Niagara has filed a Notice of Appeal from that decision, but to date, has not filed the appeal.

As of September 30, 2018, 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

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

6. Financing

The Company is party to a Loan and Security Agreement with Summit Financial Resources, L.P. (“Summit”), dated effective February 27, 2017, as amended April 16, 2018 (as amended, the “Credit Agreement”). Pursuant to the Credit Agreement, the Company obtained a secured revolving credit facility (the “Credit Facility”). The Company’s obligations under the Credit Facility are secured by all of the Company’s personal property, both tangible and intangible, pursuant to the terms and subject to the conditions set forth in the Credit Agreement. Availability of funds under the Credit Agreement is based on the Company’s accounts receivable and inventory but will not exceed $2,000,000. At September 30, 2018 availability under the agreement was $1,622,040.

The Credit Facility will be available, subject to its terms, on a revolving basis until it expires on February 27, 2020, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances will bear interest at a rate equal to 2.00% in excess of the prime rate as reported in the Wall Street Journal. Interest is computed based on the actual number of days elapsed over a year of 360 days. In addition to interest, the Credit facility requires that the Company pay the lender a monthly administration fee in an amount equal to forty-seven hundredths percent (0.47%) of the average outstanding daily principal amount of loan advances for the each calendar month, or portion thereof.

Regardless of the amount borrowed under the Credit Facility, the Company will pay a minimum amount of .25% (25 basis points) per month on the maximum availability $(5,000 per month). In the event the Company prepays or terminates the Credit Facility prior to February 27, 2020, the Company will be obligated to pay an amount equal to the minimum monthly payment multiplied by the number of months remaining between February 27, 2020 and the date of such prepayment or termination.

Under the Credit Agreement, advances are generally subject to customary borrowing conditions and to Summit's sole discretion to fund the advances. The Credit Agreement also contains covenants with which the Company must comply during the term of the Credit Facility. Among other things, such covenants require the Company to maintain insurance on the collateral, operate in the ordinary course and not engage in a change of control, dissolve or wind up the Company.

The Credit Agreement also contains certain events of default including, without limitation: the failure to make payments when due; the material breach of representations or warranties contained in the Credit Agreement or other loan documents; cross-default with other indebtedness of the Company; the entry of judgments or fines that may have a material adverse effect on the Company; failure to comply with the observance or performance of covenants contained in the Credit Agreement or other loan documents; insolvency of the Company, appointment of a receiver, commencement of bankruptcy or other insolvency proceedings; dissolution of the Company; the attachment of any state or federal tax lien; attachment or levy upon or seizure of the Company's property; or any change in the Company's condition that may have a material adverse 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 20.00% above the otherwise applicable interest rate (provided, that the interest rate may not exceed the highest rate permissible under law), and Summit would have the option to accelerate maturity and payment of the Company's obligations under the Credit Facility.

At September 30, 2018, the Company had $377,960 of indebtedness, including capital lease obligations, short-term debt and long term debt. The prime rate as reported in the Wall Street Journal was 5.25% on September 30, 2018.

The Company was in compliance with all of the covenants associated with the Credit Facility at September 30, 2018.

7. Income Taxes

The Company accounts for income taxes under ASC Topic 740: "Income Taxes." Under ASC 740, the deferred tax provision is determined using the liability method, whereby deferred tax assets and liabilities are recognized based upon temporary differences between the financial statement and income tax bases of assets and liabilities using presently enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. In the quarter ended September 30, 2018 the Company recorded the tax benefit of losses incurred during the current quarter in the amount of approximately $305,000. As the realization of the tax benefit of the net operating loss is not assured an additional valuation allowance of approximately $305,000 was recorded. In the quarter ended September 30, 2017 the Company recorded the tax benefit of losses incurred in the amount of approximately $292,000. As the realization of the tax benefit of the net operating loss is not assured an additional valuation allowance of approximately $292,000 was recorded. The total valuation allowance recorded by the Company as of September 30, 2018 and 2017 was approximately $2,505,000 and $2,845,000, respectively. The Tax Cuts and Jobs Act ("TCJA") was enacted in the U.S. on December 22, 2017. The TCJA reduces the U.S. federal corporate tax rate from 35% to 21%. As a result of this reduction in rate in the second quarter of the fiscal year ended 2018 the Company recorded a reduction in its recognized deferred tax assets along with a reduction in the valuation allowance. The impact of these adjustments resulted in a net reduction of recognized deferred tax assets and a resultant income tax expense in the amount of $136,386. To the extent that the Company's losses continue in future quarters, the tax benefit of those losses will be subject to a valuation allowance.

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

Results of Operations

Three months ended September 30, 2018 compared to three months ended September 30, 2017

Allied had net sales of $7.3 million for the three months ended September 30, 2018, down $0.6 million from net sales of $7.9 million in the prior year same quarter. Domestic sales were down 3.1% while international sales, which represented 20.5% of first quarter sales, were down 22.9% from the prior year same quarter.

Orders for the Company’s products for the three months ended September 30, 2018 of $7.5 million were $0.3 million or 3.8% lower than orders for the prior year same quarter of $7.8 million. Domestic orders are down 3.4% over the prior year same quarter, while international orders, which represented 25.6% of first quarter orders, were 7.8% lower than orders for the prior year same quarter. Domestically, the decrease in orders and sales is primarily due to a decrease in orders for construction products. The Company is continuing its efforts to improve its sales performance for this market. The decrease in international orders and sales appears to be due to the timing of large orders for the Company’s AHP300 product in the prior year. This order did not repeat in the first quarter of 2019. However, the product was well received in the prior year as the AHP 300 product line begins to be recognized for service in areas with limited medical resources. International and construction sales and orders are subject to fluctuation in demand. Internationally, these fluctuations are at times due to political and economic uncertainty.

Gross profit for the three months ended September 30, 2018 was $0.9 million, or 12.3% of net sales, compared to $1.4 million, or 17.7% of net sales, for the three months ended September 30, 2017. Gross profit for the quarter was unfavorably impacted by the decrease in sales volume. Manufacturing overhead spending did increase from the prior year by approximately $0.1 million. This increase in spending was primarily due to higher fringe benefit cost, including medical payments for employees. In addition, the lower level of sales results in less utilization of fixed overhead expenses, resulting in lower gross profit.

Selling, general and administrative expenses for the three months ended September 30, 2018 and 2017 were $2.1 million.

Loss from operations was $1,226,317 for the three months ended September 30, 2018 compared to loss from operations of $767,399 for the three months ended September 30, 2017.

Allied had a loss before benefit from income taxes in the first quarter of fiscal 2019 of $1,234,575 compared to a loss before benefit from income taxes in the first quarter of fiscal 2018 of $767,236. The Company’s tax provision net of valuation allowance reflects a tax benefit of $0 for the three months ended September 30, 2018 and 2017. In the quarter ended September 30, 2018 the tax benefit of losses in the amount of approximately $305,000 was fully offset by a valuation allowance of equivalent amount. In the quarter ended September 30, 2017 the Company recorded the tax benefit of losses incurred in the amount of approximately $292,000 net of additions to the valuation allowance of like amount. To the extent that the Company’s losses continue in future quarters, the tax benefit of those losses will be fully offset by a valuation allowance.

Net loss for the first quarter of fiscal 2019 was $1,234,575 or $0.31 per basic and diluted share compared to net loss of $767,236 or $0.19 per basic and diluted share for the first quarter of fiscal 2018. The weighted average number of common shares outstanding, used in the calculation of basic and diluted earnings per share for the first quarters of fiscal 2019 and 2018 were 4,013,537.

Liquidity and Capital Resources

The Company’s primary sources of liquidity are its cash and cash equivalents, other items in working capital and borrowing availability under the Credit Agreement, discussed below.

The Company’s working capital was $7.6 million at September 30, 2018 compared to $8.7 million at June 30, 2018. Cash and cash equivalents decreased by $0.1 million, Accounts Receivable decreased by $0.5 million, Accounts Payable increased by $0.6 million and debt increased by $0.4 million. During fiscal 2019, these decreases in working capital were offset by an increase in Inventory by $0.7 million. Accounts Receivable was $3.2 million at September 30, 2018 and as measured in days sales outstanding (“DSO”) was 43 DSO; up from 41 DSO at June 30, 2018. The Company does adjust product forecast, order quantities and safety stock based on changes in demand patterns in order to manage inventory levels.

As of September 30, 2018, the Company was party to a Loan and Security Agreement with Summit Financial Resources, L.P. (“Summit”), dated effective February 27, 2017, as amended April 16, 2018 (as amended, the “Credit Agreement”). Pursuant to the Credit Agreement, the Company obtained a secured revolving credit facility (the “Credit Facility”). The Company’s obligations under the Credit Facility are secured by all of the Company’s personal property, both tangible and intangible, pursuant to the terms and subject to the conditions set forth in the Credit Agreement. Availability of funds under the Credit Agreement is based on the Company’s accounts receivable and inventory but will not exceed $2,000,000. At September 30, 2018 availability under the agreement was $1,622,040. The Company expects that it will use the Credit Facility to finance the Company’s operations in the short term.

The Credit Facility will be available, subject to its terms, on a revolving basis until it expires on February 27, 2020, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances will bear interest at a rate equal to 2.00% in excess of the prime rate as reported in the Wall Street Journal. Interest is computed based on the actual number of days elapsed over a year of 360 days. In addition to interest, the Credit facility requires that the Company pay the lender a monthly administration fee in an amount equal to forty-seven hundredths percent (0.47%) of the average outstanding daily principal amount of loan advances for the each calendar month, or portion thereof.

Regardless of the amount borrowed under the Credit Facility, the Company will pay a minimum amount of .25% (25 basis points) per month on the maximum availability $(5,000 per month). In the event the Company prepays or terminates the Credit Facility prior to February 27, 2020, the Company will be obligated to pay an amount equal to the minimum monthly payment multiplied by the number of months remaining between February 27, 2020 and the date of such prepayment or termination.

Under the Credit Agreement, advances are generally subject to customary borrowing conditions and to Summit's sole discretion to fund the advances. The Credit Agreement also contains covenants with which the Company must comply during the term of the Credit Facility. Among other things, such covenants require the Company to maintain insurance on the collateral, operate in the ordinary course and not engage in a change of control, dissolve or wind up the Company.

The Credit Agreement also contains certain events of default including, without limitation: the failure to make payments when due; the material breach of representations or warranties contained in the Credit Agreement or other loan documents; cross-default with other indebtedness of the Company; the entry of judgments or fines that may have a material adverse effect on the Company; failure to comply with the observance or performance of covenants contained in the Credit Agreement or other loan documents; insolvency of the Company, appointment of a receiver, commencement of bankruptcy or other insolvency proceedings; dissolution of the Company; the attachment of any state or federal tax lien; attachment or levy upon or seizure of the Company's property; or any change in the Company's condition that may have a material adverse 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 20.00% above the otherwise applicable interest rate (provided, that the interest rate may not exceed the highest rate permissible under law), and Summit would have the option to accelerate maturity and payment of the Company's obligations under the Credit Facility.

At September 30, 2018, the Company had $377,960 of indebtedness, including capital lease obligations, short-term debt, and long term debt. The prime rate as reported in the Wall Street Journal was 5.25% on September 30, 2018.

Due to its continued operating losses, the Company may need to access additional sources of liquidity if it does not return to profitability. The Company believes it could negotiate with Summit to increase the availability under the Credit Agreement to utilize more of its borrowing base. This would likely involve an increase in the minimum availability fees under the Credit Agreement and there is no guarantee that Summit would agree to such an increase. If the Company were unable to reach such an agreement, the Company could also attempt to negotiate a larger credit facility with another lender, but the Company would be obligated to pay the above described pre-payment penalty to Summit.

The Company was in compliance with all of the covenants associated with the Credit Facility at September 30, 2018.

Litigation and Contingencies

The Company becomes, from time to time, a party to personal injury litigation arising out of incidents involving the use of its products. The Company believes that any potential judgments resulting from these claims over its self-insured retention will be covered by the Company's product liability insurance. See Part II, Item 1 – Legal Proceedings, below, for more information concerning litigation.

Critical Accounting Policies

The impact and any associated risks related to the Company's critical accounting policies on business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect the Company's reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended June 30, 2018.

Recently Issued Accounting Guidance

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk

At September 30, 2018, the Company had $377,960 debt outstanding. The Credit Facility bears interest at a rate using the Prime Rate, as reported in the Wall Street Journal, as the basis, and therefore is subject to additional expense should there be an increase in market interest rates while borrowing on the revolving credit facility.

The Company had no holdings of derivative financial or commodity instruments at September 30, 2018. The Company has international sales; however these sales are denominated in U.S. dollars, mitigating foreign exchange rate fluctuation risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation of those controls and procedures performed as of September 30, 2018, the Chief Executive Officer and Chief Financial Officer of the Company concluded that its disclosure controls and procedures were effective.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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's application for leave to appeal this ruling was dismissed as premature by the New York Court of Appeals on September 20, 2016. On May 26, 2017 the Company again moved for leave to appeal the March 31, 2016 decision. That motion was granted on October 7, 2017 by the New York State Court of Appeals. The Company filed its brief and record on January 26, 2018. Niagara and the other party to the lawsuit, Albany Engineering Corporation, filed their responses on July 16, 2018 and the Company filed its reply on August 14, 2018. The matter will next be scheduled for argument, most likely in 2019.

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. On December 21, 2016, Niagara filed a motion to the trial court asking that it hold additional proceedings to establish what damages, if any, are owed to Niagara as the result of the appellate decision. The Company filed its response on January 23, 2017. On April 25, 2017, the court denied Niagara's motion in its entirety finding that no damages could be awarded based on the Appellate Division's decision. Niagara has filed a Notice of Appeal from that decision, but to date, has not filed the appeal.

As of September 30, 2018, the Company has not recorded a provision for this matter. The Company commenced paying for power at the Stuyvesant Falls facility in April 2016.

Item 6. Exhibits

(a) Exhibits:

31.1 Certification of Chief Executive Officer (filed herewith)

31.2 Certification of Chief Financial Officer (filed herewith)

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

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

101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

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

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

SIGNATURE

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

ALLIED HEALTHCARE PRODUCTS, INC.

/s/ Daniel C. Dunn
Daniel C. Dunn

Chief Financial Officer

Date: November 14, 2018

15