

ALLIED HEALTHCARE PRODUCTS INC  
Form 10-Q  
February 08, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-19266

ALLIED HEALTHCARE PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

25-1370721  
(I.R.S. Employer  
Identification No.)

1720 Sublette Avenue, St. Louis, Missouri 63110  
(Address of principal executive offices, including zip code)

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

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

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

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

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

Large accelerated ☐  
filer

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if smaller reporting company)

Smaller reporting company ☒

Edgar Filing: ALLIED HEALTHCARE PRODUCTS INC - Form 10-Q

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

Yes ☐ No ☒

The number of shares of common stock outstanding at January 31, 2011 is 8,112,217 shares.

---

## INDEX

|           |                       | Page<br>Number                                                                                                 |
|-----------|-----------------------|----------------------------------------------------------------------------------------------------------------|
| Part I –  | Financial Information |                                                                                                                |
|           | Item 1.               | Financial Statements                                                                                           |
|           |                       | Consolidated Statement of Operations -<br>Three and six months ended December 31,<br>2010 and 2009 (Unaudited) |
|           |                       | 3                                                                                                              |
|           |                       | Consolidated Balance Sheet -<br>December 31, 2010 (Unaudited) and<br>June 30, 2010                             |
|           |                       | 4 - 5                                                                                                          |
|           |                       | Consolidated Statement of Cash Flows -<br>Six months ended December 31, 2010 and<br>2009<br>(Unaudited)        |
|           |                       | 6                                                                                                              |
|           |                       | Notes to Consolidated Financial Statements                                                                     |
|           |                       | 7 – 11                                                                                                         |
|           | Item 2.               | Management’s Discussion and Analysis of<br>Financial Condition and Results of Operations                       |
|           |                       | 11 – 15                                                                                                        |
|           | Item 3.               | Quantitative and Qualitative Disclosure<br>about Market Risk                                                   |
|           |                       | 15                                                                                                             |
|           | Item 4.               | Controls and Procedures                                                                                        |
|           |                       | 15                                                                                                             |
| Part II - | Other Information     |                                                                                                                |
|           | Item 6.               | Exhibits                                                                                                       |
|           |                       | 16                                                                                                             |
|           |                       | Signature                                                                                                      |
|           |                       | 17                                                                                                             |

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

Statements contained in this Report, which are not historical facts or information, are "forward-looking statements." Words such as "believe," "expect," "intend," "will," "should," and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome and future results of operations, and financial condition to be materially different than stated or anticipated based on the forward-looking statements. Such risks and uncertainties include both general economic risks and uncertainties, risks and uncertainties affecting the demand for and economic factors affecting the delivery of health care services, and specific matters which relate directly to the Company's operations and properties as discussed in the Company's annual report on Form 10-K for the year ended June 30, 2010. The Company cautions that any forward-looking statements contained in this report reflect only the belief of the Company or its management at the time the statement was made. Although the Company believes such forward-looking statements are based upon reasonable assumptions, such assumptions may ultimately prove inaccurate or incomplete. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## ALLIED HEALTHCARE PRODUCTS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

|                                                                   | Three months ended<br>December 31, |               | Six months ended<br>December 31, |               |
|-------------------------------------------------------------------|------------------------------------|---------------|----------------------------------|---------------|
|                                                                   | 2010                               | 2009          | 2010                             | 2009          |
| Net sales                                                         | \$ 11,402,681                      | \$ 11,414,908 | \$ 23,343,414                    | \$ 22,738,584 |
| Cost of sales                                                     | 8,592,712                          | 8,470,169     | 17,982,718                       | 17,390,969    |
| Gross profit                                                      | 2,809,969                          | 2,944,739     | 5,360,696                        | 5,347,615     |
| Selling, general and<br>administrative expenses                   | 2,600,734                          | 2,900,113     | 5,285,310                        | 6,491,891     |
| Income (loss) from operations                                     | 209,235                            | 44,626        | 75,386                           | (1,144,276)   |
| Interest income                                                   | (8,067)                            | (464)         | (15,542)                         | (1,448)       |
| Interest expense                                                  | -                                  | 162           | 66                               | 2,574         |
| Other, net                                                        | 28,410                             | 11,785        | 43,509                           | 22,798        |
|                                                                   | 20,343                             | 11,483        | 28,033                           | 23,924        |
| Income (loss) before provision for (benefit from) income<br>taxes | 188,892                            | 33,143        | 47,353                           | (1,168,200)   |
| Provision for (benefit from) income taxes                         | 71,779                             | 11,573        | 17,994                           | (444,832)     |
| Net income (loss)                                                 | \$ 117,113                         | \$ 21,570     | \$ 29,359                        | \$ (723,368)  |
| Basic earnings (loss) per share                                   | \$ 0.01                            | \$ 0.00       | \$ 0.00                          | \$ (0.09)     |
| Diluted earnings (loss) per share                                 | \$ 0.01                            | \$ 0.00       | \$ 0.00                          | \$ (0.09)     |
| Weighted average shares outstanding - basic                       | 8,098,366                          | 8,092,734     | 8,095,876                        | 8,040,528     |
| Weighted average shares outstanding - diluted                     | 8,119,386                          | 8,217,103     | 8,114,724                        | 8,040,528     |

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEET  
ASSETS

|                                                     | (Unaudited)<br>December 31,<br>2010 | June 30,<br>2010 |
|-----------------------------------------------------|-------------------------------------|------------------|
| Current assets:                                     |                                     |                  |
| Cash and cash equivalents                           | \$ 6,239,426                        | \$ 5,263,324     |
| Accounts receivable, net of allowances of \$300,000 | 4,224,975                           | 5,418,253        |
| Inventories, net                                    | 11,423,933                          | 11,155,456       |
| Income tax receivable                               | 811,347                             | 877,665          |
| Other current assets                                | 237,635                             | 221,840          |
| Total current assets                                | 22,937,316                          | 22,936,538       |
| Property, plant and equipment, net                  | 9,015,107                           | 9,661,395        |
| Other assets, net                                   | 326,961                             | 333,084          |
| Total assets                                        | \$ 32,279,384                       | \$ 32,931,017    |

See accompanying Notes to Consolidated Financial Statements.

(CONTINUED)

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

|                                                                                                                                                                                                                                                             | (Unaudited)<br>December 31,<br>2010 | June 30,<br>2010 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------------|
| Current liabilities:                                                                                                                                                                                                                                        |                                     |                  |
| Accounts payable                                                                                                                                                                                                                                            | \$ 2,123,410                        | \$ 1,950,446     |
| Other accrued liabilities                                                                                                                                                                                                                                   | 1,653,519                           | 2,241,259        |
| Deferred income taxes                                                                                                                                                                                                                                       | 425,036                             | 429,699          |
| Deferred revenue                                                                                                                                                                                                                                            | 688,200                             | 688,200          |
| Total current liabilities                                                                                                                                                                                                                                   | 4,890,165                           | 5,309,604        |
| Deferred revenue                                                                                                                                                                                                                                            | 458,800                             | 802,900          |
| Commitments and contingencies                                                                                                                                                                                                                               |                                     |                  |
| Stockholders' equity:                                                                                                                                                                                                                                       |                                     |                  |
| Preferred stock; \$0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding                                                                                                                                                            | -                                   | -                |
| Series A preferred stock; \$0.01 par value; 200,000 shares authorized; no shares issued and outstanding                                                                                                                                                     | -                                   | -                |
| Common stock; \$0.01 par value; 30,000,000 shares authorized; 10,415,709 and 10,396,878 shares issued at December 31, 2010 and June 30, 2010, respectively; 8,112,217 and 8,093,386 shares outstanding at December 31, 2010 and June 30, 2010, respectively | 104,157                             | 103,969          |
| Additional paid-in capital                                                                                                                                                                                                                                  | 48,445,281                          | 48,362,922       |
| Accumulated deficit                                                                                                                                                                                                                                         | (887,591)                           | (916,950)        |
| Less treasury stock, at cost; 2,303,492 shares at December 31, 2010 and June 30, 2010                                                                                                                                                                       | (20,731,428)                        | (20,731,428)     |
| Total stockholders' equity                                                                                                                                                                                                                                  | 26,930,419                          | 26,818,513       |
| Total liabilities and stockholders' equity                                                                                                                                                                                                                  | \$ 32,279,384                       | \$ 32,931,017    |

See accompanying Notes to Consolidated Financial Statements.

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

|                                                                                          | Six months ended<br>December 31, |              |
|------------------------------------------------------------------------------------------|----------------------------------|--------------|
|                                                                                          | 2010                             | 2009         |
| Cash flows from operating activities:                                                    |                                  |              |
| Net income (loss)                                                                        | \$ 29,359                        | \$ (723,368) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                  |              |
| Depreciation and amortization                                                            | 753,032                          | 710,622      |
| Stock based compensation                                                                 | 11,659                           | 627,693      |
| Provision for doubtful accounts and sales returns and allowances                         | 19,713                           | 13,361       |
| Deferred taxes                                                                           | (4,663)                          | (55,702)     |
| Changes in operating assets and liabilities:                                             |                                  |              |
| Accounts receivable                                                                      | 1,173,565                        | 875,096      |
| Inventories                                                                              | (268,477)                        | (72,550)     |
| Income tax receivable                                                                    | 66,318                           | (716,300)    |
| Other current assets                                                                     | (15,795)                         | 18,750       |
| Accounts payable                                                                         | 172,964                          | 682,120      |
| Deferred revenue                                                                         | (344,100)                        | (344,100)    |
| Other accrued liabilities                                                                | (587,740)                        | (436,519)    |
| Net cash provided by operating activities                                                | 1,005,835                        | 579,103      |
| Cash flows from investing activities:                                                    |                                  |              |
| Capital expenditures                                                                     | (100,622)                        | (115,175)    |
| Net cash used in investing activities                                                    | (100,622)                        | (115,175)    |
| Cash flows from financing activities:                                                    |                                  |              |
| Stock options exercised                                                                  | 62,484                           | 3,469        |
| Minimum tax withholdings on stock options exercised                                      | -                                | (406,110)    |
| Excess tax benefit from exercise of stock options                                        | 8,405                            | 487,509      |
| Net cash provided by financing activities                                                | 70,889                           | 84,868       |
| Net increase in cash and cash equivalents                                                | 976,102                          | 548,796      |
| Cash and cash equivalents at beginning of period                                         | 5,263,324                        | 1,943,364    |
| Cash and cash equivalents at end of period                                               | \$ 6,239,426                     | \$ 2,492,160 |

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Allied Healthcare Products, Inc. (the “Company”) have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2010.

Recently Adopted Accounting Pronouncements

In June 2009, the FASB issued guidance titled “Consolidation” (ASC Topic 810), which amends previous guidance to require an analysis to determine whether a variable interest gives a company a controlling financial interest in a variable interest entity. An ongoing reassessment of financial responsibility is required, including interests in entities formed prior to the effective date of this guidance. This guidance also eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary. It is effective for fiscal years beginning after November 15, 2009. This guidance became effective for the Company in the quarter ended September 30, 2010, and its adoption did not have a significant effect on its consolidated financial statements.

In October 2009, the FASB issued guidance titled “Revenue Recognition – Multiple Deliverable Revenue Arrangements” (Accounting Standards Update 2009-13), which requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This guidance is applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. This guidance became effective for the Company in the quarter ended September 30, 2010, and its adoption did not have a significant effect on its consolidated financial statements.

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

#### Fair Value of Financial Instruments

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

#### 2. Inventories

Inventories are comprised as follows:

|                                           | December 31, 2010 | June 30, 2010 |
|-------------------------------------------|-------------------|---------------|
| Work-in progress                          | \$ 937,866        | \$ 802,550    |
| Component parts                           | 8,435,138         | 7,984,369     |
| Finished goods                            | 3,457,126         | 3,845,027     |
| Reserve for obsolete and excess inventory | (1,406,197)       | (1,476,490)   |
|                                           | \$ 11,423,933     | \$ 11,155,456 |

#### 3. Earnings per share

Basic earnings per share are based on the weighted average number of shares of all common stock outstanding during the period. Diluted earnings per share are based on the sum of the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The number of basic shares outstanding for the three months ended December 31, 2010 and 2009 were 8,098,366 and 8,092,734, respectively. The number of diluted shares outstanding for the three months ended December 31, 2010 and 2009 were 8,119,386 and 8,217,103, respectively. The number of basic shares outstanding for the six months ended December 31, 2010 and 2009 was 8,095,876 and 8,040,528, respectively. The number of diluted shares outstanding for the six months ended December 31, 2010 and 2009 was 8,114,724 and 8,040,528, respectively.

#### 4. Commitments and Contingencies

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company has recognized the costs and associated liabilities only for those investigations, claims and legal proceedings for which, in its view, it is probable that liabilities have been incurred and the related amounts are estimable. Based upon information currently available, management believes that existing accrued liabilities are sufficient.

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

## 5. Financing

Effective as of November 13, 2009, the Company terminated its revolving credit facility arrangement with Bank of America, N.A., as successor to LaSalle Bank National Association (the “Old Credit Agreement”).

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

The New Credit Facility was amended on November 2, 2010 extending the maturity date to November 14, 2011. The New Credit Facility will be available on a revolving basis until it expires on November 14, 2011, at which time all amounts outstanding under the New Credit Facility will be due and payable. Advances under the New Credit Facility will be made pursuant to a Revolving Credit Note (the “Promissory Note”) executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to .50% in excess of Enterprise Bank & Trust’s prime-rate based interest rate for commercial loans, subject to a minimum annual interest rate of 4.50%. Advances may be prepaid in whole or in part without premium or penalty.

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

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

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

The Company was in compliance with all of the financial covenants associated with the New Credit Facility at December 31, 2010.

#### 6. Baralyme® Agreement

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

|                                            | Three Months ended<br>December 31, |              | Six Months ended<br>December 31, |              |
|--------------------------------------------|------------------------------------|--------------|----------------------------------|--------------|
|                                            | 2010                               | 2009         | 2010                             | 2009         |
| Beginning balance                          | \$ 1,319,050                       | \$ 2,007,250 | \$ 1,491,100                     | \$ 2,179,300 |
| Revenue recognized as net sales            | (172,050)                          | (172,050)    | (344,100)                        | (344,100)    |
|                                            | 1,147,000                          | 1,835,200    | 1,147,000                        | 1,835,200    |
| Less - Current portion of deferred revenue | (688,200)                          | (688,200)    | (688,200)                        | (688,200)    |
|                                            | \$ 458,800                         | \$ 1,147,000 | \$ 458,800                       | \$ 1,147,000 |

In addition to the provisions of the agreement relating to the withdrawal of the Baralyme® product, Abbott has agreed to pay Allied up to \$2,150,000 in product development costs to pursue development of a new carbon dioxide absorption product for use in connection with inhalation anesthetics that does not contain potassium hydroxide and does not produce a significant exothermic reaction with currently available inhalation agents. As of December 31, 2010, \$2,150,000 has been received as a result of product development activities.

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

### Results of Operations

Three months ended December 31, 2010 compared to three months ended December 31, 2009

Allied had net sales of \$11.4 million for the three months ended December 31, 2010, unchanged from net sales of \$11.4 million in the prior year same quarter. Domestic sales were up 0.1% while international sales, which represented 18.0% of second quarter sales, were down 1.1% from the prior year same quarter.

Sales for the three months ended December 31, 2010 include \$172,050 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at \$57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company's products for the three months ended December 31, 2010 of \$11.0 million were \$0.1 million or 0.9% higher than orders for the prior year same quarter of \$10.9 million. Domestic orders are up 3.0% over the prior year same quarter while international orders, which represented 21.4% of second quarter orders, were 5.9% lower than orders for the prior year same quarter. Orders have not returned to pre-recession levels. The Company continues to believe that the purchase of equipment and durable goods by some customers have continued to be reduced as a short term measure to meet budgets and conserve cash, given the only limited recovery in the economy. By and large, the Company's products are considered durable goods.

Gross profit for the three months ended December 31, 2010 was \$2.8 million, or 24.6% of net sales, compared to \$2.9 million, or 25.4% of net sales, for the three months ended December 31, 2009. Gross profit during the second quarter was negatively impacted by approximately \$280,000 in shipping, additional product cost, and other startup cost at its Stuyvesant Falls facility for the production of its carbon dioxide absorbent product lines. The additional shipping costs and most of the startup cost were completed during the second quarter.

Selling, general and administrative expenses for the three months ended December 31, 2010 were \$2.6 million compared to selling, general and administrative expenses of \$2.9 million for the three months ended December 31, 2009. This decrease is due to, among other things, decreases in compensation expense and sales commissions compared to the same quarter of the prior year. The Company also experienced a decrease in selling expenses for outside professional services and a decrease in health insurance costs. The Company is self-insured for health care costs and has not changed its fringe benefit plans or providers from the prior year. The Company believes that the reduction in health insurance expenses is primarily due to a reduction in medical claims by employees and their dependents from the prior year level.

Income from operations was \$0.2 million for the three months ended December 31, 2010 compared to income from operations of \$44,626 for the three months ended December 31, 2009. Allied had income before provision for income taxes in the second quarter of fiscal 2011 of \$0.2 million, compared to income before provision for income taxes in the second quarter of fiscal 2010 of \$33,143.

Net income for the second quarter of fiscal 2011 was \$117,113 or \$0.01 per basic and diluted share compared to net income of \$21,570 or \$0.00 per basic and diluted share for the second quarter of fiscal 2010. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the second quarters of fiscal 2011 and 2010 were 8,098,366 and 8,092,734, respectively. The number of diluted shares outstanding for the three months ended December 31, 2010 and 2009 were 8,119,386 and 8,217,103, respectively.

Six months ended December 31, 2010 compared to six months ended December 31, 2009

Allied had net sales of \$23.3 million for the six months ended December 31, 2010, up \$0.6 million, or 2.6% from net sales of \$22.7 million in the prior year same period resulting from higher order levels. Domestic sales were unchanged from the prior year same period while international sales were up 14.6% from the prior year same period. International business represented 18.5% of sales for the first six months of fiscal 2011.

Sales for the six months ended December 31, 2010 include \$344,100 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at \$57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company's products for the six months ended December 31, 2010 of \$22.8 million were \$0.4 million or 1.8% higher than orders for the prior year same period of \$22.4 million. Domestic orders are up 2.8% over the prior year same period while international orders, which represented 18.5% of orders for the first six months of fiscal 2011, were 3.6% lower than orders for the prior year same period. Orders have not returned to pre-recession levels. The Company continues to believe that the purchase of equipment and durable goods by some customers have continued to be reduced as a short term measure to meet budgets and conserve cash, given the only limited recovery in the economy. By and large, the Company's products are considered durable goods.

Gross profit for the six months ended December 31, 2010 was \$5.4 million, or 23.2% of net sales, compared to \$5.3 million, or 23.3% of net sales, for the six months ended December 31, 2009. Gross profit during the first six months of fiscal 2011 was negatively impacted by approximately \$630,000 in shipping, additional product cost, and other startup cost at its Stuyvesant Falls facility for the production of its carbon dioxide absorbent product lines. The additional shipping costs and the majority of startup cost were completed during the second quarter. Gross profit during the first six months of fiscal 2011 was favorably impacted by cost savings initiatives which reduced the cost of purchased materials and manufactured finished goods, higher sales which result in better utilization of fixed overhead costs, and lower spending levels for some fixed overhead categories including fringe benefits, salaries, and real estate taxes. The Company is self-insured for health care costs and has not changed its fringe benefit plans or providers from the prior year. The Company believes that the reduction in fringe benefits is primarily due to a reduction in medical claims by employees and their dependents.

Selling, general and administrative expenses for the six months ended December 31, 2010 were \$5.3 million compared to selling, general and administrative expenses of \$6.5 million for the six months ended December 31, 2009. The decrease in selling, general and administrative expenses is due to, among other things, a decrease of approximately \$0.6 million in compensation expense related to option grants. Other decreases included a decrease of approximately \$0.1 million for compensation expense and \$0.1 million for sales commissions compared to the same period of the prior year. The Company also experienced a decrease in selling expenses for outside professional services of approximately \$0.1 million, and a decrease in health insurance costs of approximately \$0.2 million, primarily due to lower claims.

Income from operations was \$0.1 million for the six months ended December 31, 2010 compared to a loss from operations of \$1.1 million for the six months ended December 31, 2009. Allied had income before provision for income taxes in the first six months of fiscal 2011 of \$47,353, compared to a loss before benefit from income taxes in the first six months of fiscal 2010 of \$1.2 million. The Company recorded a tax provision of \$17,994 for the six months ended December 31, 2010 compared to a tax benefit of \$0.4 million for the six months ended December 31, 2009.

Net income for the six months ended December 31, 2010 was \$29,359 or \$0.00 per basic and diluted share compared to a net loss of \$0.7 million or \$0.09 per basic and diluted share for the first six months of fiscal 2011. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the first six months of fiscal 2011 and 2010 were 8,095,876 and 8,040,528, respectively. The weighted average number of common shares outstanding, used in the calculation of diluted earnings per share for the first six months of fiscal 2011 and 2010 were 8,114,724 and 8,040,528, respectively.

## Liquidity and Capital Resources

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

The Company's working capital was \$18.0 million at December 31, 2010 compared to \$17.6 million at June 30, 2010. Cash increased \$1.0 million, inventory increased \$0.3 million and accrued liabilities decreased \$0.6 million. At December 31, 2010 these increases in working capital were offset by a decrease in income tax receivable of \$0.1 million, and a \$0.2 million increase in accounts payable. Accounts receivable decreased \$1.2 million to \$4.2 million at December 31, 2010. Accounts receivable as measured in days of sales outstanding ("DSO") decreased to 34 DSO at December 31, 2010; down from 40 DSO at June 30, 2010.

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

Advances under the New Credit Facility will be made pursuant to a Revolving Credit Note (the "Promissory Note") executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to .50% in excess of Enterprise Bank & Trust's prime-rate based interest rate for commercial loans, subject to a minimum annual interest rate of 4.50%. Advances may be prepaid in whole or in part without premium or penalty. The prime rate was 3.25% on December 30, 2010.

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

In the event that economic conditions were to severely worsen for a protracted period of time, we believe that we will have borrowing capacity under credit facilities that will provide sufficient financial flexibility. The Company would have options available to ensure liquidity in addition to increased borrowing. Capital expenditures, which are budgeted at \$0.8 million for the fiscal year ended June 30, 2011, could be postponed.

Inflation has not had a material effect on the Company's business or results of operations during the first six months of fiscal 2011.

## Litigation and Contingencies

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

## Recently Issued Accounting Guidance

The impact and any associated risks related to the Company's critical accounting policies on business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended June 30, 2010.

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

## Item 3. Quantitative and Qualitative Disclosure about Market Risk

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

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

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

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

Changes in internal control over financial reporting

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

Part II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

31.1 Certification of Chief Executive Officer (filed herewith)

31.2 Certification of Chief Financial Officer (filed herewith)

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

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

99.1 Press Release dated February 8, 2011 announcing second quarter earnings\*

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

SIGNATURE

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

ALLIED HEALTHCARE PRODUCTS, INC.

/s/ Daniel C. Dunn

Daniel C. Dunn

Chief Financial Officer

Date: February 8, 2011