ALLIED HEALTHCARE PRODUCTS INC
Form 10-Q
February 11, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended December 31, 2012

¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from________ to ________

Commission File Number: 0-19266

ALLIED HEALTHCARE PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

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

1720 Sublette Avenue, St. Louis, Missouri 63110

(Address of principal executive offices, including zip code)

(314) 771-2400

(Registrant’s telephone number, including area code)

N/A

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

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

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

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

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

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

Yes ¨ No x

The number of shares of common stock outstanding at January 31, 2013 is 8,030,247 shares.

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

Statements contained in this Report, which are not historical facts or information, are "forward-looking statements." Words such as "believe," "expect," "intend," "will," "should," and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome and future results of operations, and financial condition to be materially different than stated or anticipated based on the forward-looking statements. Such risks and uncertainties include both general economic risks and uncertainties, risks and uncertainties affecting the demand for economic factors affecting the delivery of health care services, impacts of the U.S. Affordable Care Act, such as the expected impact on the Company of the excise tax commencing in 2013 on the sale of certain medical devices 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, 2012. The Company cautions that any forward-looking statements contained in this report reflect only the belief of the Company or its management at the time the statement was made. Although the Company believes such forward-looking statements are based upon reasonable assumptions, such assumptions may ultimately prove inaccurate or incomplete. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF OPERATIONS

(UNAUDITED)

	Three months ended December 31, 2012	Three months ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
Net sales	$9,921,422	$10,681,395	$19,208,513	$22,076,403
Cost of sales	7,815,489	7,946,458	15,123,605	16,935,449
Gross profit	2,105,933	2,734,937	4,084,908	5,140,954
Selling, general and administrative expenses	2,857,065	2,693,894	5,495,640	5,327,983
Income (loss) from operations	(751,132)	41,043	(1,410,732)	(187,029)
Other (income) expenses:				
Interest income	(2,821)	(7,297)	(7,047)	(16,292)
Interest expense	-	-	-	336
Other, net	7,645	11,743	15,226	26,149
	4,824	4,446	8,179	10,193
Income (loss) before provision for (benefit from) income taxes	(755,956)	36,597	(1,418,911)	(197,222)
Provision for (benefit from) income taxes	(287,263)	13,907	(539,186)	(74,944)
Net income (loss)	$(468,693)	$22,690	$(879,725)	$(122,278)
Basic earnings (loss) per share	$(0.06)	$0.00	$(0.11)	$(0.02)
Diluted earnings (loss) per share	$(0.06)	$0.00	$(0.11)	$(0.02)
Weighted average shares outstanding - basic	8,100,593	8,124,386	8,112,490	8,124,386
Weighted average shares outstanding - diluted	8,100,593	8,124,834	8,112,490	8,124,386

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

ASSETS

	(Unaudited) December 31, 2012	June 30, 2012
Current assets:		
Cash and cash equivalents	$ 4,586,331	$ 5,284,543
Accounts receivable, net of allowances of $300,000	3,551,587	4,843,593
Inventories, net	10,049,584	10,001,226
Income tax receivable	583,706	46,042
Other current assets	590,082	400,677
Total current assets	19,361,290	20,576,081
Property, plant and equipment, net	9,628,935	9,603,556
Other assets, net	1,137,908	1,167,432
Total assets	$ 30,128,133	$ 31,347,069

See accompanying Notes to Financial Statements.

(CONTINUED)

ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) December 31, 2012	June 30, 2012
Current liabilities:		
Accounts payable	$ 1,693,881	$ 1,797,144
Other accrued liabilities	1,961,826	1,855,579
Deferred income taxes	793,990	802,961
Deferred revenue	-	114,700
Total current liabilities	4,449,697	4,570,384
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding	-	-
Series A preferred stock; $0.01 par value; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock; $0.01 par value; 30,000,000 shares authorized; 10,427,878 shares issued at December 31, 2012 and June 30, 2012; 8,030,247 and 8,124,386 shares outstanding at December 31, 2012 and June 30, 2012, respectively	104,279	104,279
Additional paid-in capital	48,563,230	48,540,802
Accumulated deficit	(2,016,693)	(1,136,968)
Less treasury stock, at cost; 2,397,631 and 2,303,492 shares at December 31, 2012 and June 30, 2012, respectively	(20,972,380)	(20,731,428)
Total stockholders' equity	25,678,436	26,776,685
Total liabilities and stockholders' equity	$ 30,128,133	$ 31,347,069

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF CASH FLOWS

(UNAUDITED)

	Six months ended December 31, 2012	2011
Cash flows from operating activities:		
Net loss	$(879,725)	$(122,278)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	650,379	627,378
Stock based compensation	22,428	21,695
Provision for doubtful accounts and sales returns and allowances	17,054	17,030
Deferred taxes	(8,971)	(8,678)
Changes in operating assets and liabilities:		
Accounts receivable	1,274,952	1,138,044
Inventories	(48,358)	(519,444)
Income tax receivable	(537,664)	(73,929)
Other current assets	(189,405)	(290,234)
Accounts payable	(103,263)	383,071
Deferred revenue	(114,700)	(344,100)
Other accrued liabilities	106,246	(177,084)
Net cash provided by operating activities	188,973	651,471
Cash flows from investing activities:		
Capital expenditures	(646,233)	(912,994)
Net cash used in investing activities	(646,233)	(912,994)
Cash flows from financing activities:		
Purchases of treasury stock	(240,952)	-
Net cash used in financing activities	(240,952)	-
Net increase (decrease) in cash and cash equivalents	(698,212)	(261,523)
Cash and cash equivalents at beginning of period	5,284,543	6,512,887
Cash and cash equivalents at end of period	$4,586,331	$6,251,364

See accompanying Notes to Financial Statements.

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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, 2012.

Recently Issued Accounting Pronouncements

We have reviewed accounting pronouncements and interpretations thereof issued by the FASB, AICPA and the SEC that have effective dates during the periods reported and in future periods. Management does not believe that any of those pronouncements will have a material impact on the Company's present or future financial statements.

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, 2012	June 30, 2012
Work-in progress	$ 689,645	$ 654,677
Component parts	7,799,890	7,495,333
Finished goods	2,849,782	3,178,507
Reserve for obsolete and excess inventory	(1,289,733)	(1,327,291)
	$ 10,049,584	$ 10,001,226

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, 2012 and 2011 were 8,100,593 and 8,124,386, respectively. The number of diluted shares outstanding for the three months ended December 31, 2012 and 2011 were 8,100,593 and 8,124,834, respectively. The number of basic shares outstanding for the six months ended December 31, 2012 and 2011 was 8,112,490 and 8,124,386, respectively. The number of diluted shares outstanding for the six months ended December 31, 2012 and 2011 was 8,112,490 and 8,124,386, respectively.

4. Commitments and Contingencies

Legal Claims

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company intends to continue to conduct business in such a manner as to avert any FDA action seeking to interrupt or suspend manufacturing or require any recall or modification of products.

The Company has recognized the costs and associated liabilities only for those investigations, claims and legal proceedings for which, in its view, it is probable that liabilities have been incurred and the related amounts are estimable. Based upon information currently available, management believes that existing accrued liabilities are sufficient and that it is not reasonably possible at this time that any additional liabilities will result from the resolution of these matters that would have a material adverse effect on the Company's results of operations, financial position, or cash flows.

Stuyvesant Falls Power Litigation. The Company is currently involved in litigation with Niagara Mohawk Power Corporation d/b/a National Grid ("Niagara") and other parties, which provides electrical power to the Company's facility in Stuyvesant Falls, New York. In fiscal year 2011, Niagara began sending invoices to the Company for electricity used at the Company's Stuyvesant Falls plant. The Company maintains in its defense of the lawsuit that it is entitled to a certain amount of free electricity based on covenants running with the land which have been honored for more than a century. Niagara's attempts to collect such invoices were stopped in December 2010 by a temporary restraining order, 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. The Company has posted a $250,000 bond which Niagara could draw against for electricity provided and not collected since the December 2010 temporary restraining order in the event Niagara prevails in its lawsuit. The amount of the bond exceeds the cumulative invoiced electricity charges generated by Niagara since the issuance of the temporary restraining order. As of December 31, 2012, the Company has not recorded a provision for this matter as management intends to vigorously defend this litigation and believes it is not probable that the Company will be required to pay for electricity as Niagara claims. The Company believes, however, that any liability it may incur should it not prevail in the litigation would not have a material adverse effect on its financial condition, its result of operations, or its cash flows.

Employment Contract

In March 2007, the Company entered into a three year employment contract with its chief executive officer. The contract is subject to annual renewals after the initial term. The contract was amended and restated in December 2009 without extending its term. The contract includes termination without cause and change of control provisions, under which the chief executive officer is entitled to receive specified severance payments generally equal to two times ending annual salary if the Company terminates his employment without cause or he voluntarily terminates his employment with “good reason.” “Good Reason” generally includes changes in the scope of his duties or location of employment but also includes (i) the Company’s written election not to renew the Employment Agreement and (ii) certain voluntary resignations by the chief executive officer following a “Change of Control” as defined in the Agreement.

5. Financing

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

The Credit Facility was amended on November 12, 2012 extending the maturity date to November 12, 2013, reducing the borrowing availability from $7,500,000 to $5,000,000, and removing all financial covenants. The Credit Facility will be available on a revolving basis until it expires on November 12, 2013, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances under the Credit Facility will be made pursuant to a Revolving Credit Note executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to 3.50% in excess of the 30-day LIBOR rate. Advances may be prepaid in whole or in part without premium or penalty.

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

The 30-day LIBOR rate was 0.21% on December 31, 2012.

At December 31, 2012 the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt.

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 December 31,		Six Months ended December 31,	
	2012	2011	2012	2011
Beginning balance	$ -	$ 630,850	$114,700	$802,900
Revenue recognized as net sales	0	(172,050)	(114,700)	(344,100)
	0	458,800	0	458,800
Less - Current portion of deferred revenue	0	(458,800)	0	(458,800)

$ 0	$ 0	$0	$0

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In addition to the provisions of the agreement relating to the withdrawal of the Baralyme® product, Abbott 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, 2012, $2,150,000 has been received as a result of product development activities.

7. Share Repurchases

On November 21, 2012 the Company's Board of Directors approved the purchase of up to 100,000 shares of the Company's common stock. This authority terminates on February 19th, 2013. Pursuant to this authorization, the Company repurchased 94,139 shares of stock at an average price of $2.54 for an agg