

ALLIED HEALTHCARE PRODUCTS INC  
Form 10-Q  
February 10, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2008

- 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.

1720 Sublette Avenue  
St. Louis, Missouri 63110  
314/771-2400  
IRS Employment ID 25-1370721

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 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 <input type="checkbox"/> | Accelerated filer <input type="checkbox"/>                    |
| Non-accelerated filer <input type="checkbox"/>   | Smaller reporting company <input checked="" type="checkbox"/> |

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 February 2, 2009 is 7,901,327 shares.



## INDEX

|           |  | Page<br>Number |
|-----------|--|----------------|
| Part I –  | <b>Financial Information</b>   |                |
|           | Item 1.  |                |
|           | Financial Statements   |                |
|           | Consolidated Statement of Operations -<br>Three and six months ended December 31,<br>2008 and 2007 (Unaudited) | 3              |
|           | Consolidated Balance Sheet -<br>December 31, 2008 (Unaudited) and<br>June 30, 2008                             | 4 - 5          |
|           | Consolidated Statement of Cash Flows -<br>Six months ended December 31, 2008 and<br>2007<br>(Unaudited)        | 6              |
|           | Notes to Consolidated Financial Statements   | 7 - 10         |
|           | Item 2.  |                |
|           | Management’s Discussion and Analysis of<br>Financial Condition and Results of<br>Operations                    | 10 - 16        |
|           | Item 3.  |                |
|           | Quantitative and Qualitative Disclosure<br>about Market Risk   | 16             |
|           | Item 4T.   |                |
|           | Controls and Procedures  | 16             |
| Part II - | <b>Other Information</b>   |                |
|           | Item 6.  |                |
|           | Exhibits   | 17             |
|           | Signature  | 18             |

## 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, 2008. The Company cautions that any forward-looking statements contained in this report reflects 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, |               |
|--|------------------------------------|---------------|----------------------------------|---------------|
|  | 2008                               | 2007          | 2008                             | 2007          |
| Net sales  | \$ 12,531,342                      | \$ 13,626,016 | \$ 26,972,353                    | \$ 27,727,634 |
| Cost of sales  | 9,821,746                          | 10,714,172    | 20,761,703                       | 21,648,777    |
| Gross profit   | 2,709,596                          | 2,911,844     | 6,210,650                        | 6,078,857     |
| Selling, general and administrative expenses                   | 3,400,342                          | 2,932,428     | 6,583,929                        | 5,975,398     |
| Income (loss) from operations                                  | (690,746)                          | (20,584)      | (373,279)                        | 103,459       |
| Interest income  | (18,455)                           | (38,177)      | (49,114)                         | (78,946)      |
| Interest expense   | 5,849                              | -             | 5,849                            | -             |
| Other, net   | 11,112                             | 11,113        | 23,179                           | 26,263        |
|  | (1,494)                            | (27,064)      | (20,086)                         | (52,683)      |
| Income (loss) before provision for (benefit from) income taxes | (689,252)                          | 6,480         | (353,193)                        | 156,142       |
| Provision for (benefit from) income taxes                      | (253,158)                          | -             | (125,456)                        | 62,597        |
| Net income (loss)  | \$ (436,094)                       | \$ 6,480      | \$ (227,737)                     | \$ 93,545     |
| Basic and diluted earnings (loss) per share                    | \$ (0.06)                          | \$ 0.00       | \$ (0.03)                        | \$ 0.01       |
| Weighted average shares outstanding - basic                    | 7,901,327                          | 7,883,577     | 7,896,279                        | 7,883,577     |
| Weighted average shares outstanding - diluted                  | 7,901,327                          | 8,130,901     | 7,896,279                        | 8,122,607     |

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEET  
ASSETS

|   | (Unaudited)<br>December 31,<br>2008 | June 30,<br>2008     |
|---|-------------------------------------|----------------------|
| <b>Current assets:</b>                              |                                     |                      |
| Cash and cash equivalents                           | \$ 4,212,532                        | \$ 6,149,015         |
| Accounts receivable, net of allowances of \$300,000 | 4,642,668                           | 6,441,683            |
| Inventories, net                                    | 13,700,766                          | 12,046,450           |
| Other current assets                                | 495,210                             | 394,975              |
| <b>Total current assets</b>                         | <b>23,051,176</b>                   | <b>25,032,123</b>    |
| Property, plant and equipment, net                  | 11,040,808                          | 10,542,573           |
| Goodwill  | 15,979,830                          | 15,979,830           |
| Other assets, net                                   | 697,206                             | 703,328              |
| <b>Total assets</b>                                 | <b>\$ 50,769,020</b>                | <b>\$ 52,257,854</b> |

See accompanying Notes to Consolidated Financial Statements.

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4

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

|   | (Unaudited)<br>December 31,<br>2008 | June 30,<br>2008     |
|---|-------------------------------------|----------------------|
| <b>Current liabilities:</b>   |                                     |                      |
| Accounts payable  | \$ 2,626,340                        | \$ 2,590,804         |
| Other accrued liabilities   | 1,900,964                           | 2,960,334            |
| Deferred income taxes   | 518,489                             | 500,238              |
| Deferred revenue  | 690,000                             | 690,000              |
| <b>Total current liabilities</b>  | <b>5,735,793</b>                    | <b>6,741,376</b>     |
| Deferred revenue  | 1,832,950                           | 2,177,500            |
| Commitments and contingencies   |                                     |                      |
| <b>Stockholders' equity:</b>  |                                     |                      |
| 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; 10,204,819 and 10,188,569 shares issued at December 31, 2008 and June 30, 2008, respectively; 7,901,327 and 7,885,077 shares outstanding at December 31, 2008 and June 30, 2008, respectively | 102,048                             | 101,886              |
| Additional paid-in capital  | 47,612,958                          | 47,524,084           |
| Retained earnings   | 16,216,699                          | 16,444,436           |
| Less treasury stock, at cost; 2,303,492 shares at December 31, 2008 and June 30, 2008   | (20,731,428)                        | (20,731,428)         |
| <b>Total stockholders' equity</b>   | <b>43,200,277</b>                   | <b>43,338,978</b>    |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 50,769,020</b>                | <b>\$ 52,257,854</b> |

See accompanying Notes to Consolidated Financial Statements.

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

|   | Six months ended<br>December 31, |              |
|---|----------------------------------|--------------|
|   | 2008                             | 2007         |
| <b>Cash flows from operating activities:</b>  |                                  |              |
| Net income (loss)   | \$ (227,737)                     | \$ 93,545    |
| <b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b> |                                  |              |
| Depreciation and amortization   | 751,332                          | 667,929      |
| Stock based compensation  | 7,323                            | 37,849       |
| Provision for doubtful accounts and sales returns and allowances  | (10,449)                         | (100,477)    |
| Deferred taxes  | 18,251                           | (15,140)     |
| Loss on disposition of equipment  | -                                | 5,228        |
| <b>Changes in operating assets and liabilities:</b>   |                                  |              |
| Accounts receivable   | 1,809,464                        | 1,161,488    |
| Inventories   | (1,654,316)                      | 1,189,323    |
| Other current assets  | (100,235)                        | (248,232)    |
| Accounts payable  | 35,536                           | (320,924)    |
| Deferred revenue  | (344,550)                        | (232,500)    |
| Other accrued liabilities   | (1,059,370)                      | (849,766)    |
| Net cash provided by (used in) operating activities   | (774,751)                        | 1,388,323    |
| <b>Cash flows from investing activities:</b>  |                                  |              |
| Capital expenditures  | (1,243,445)                      | (259,501)    |
| Purchase of intangible asset  | -                                | (35,000)     |
| Net cash used in investing activities   | (1,243,445)                      | (294,501)    |
| <b>Cash flows from financing activities:</b>  |                                  |              |
| Stock options exercised   | 81,094                           | -            |
| Excess tax benefit from exercise of stock options   | 619                              | -            |
| Net cash provided by financing activities   | 81,713                           | -            |
| Net increase (decrease) in cash and cash equivalents  | (1,936,483)                      | 1,093,822    |
| Cash and cash equivalents at beginning of period  | 6,149,015                        | 3,638,870    |
| Cash and cash equivalents at end of period  | \$ 4,212,532                     | \$ 4,732,692 |

See accompanying Notes to Consolidated Financial Statements.



ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Unaudited Consolidated Financial Statements

The accompanying unaudited consolidated financial statements 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 Form 10-K for the year ended June 30, 2008.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) requires that the fair value of the purchase price of an acquisition including the issuance of equity securities be determined on the acquisition date; requires that all assets, liabilities, noncontrolling interests, contingent consideration, contingencies, and in-process research and development costs of an acquired business be recorded at fair value at the acquisition date; requires that acquisition costs generally be expensed as incurred; requires that restructuring costs generally be expensed in periods subsequent to the acquisition date; and requires that changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. FAS 141(R) also broadens the definition of a business combination and expands disclosures related to business combinations. FAS 141(R) will be applied prospectively to business combinations occurring after the beginning of the Company's fiscal year 2010, except that business combinations consummated prior to the effective date must apply FAS 141(R) income tax requirements immediately upon adoption. The Company is currently evaluating the impact of FAS 141(R) on its financial position, results of operations, and cash flows, and does not anticipate any material effect on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement was effective for us beginning July 1, 2008. Adoption of SFAS No. 157 did not have a material impact on the Company's results of operations, financial position or cash flows.

## 2. Inventories

Inventories are comprised as follows:

|   | December 31, 2008 | June 30, 2008 |
|---|-------------------|---------------|
| Work-in progress                          | \$ 1,169,972      | \$ 807,358    |
| Raw materials and component parts         | 9,303,520         | 8,072,976     |
| Finished goods                            | 4,474,245         | 4,465,599     |
| Reserve for obsolete and excess inventory | (1,246,971)       | (1,299,483)   |
|   | \$ 13,700,766     | \$ 12,046,450 |

## 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, 2008 and 2007 were 7,901,327 and 7,883,577 respectively. The number of diluted shares outstanding for the three months ended December 31, 2008 and 2007 was 7,901,327 and 8,130,901 respectively. The number of basic shares outstanding for the six months ended December 31, 2008 and 2007 were 7,896,279 and 7,883,577 respectively. The number of diluted shares outstanding for the six months ended December 31, 2008 and 2007 was 7,896,279 and 8,122,607 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 and that it is not reasonably possible at this time to believe that any additional liabilities will result from the resolution of these matters that would have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

5. Financing

On September 30, 2008, the Bank and the Company agreed to an amendment of the credit facility. In conjunction with the amendment to the Company's credit facility, the Bank extended the maturity on the Company's revolving credit facility to September 1, 2010, with automatic renewals. The amendment also increased the capital expenditure limitation to \$4,000,000, from \$2,000,000, for the fiscal year ended June 30, 2009. The entire credit facility continues to accrue interest at the Bank's prime rate. The prime rate was 3.25% on December 31, 2008. The interest rate on prime rate loans may increase from prime to prime plus 0.75% if the ratio of the Company's funded debt to EBITDA exceeds 2.5. The amended credit facility continues to provide the Company with a rate of LIBOR plus 1.75%, at the Company's option. The optional LIBOR rate may increase from LIBOR plus 1.75% to LIBOR plus 2.75% based on the Company's fixed charge coverage ratio. The 90-day LIBOR rate was 1.42% at December 31, 2008.

At December 31, 2008 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 its credit facility at December 31, 2008.

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,<br>2008 |              | Six Months ended<br>December 31,<br>2008 |              |
|---|--|--------------|--|--------------|
|   | 2008                                       | 2007         | 2008                                     | 2007         |
| Beginning balance                             | \$ 2,695,000                               | \$ 2,286,250 | \$ 2,867,500                             | \$ 2,402,500 |
| Payment Received from Abbott Laboratories     | -  | -            | -  | -            |
| Revenue recognized as net sales               | (172,050)                                  | (116,250)    | (344,550)                                | (232,500)    |
|   | 2,522,950                                  | 2,170,000    | 2,522,950                                | 2,170,000    |
| Less - Current portion<br>of deferred revenue | (690,000)                                  | (465,000)    | (690,000)                                | (465,000)    |
|   | \$ 1,832,950                               | \$ 1,705,000 | \$ 1,832,950                             | \$ 1,705,000 |

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, 2008; \$2,150,000 has been received as a result of product development activities. For the three and six months ended December 31, 2008; \$0 and \$99,000, has been included in Net Sales, respectively. For the three and six months ended December 31, 2008; \$0 and \$94,000, has been included in Cost of Sales, respectively.

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

### RESULTS OF OPERATIONS

Three Months ended December 31, 2008 compared to three months ended December 31, 2007.

Allied had net sales of \$12.5 million for the three months ended December 31, 2008, down \$1.1 million, or 8.1%, from net sales of \$13.6 million in the prior year same quarter. Customer orders were \$1.4 million lower than the prior year same quarter, purchase order releases were \$0.5 million lower than in the prior year same quarter. Purchase order release times depend on the scheduling practices of individual customers, and do vary over time. Sales were also down from the prior year due to a \$450,000 decrease in sales recognized as a result of product development activities to pursue development of a new carbon dioxide absorption product. Sales for the three months ended December 31, 2007 include \$450,000 as a result of product development activities to pursue development of a new carbon dioxide absorption product. While the Company continues to pursue development of a new product, reimbursement of those activities by Abbott was completed during the quarter ended September 30, 2008. Additional cost to develop the new product during the second quarter of fiscal 2009 was not reimbursed.

Sales for the three months ended December 31, 2008 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®. Sales for the three months ended December 31, 2007 include \$116,250 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 over eight years, the term of the agreement, at \$57,350 per month. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27th, 2004.

Domestic sales were down 9.7% from the prior year same quarter, while international business, which represented 19.4% of second quarter sales, was down 0.6%. Orders for the Company's products for the three months ended December 31, 2008 of \$12.3 million were \$1.4 million or 10.2% lower than orders for the prior year same quarter of \$13.7 million. Domestic orders are down 12.6% over the prior year same quarter while international orders which represented 21.7% of second quarter orders were unchanged from the prior year same quarter. At this time, the Company believes this decrease in domestic orders is due to order timing and market conditions, and does not represent a decrease in the Company's market share.

Gross profit for the three months ended December 31, 2008 was \$2.7 million, or 21.6% of net sales, compared to \$2.9 million, or 21.4% of net sales, for the three months ended December 31, 2007. Gross profit during the second quarter was favorably impacted by an approximately 1.1% price increase in selected products, and an easing of pressure on raw material cost resulting from decreases in commodity cost in the market.

Selling, general and administrative expenses for the three months ended December 31, 2008 were \$3.4 million compared to selling, general and administrative expenses of \$2.9 million for the three months ended December 31 2007. Salaries and benefits increased approximately \$0.3 million. This increase is primarily due to open employee positions in the second quarter of the prior fiscal year and normal increases in the cost of fringe benefits. There have not been changes in staffing levels compared to the same quarter of the prior fiscal year. Also, outside services increased approximately \$130,000 primarily for the testing of the Company's new EPV100 and MCV ventilators designed to meet the needs of the mass casualty and pandemic markets. Additionally, legal expenses increased by approximately \$38,000, as a result of product liability claims. Selling, general and administrative expenses also include approximately \$24,000 in product development cost for the new carbon dioxide absorption product being developed. In the prior year all development cost for this product were reimbursed. These development costs will continue for the remainder of the fiscal year and are estimated to be an additional \$250,000.

Loss from operations was \$0.7 million for the three months ended December 31, 2008 compared to loss from operations of \$20,584 for the three months ended December 31, 2007. Interest income was \$18,455 for the three months ended December 31, 2008 compared to interest income of \$38,177 for the three months ended December 31, 2007. Allied had loss before benefit from income taxes in the second quarter of fiscal 2009 of \$0.7 million, compared to income before provision for income taxes in the second quarter of fiscal 2008 of \$6,480. The Company recorded a tax benefit of \$0.3 million for the three-months ended December 31, 2008 and did not record a tax provision for the three months ended December 31, 2007.

Net loss for the second quarter of fiscal 2009 was \$0.4 million or \$0.06 per basic and diluted share compared to net income of \$6,480 or \$0.00 per basic and diluted share for the second quarter of fiscal 2008. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the second quarters of fiscal 2009 and 2008 were 7,901,327 and 7,883,577 shares, respectively. The weighted average number of common shares outstanding used in the calculation of diluted earnings per share for the second quarters of fiscal 2009 and fiscal 2008 were 7,901,327 and 8,130,901 shares, respectively.

Six Months ended December 31, 2008 compared to six months ended December 31, 2007.

Allied had net sales of \$27.0 million for the six months ended December 31, 2007, down \$0.7 million, or 2.5%, from net sales of \$27.7 million in the prior year same period. Sales were primarily down from the prior year due to a \$450,000 decrease in sales recognized as a result of product development activities to pursue development of a new carbon dioxide absorption product. While the Company continues to pursue development of a new product, reimbursement of those activities was limited to \$99,000 during the six months ended December 31, 2008. Additional cost to develop the new product will not be reimbursed. In addition, customer orders were \$1.3 million lower than in the prior year same period, and customer purchase order releases were \$0.9 million lower than in the prior year same period. Purchase order release times depend on the scheduling practices of individual customers and do vary over time

Sales for the six months ended December 31, 2008 include \$344,550 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Sales for the six months ended December 31, 2008 also include \$99,000 as a result of product development activities to pursue development of a new carbon dioxide absorption product. The agreement with Abbott provides for Abbott to pay Allied up to \$2,150,000 in product development cost 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, 2008; \$2,150,000 has been received as a result of product development activities. The Company ceased the sale of Baralyme® on August 27th, 2004.

Sales for the six months ended December 31, 2007 include \$232,500 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Sales for the six months ended December 31, 2007 also include \$549,000 as a result of product development activities to pursue development of a new carbon dioxide absorption product. Income from the agreement will continue to be recognized over eight years, the term of the agreement, at \$57,350 per month. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®.

Domestic sales were down 0.4% from the first six months of the prior year, while international business, which represented 18.0% of the first six months of sales, was down 11.9%. Orders for the Company's products for the six months ended December 31, 2008 of \$25.6 million were \$1.3 million or 4.8% lower than orders for the prior year same period of \$26.9 million. International orders are up 12.0% over the prior year same period while domestic orders are down 8.4% over the prior year same period. The decrease in domestic orders occurred in the second quarter. At this time, the Company believes this decrease is due to order timing, and market conditions, and does not represent a decrease in the Company's market share.

Gross profit for the six months ended December 31, 2008 was \$6.2 million, or 23.0% of net sales, compared to \$6.1 million, or 21.9% of net sales, for the six months ended December 31, 2007. The increase in gross profit is due to modest price increases and an easing of pressure on raw material cost resulting from decreases in commodity cost in the market. Cost of sales for the six months ended December 31, 2008 also include \$94,000 as a result of product development of a new carbon dioxide absorption product.

Selling, general and administrative expenses for the six months ended December 31, 2008 were \$6.6 million, a net increase of \$0.6 million, or 10.0%, from \$6.0 million for the six months ended December 31, 2007. Salaries and benefits increased by \$0.4 million from the prior year primarily due to open employee positions in the second quarter of the prior fiscal year and normal increases in the cost of fringe benefits. There have not been changes in staffing levels over the prior year. Also, outside services increased approximately \$130,000 primarily for the testing of the Company's new EPV100 and MCV ventilators designed to meet the needs of the mass casualty and pandemic markets. Additionally, legal expenses increased by approximately \$90,000, as a result of product liability claims. Selling, general and administrative expenses also include approximately \$67,000 in product development cost for the new carbon dioxide absorption product being developed. In the prior year all development cost for this product were reimbursed. These development costs will continue for the remainder of the fiscal year and are estimated to be an additional \$250,000.

Loss from operations was \$0.4 million for the six months ended December 31, 2008 compared to income from operations of \$0.1 million for the six months ended December 31, 2007. Interest income was \$49,114 for the six months ended December 31, 2008 compared to interest income of \$78,946 for the six months ended December 31, 2007. Allied had loss before benefit for income taxes for the first six months of fiscal 2008 of \$0.4 million, compared to income before provision for income taxes for the first six months of fiscal 2008 of \$0.2 million. The Company recorded a tax benefit of \$0.1 million for the six-month period ended December 31, 2008, versus a tax provision of \$0.1 million for the six-month period ended December 31, 2007.

In fiscal 2009, the net loss for the first six months was \$0.2 million or \$0.03 per basic and diluted share compared to net income of \$0.1 million or \$0.01 per basic and diluted share for the first six months of fiscal 2008. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the first six months of fiscal 2009 and 2008 were 7,896,279 and 7,883,577 shares, 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 2009 and fiscal 2008 were 7,896,279 and 8,122,607 shares, 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 \$17.3 million at December 31, 2008 compared to \$18.3 million at June 30, 2008. Accrued liabilities decreased \$1.1 million, inventory increased \$1.7 million, and other current assets increased \$0.1 million. At December 31, 2008 these increases in working capital were more than offset by a decrease in Cash and cash equivalents of \$1.9 million and a decrease of \$1.8 million in accounts receivable to \$4.6 million at December 31, 2008. Accounts receivable as measured in days of sales outstanding ("DSO") increased to 37 DSO at December 31, 2008; up from 34 DSO at June 30, 2008.



The increase in inventory is primarily due to the decrease in sales during the second quarter of fiscal 2009. However, approximately \$560,000 of the \$1.7 million increase in inventory is due to finished goods and components for the Company's new mass casualty ventilators and is permanent in nature. Also, approximately \$780,000 of the \$1.9 million decrease in Cash and cash equivalents is due to investment in capital expenditures for cost reduction projects. Additionally, approximately \$420,000 of the decrease in Cash and cash equivalents is due to investment in capital expenditures for the Company's new product introductions and maintenance of plant capacity.

On September 30, 2008, the Bank and the Company agreed to an amendment of the credit facility. In conjunction with the amendment to the Company's credit facility, the Bank extended the maturity on the Company's revolving credit facility to September 1, 2010, with automatic renewals. The amendment also increased the capital expenditure limitation to \$4,000,000, from \$2,000,000, for the fiscal year ended June 30, 2009. The entire credit facility continues to accrue interest at the Bank's prime rate. The prime rate was 3.25% on December 31, 2008. The interest rate on prime rate loans may increase from prime to prime plus 0.75% if the ratio of the Company's funded debt to EBITDA exceeds 2.5. The amended credit facility continues to provide the Company with a rate of LIBOR plus 1.75%, at the Company's option. The optional LIBOR rate may increase from LIBOR plus 1.75% to LIBOR plus 2.75% based on the Company's fixed charge coverage ratio. The 90-day LIBOR rate was 1.42% at December 31, 2008.

At December 31, 2008 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 its credit facility at December 31, 2008.

In the event that economic conditions were to severely worsen for a protracted period of time, we believe that our borrowing capacity under our credit facilities 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 \$3.4 million for the fiscal year ended June 30, 2009, could be postponed. At December 31, 2008, the Company had no bank debt. Based on the Company's current level of debt, and performance, debt would bear interest at the Bank's prime rate. The Company's agreement with the Bank does include provisions for higher interest rates at higher debt levels and different levels of Company performance.

Inflation has not had a material effect on the Company's business or results of operations.

#### 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.

### Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) requires that the fair value of the purchase price of an acquisition including the issuance of equity securities be determined on the acquisition date; requires that all assets, liabilities, noncontrolling interests, contingent consideration, contingencies, and in-process research and development costs of an acquired business be recorded at fair value at the acquisition date; requires that acquisition costs generally be expensed as incurred; requires that restructuring costs generally be expensed in periods subsequent to the acquisition date; and requires that changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. FAS 141(R) also broadens the definition of a business combination and expands disclosures related to business combinations. FAS 141(R) will be applied prospectively to business combinations occurring after the beginning of the Company's fiscal year 2010, except that business combinations consummated prior to the effective date must apply FAS 141(R) income tax requirements immediately upon adoption. The Company is currently evaluating the impact of FAS 141(R) on its financial position, results of operations, and cash flows, and does not anticipate any material effect on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement was effective for us beginning July 1, 2008. Adoption of SFAS No. 157 did not have a material impact on the Company's results of operations, financial position or cash flows.

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

At December 31, 2008, the Company did not have any debt outstanding. The revolving credit facility bears an interest rate using the commercial bank's "floating reference rate" or LIBOR as the basis, as defined in the loan agreement, and therefore is subject to additional expense should there be an increase in market interest rates.

The Company had no holdings of derivative financial or commodity instruments at December 31, 2008. Allied Healthcare Products has international sales; however these sales are denominated in U.S. dollars, mitigating foreign exchange rate fluctuation risk.

### Item 4T. Controls and Procedures

- (a) Management's annual report on internal control over financial reporting.

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, 2008, the Chief Executive Officer and Chief Financial Officer of the Company concluded that its disclosure controls and procedures were effective.

The management of Allied Healthcare Products, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting and for the preparation and integrity of the accompanying financial statements and other related information in this report. The Audit Committee of the Board of Directors, which is comprised of directors who are not employees of the Company, meets regularly with management, the Company's internal control outside consultants, and the independent registered public accounting firm. The internal control consultants and the independent registered public accounting firm have free and direct access to the Audit Committee, and they meet periodically, without management present, to discuss appropriate matters. Based on management's evaluation, conducted under the criteria established in Internal Control - - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that its internal control over financial reporting was effective as of December 31, 2008.

(b) Changes in internal control over financial reporting

There were no changes in the Company's internal controls for financial reporting or other factors during the quarter ended December 31, 2008 that could significantly affect such internal controls. However, the Company has been engaged in the process of further reviewing and documenting its disclosure controls and procedures, including its internal accounting controls. The company may from time to time make changes aimed at enhancing the effectiveness of its disclosure controls and procedures, including its internal controls, to ensure that the Company's systems evolve with its business.

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 9, 2009 announcing first 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 9, 2009