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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended December 31, 2017

¨ **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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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, 2018 is 4,013,537 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 and economic factors affecting the delivery of health care services, both in the United States and in our overseas markets, impacts of the U.S. Affordable Care Act, the outcome of litigation proceedings 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, 2017. 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,		Six months ended December 31,	
	2017	2016	2017	2016
Net sales	$8,718,602	$8,268,978	$16,615,455	$16,709,391
Cost of sales	6,809,684	6,573,722	13,349,469	13,456,965
Gross profit	1,908,918	1,695,256	3,265,986	3,252,426
Selling, general and administrative expenses	2,153,050	2,068,657	4,277,518	4,442,776
Loss from operations	(244,132)	(373,401)	(1,011,532)	(1,190,350)
Other (income) expenses:				
Interest income	(10)	(334)	(225)	(986)
Other, net	185	1,633	236	1,671
	175	1,299	11	685
Loss before income taxes	(244,307)	(374,700)	(1,011,543)	(1,191,035)
Provision for income taxes	136,386	-	136,386	-
Net loss	$(380,693)	$(374,700)	$(1,147,929)	$(1,191,035)
Basic loss per share	$(0.09)	$(0.09)	$(0.29)	$(0.30)
Diluted loss per share	$(0.09)	$(0.09)	$(0.29)	$(0.30)
Weighted average shares outstanding - basic	4,013,537	4,013,537	4,013,537	4,013,537
Weighted average shares outstanding - diluted	4,013,537	4,013,537	4,013,537	4,013,537

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

ASSETS

	(Unaudited) December 31, 2017	June 30, 2017
Current assets:		
Cash and cash equivalents	$ 800	$ 995,704
Accounts receivable, net of allowances of $170,000	3,573,712	3,362,438
Inventories, net	9,106,188	8,511,954
Income tax receivable	19,688	12,555
Other current assets	243,492	315,678
Total current assets	12,943,880	13,198,329
Property, plant and equipment, net	5,278,595	5,734,041
Deferred income taxes	547,377	683,763
Other assets, net	-	20,516
Total assets	$ 18,769,852	$ 19,636,649

See accompanying Notes to Financial Statements.

(CONTINUED)

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ALLIED HEALTHCARE PRODUCTS, INC.

BALANCE SHEET

(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) December 31, 2017	June 30, 2017
Current liabilities:		
Accounts payable	$ 2,079,731	$ 1,440,403
Other accrued liabilities	1,650,417	2,009,966
Total current liabilities	3,730,148	3,450,369
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding	-	-
Series A preferred stock; $0.01 par value; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock; $0.01 par value; 30,000,000 shares authorized; 5,213,902 shares issued at December 31, 2017 and June 30, 2017; 4,013,537 shares outstanding at December 31, 2017 and June 30, 2017	52,139	52,139
Additional paid-in capital	48,486,743	48,485,390
Accumulated deficit	(12,518,390)	(11,370,461)
Less treasury stock, at cost; 1,200,365 shares at December 31, 2017 and June 30, 2017, respectively	(20,980,788)	(20,980,788)
Total stockholders' equity	15,039,704	16,186,280
Total liabilities and stockholders' equity	$ 18,769,852	$ 19,636,649

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

STATEMENT OF CASH FLOWS

(UNAUDITED)

	Six months ended December 31, 2017	2016
Cash flows from operating activities:		
Net loss	$(1,147,929)	$(1,191,035)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	475,962	562,963
Stock based compensation	1,353	1,202
Provision for doubtful accounts and sales returns and allowances	1,076	10,641
Deferred taxes	136,386	-
Changes in operating assets and liabilities:		
Accounts receivable	(212,350)	816,950
Inventories	(594,234)	24,321
Income tax receivable	(7,133)	(6,297)
Other current assets	72,186	39,633
Accounts payable	639,328	(500,377)
Other accrued liabilities	(359,549)	(602,974)
Net cash used in operating activities	(994,904)	(844,973)
Cash flows from investing activities:		
Capital expenditures	-	(11,497)
Net cash used in investing activities	-	(11,497)
Net decrease in cash and cash equivalents	(994,904)	(856,470)
Cash and cash equivalents at beginning of period	995,704	1,703,663
Cash and cash equivalents at end of period	$800	$847,193

See accompanying Notes to Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited financial statements of Allied Healthcare Products, Inc. (the "Company") have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the financial statements and notes to the financial statements thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2017.

Recently Issued Accounting Guidance

In May 2014, the FASB and International Accounting Standards Board jointly issued new principles-based accounting guidance for revenue recognition that will supersede virtually all existing revenue guidance. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve the core principle, the guidance establishes the following five steps: 1) identify the contract(s) with a customer, 2) identify the performance obligation in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also details the accounting treatment for costs to obtain or fulfill a contract. Lastly, disclosure requirements have been enhanced to provide sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance was effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In July 2015, the FASB affirmed its proposal to defer the effective date by one year. In May 2016, the FASB issued improvements and practical expedients to the standard that included clarification of the collectability criterion, noncash considerations as well as clarification of options at transition. In December 2016, the FASB issued additional corrections and improvements. The Company is in the process of evaluating the impact of this guidance. This new guidance, will likely result in a change in the nature and extent of the related footnote disclosures. The Company plans to adopt the new guidance when effective and presently anticipates adopting on a modified retrospective basis to each prior reporting period presented with the election of applicable practical expedients.

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

Fair Value of Financial Instruments

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

2. Inventories

Inventories are comprised as follows:

	December 31, 2017	June 30, 2017
Work-in progress	$ 472,699	$ 468,839
Component parts	7,902,227	7,271,908
Finished goods	2,320,593	2,368,855
Reserve for obsolete and excess inventories	(1,589,331)	(1,597,648)
	$ 9,106,188	$ 8,511,954

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 and diluted shares outstanding for the three and six months ended December 31, 2017 and 2016 were 4,013,537.

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.

Stuyvesant Falls Power Litigation. The Company is currently involved in litigation with Niagara Mohawk Power Corporation d/b/a National Grid ("Niagara"), which provides electrical power to the Company's facility in Stuyvesant Falls, New York, and one other party. The Company maintains in its defense of the lawsuit that it is entitled to a certain amount of free electricity based on covenants running with the land which have been honored for more than a century. After the commencement of the litigation, Niagara began sending invoices to the Company for electricity used at the Company's Stuyvesant Falls plant. Niagara's attempts to collect such invoices were stopped in December 2010 by a temporary restraining order. Among other things, Niagara seeks as damages the value of electricity received by the Company without charge. The total value of electricity at issue in the litigation is not known with certainty and Niagara has alleged different amounts of damages. Niagara alleged in its Second Amended Verified Complaint, dated February 6, 2012, damages of approximately $469,000 in free electricity from May 2003 through May 2010. Niagara also alleged in its Motion For Summary Judgment, filed on March 14, 2014, damages of approximately $492,000 in free electricity from May 2010 through the date of the filing. In April 2015, Allied received an invoice for electrical power at the Stuyvesant Falls plant with an "Amount Due" balance of $696,000 as of March 31, 2015 without any description as to the period of time covered by the invoice.

The Company filed a Motion for Summary Judgment on March 14, 2014, seeking dismissal of Niagara's claims and oral arguments on the motions were held on June 13, 2014. On October 1, 2014, the Court granted the Company's motion, denied Niagara's motion and ruled that the Company is entitled to receive electrical power pursuant to the power covenants. On October 26 and October 30, 2014, Niagara and the other party filed separate notices of appeal of the Court's decision. On March 31, 2016 the Supreme Court of New York, Appellate Division, Third Department reversed the trial court decision and held that the free power covenants are no longer enforceable. The Company's application for leave to appeal this ruling was dismissed as premature by the New York Court of Appeals on September 20, 2016. On May 26, 2017 the Company again moved for leave to appeal the March 31, 2016 decision. That motion was granted on October 7, 2017 by the New York State Court of Appeals.

The appellate decision terminated the enforceability of the free power covenants as of March 31, 2016. The appellate decision did not order the Company to pay any amounts for power consumed prior to such date and the Company believes that it is not liable for any such damages as a result of the appellate decision. On December 21, 2016, Niagara filed a motion to the trial court asking that it hold additional proceedings to establish what damages, if any, are owed to Niagara as the result of the appellate decision. The Company filed its response on January 23, 2017. On April 25, 2017, the court denied Niagara's motion in its entirety finding that no damages could be awarded based on the Appellate Division's decision. Niagara has filed a Notice of Appeal from that decision, but to date, has not filed the appeal.

As of December 31, 2017, the Company has not recorded a provision for this matter. The Company commenced paying for power at the Stuyvesant Falls facility in April 2016.

Employment Contract

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

5. Financing

On February 27, 2017, Allied Healthcare Products, Inc. (the "Company") entered into a Loan and Security Agreement (the "Credit Agreement") with Summit Financial Resources, L.P. ("Summit") pursuant to which the Company obtained a secured revolving credit facility (the "Credit Facility"). The Company's obligations under the Credit Facility are secured by all of the Company's personal property, both tangible and intangible, pursuant to the terms and subject to the conditions set forth in the Credit Agreement. Availability of funds under the Credit Agreement is based on the Company's accounts receivable and inventory but will not exceed $2,000,000. At December 31, 2017 availability under the agreement was $2,000,000.

The Credit Facility will be available, subject to its terms, on a revolving basis until it expires on February 27, 2019, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances will bear interest at a rate equal to 2.00% in excess of the prime rate as reported in the Wall Street Journal. Interest is computed based on the actual number of days elapsed over a year of 360 days. In addition to interest, the Credit facility requires that the Company pay the lender a monthly administration fee in an amount equal to forty-seven hundredths percent (0.47%) of the average outstanding daily principal amount of loan advances for the each calendar month, or portion thereof.

Regardless of the amount borrowed under the Credit Facility, the Company will pay a minimum amount of .25% (25 basis points) per month on the maximum availability ($5,000 per month). In the event the Company prepays or terminates the Credit Facility, the Company will be obligated to pay an amount equal to twelve months of minimum monthly payments, minus the number of months elapsed since the effective date of the Credit Agreement.

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

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

At December 31, 2017, the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt. The prime rate as reported in the Wall Street Journal was 4.50% on December 31, 2017.

The Company was in compliance with all of the covenants associated with the Credit Facility at December 31, 2017.

6. Income Taxes

The Company accounts for income taxes under ASC Topic 740: "Income Taxes." Under ASC 740, the deferred tax provision is determined using the liability method, whereby deferred tax assets and liabilities are recognized based upon temporary differences between the financial statement and income tax bases of assets and liabilities using presently enacted tax rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

In the three and six months ended December 31, 2017 the Company recorded the tax benefit of losses incurred in the amount of approximately $75,000 and $367,000, respectively. As the realization of the tax benefit of the net operating loss is not assured an additional valuation allowance of a like amount was recorded.

For the three and six months ended December 31, 2016 the Company recorded the tax benefit of losses incurred in the amount of approximately $130,000 and $436,000. As the realization of the tax benefit of the net operating loss is not assured an additional valuation allowance of approximately $130,000 and $436,000 was recorded.

U.S. Tax Reform

On December 22, 2017, President Trump signed into law new tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"), which became effective January 1, 2018. The TCJA significantly revises U.S. tax law by, among other provisions lowering the U.S. federal statutory income tax rate from 35% to 21%, and eliminating or reducing certain income tax deductions.

ASC Topic 740, requires the effects of changes in tax laws to be recognized in the period in which the legislation is enacted. However, due to the complexity and significance of the TCJA's provisions, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 22, 2017, which allows companies to record the tax effects of the TCJA on a provisional basis based on a reasonable estimate, and then, if necessary, subsequently adjust such amounts during a limited measurement period as more information becomes available. The measurement period ends when a company has obtained, prepared, and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year from enactment.

During the second quarter of fiscal 2018, the Company recorded a one-time charge of $136,386 within its income tax provision in connection with the TCJA, all of which related to the revaluation of the Company's deferred tax assets and liabilities net of a resultant impact of the revaluation on the recorded valuation allowance. This one-time charge, which was recorded on a provisional basis, impacted the Company's effective tax rate by increasing it from 0% and 0% to 56% and 13% for the three-month and six-month periods ended December 31, 2017, respectively, and lowered its basic and diluted earnings per share by $0.03 during each of these periods. The provisional amounts were based on the Company's present interpretations of the TCJA and current available information, including assumptions and expectations about future events, such as its projected financial performance, and are subject to further refinement as additional information becomes available (including the Company's actual full fiscal 2018 results of operations and financial condition, as well as potential new or interpretative guidance issued by the FASB or the Internal Revenue Service and other tax agencies) and further analyses are completed.

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

Results of Operations

Three months ended December 31, 2017 compared to three months ended December 31, 2016

Allied had net sales of $8.7 million for the three months ended December 31, 2017, up $0.4 million from net sales of $8.3 million in the prior year same quarter resulting from higher orders and customer releases for shipment during the quarter. Domestic sales were up 3.0% while international sales, which represented 26.3% of second quarter sales, were up 13.0% from the prior year same quarter.

Orders for the Company's products for the three months ended December 31, 2017 of $7.9 million were $0.2 million or 2.6% higher than orders for the prior year same quarter of $7.7 million., Domestic orders are up 6.1% over the prior year same quarter while international orders, which represented 19.0% of second quarter orders, were 8.9% lower than orders for the prior year same quarter. International sales and orders are subject to fluctuation in international demand. International sales can be impacted by political and economic uncertainty in regions and countries where the Company markets its products.

Gross profit for the three months ended December 31, 2017 was $1.9 million, or 21.8% of net sales, compared to $1.7 million, or 20.5% of net sales, for the three months ended December 31, 2016. The $0.2 million increase in gross profit is attributable to the increase in sales.

Selling, general and administrative expenses for the three months ended December 31, 2017 were $2.2 million compared to selling, general and administrative expenses of $2.1 million for the three months ended December 31, 2016. Legal expenses are approximately $82,000 higher than in the prior year.

Loss from operations was $244,132 for the three months ended December 31, 2017 compared to loss from operations of $373,401 for the three months ended December 31, 2016.

Allied had a loss before provision for income taxes in the second quarter of fiscal 2018 of $244,307 compared to loss before benefit from income taxes in the second quarter of fiscal 2017 of $374,700. The Company's tax provision net of valuation allowance reflects a tax provision of $136,386 and $0 for the three months ended December 31, 2017 and

2016. In the both the quarters ended December 31, 2017 and 2016, the tax benefit of losses in the amount of approximately $75,000 and $130,000, respectively were fully offset by a valuation allowance of an equivalent amount. In the quarter ended December 31, 2017, the Company revaluated its deferred tax assets, liabilities and valuation allowance to reflect the changes in tax rate occurring in connection with the TCJA. The impact of the revaluation was a current period provision for income taxes in the amount of $136,386. To the extent that the Company's losses continue in future quarters, the tax benefit of those losses will be fully offset by a valuation allowance.

Net loss for the second quarter of fiscal 2018 was $380,693 or $0.09 per basic and diluted share compared to net loss of $374,700 or $0.09 per basic and diluted share for the second quarter of fiscal 2017. The weighted average number of common shares outstanding, used in the calculation of basic and diluted earnings per share for the second quarters of fiscal 2018 and 2017 were 4,013,537.

Six months ended December 31, 2017 compared to six months ended December 31, 2016

Allied had net sales of $16.6 million for the six months ended December 31, 2017, down $0.1 million, or 0.6% from net sales of $16.7 million in the prior year same period resulting from lower order levels and a decrease in customer orders released for shipment. Domestic sales were down 2.0% from the prior year same period while international sales were up 3.9% from the prior year same period. International business represented 25.5% of sales for the first six months of fiscal 2018.

Orders for the Company’s products for the six months ended December 31, 2017 of $15.7 million were $0.2 million or 1.3% lower than orders for the prior year same period of $15.9 million. Domestic orders are down 2.1%, or $0.3 million over the prior year same period while international orders, which represented 22.8% of orders for the first six months of fiscal 2018, were 1.8% higher than orders for the prior year same period. The decrease in domestic orders reflects variability across the markets served. The increase in International orders was due to increased demand for the AHP300 Ventilator. International sales and orders are subject to fluctuation in international demand. These fluctuations are at times due to political and economic uncertainty internationally. International sales can be impacted by political and economic uncertainty in regions and countries where the Company markets its products.

Gross profit for the six months ended December 31, 2017 was $3.3 million, or 19.9% of net sales, compared to $3.3 million, or 19.8% of net sales, for the six months ended December 31, 2016.

Selling, general and administrative expenses for the six months ended December 31, 2017 were $4.3 million compared to selling, general and administrative expenses of $4.4 million for the six months ended December 31, 2016. Salaries and benefits were approximately $130,000 lower than in the prior year.

Loss from operations was $1.0 million for the six months ended December 31, 2017 compared to loss from operations of $1.2 million for the six months ended December 31, 2016.

Allied had a loss before provision for income taxes in the first six months of fiscal 2018 of $1,011,543 compared to loss before benefit from income taxes in the second quarter of fiscal 2017 of $1,191,035. The Company's tax provision net of valuation allowance reflects a tax provision of $136,386 and $0 for the six months ended December 31, 2017 and 2016. In the both the two quarters ended December 31, 2017 and 2016, the tax benefit of losses in the amount of approximately $367,000 and $436,000, respectively were fully offset by a valuation allowance of an equivalent amount. In the six months ended December 31, 2017, the Company revaluated its deferred tax assets, liabilities and valuation allowance to reflect the changes in tax rate occurring in connection with the TCJA. The impact of the revaluation was a current period provision for income taxes in the amount of $136,386. To the extent that the Company's losses continue in future quarters, the tax benefit of those losses will be fully offset by a valuation allowance.

Net loss for the six months ended December 31, 2017 was $1,147,929 or $0.29 per basic and diluted share compared to net loss of $1,191,035 or $0.30 per basic and diluted share for the first six months of fiscal 2017. The weighted average number of common shares outstanding, used in the calculation of basic and diluted earnings per share for the first six months of fiscal 2018 and 2017 was 4,013,537.

Liquidity and Capital Resources

The Company believes that available resources, including available borrowing under the Credit Facility discussed below, are sufficient to meet operating requirements in the next twelve months from the date of this filing.

The Company's working capital was $9.2 million at December, 2017 compared to $9.7 million at June 30, 2017. Cash and cash equivalents decreased by $1.0 million and Accounts Payable increased by $0.6 million. During fiscal 2018, these decreases in working capital were partially offset by a $0.6 million increase in Inventory, $0.2 million increase in Accounts Receivable and a $0.4 million decrease in Other Accrued Liabilities. Accounts Payable and Other Accrued Liabilities are subject to normal fluctuations in purchasing levels and the timing of payments within the quarter. Accounts Receivable was $3.6 million at December 31, 2017, an increase from $3.4 million at June 30, 2017. Accounts Receivable as measured in days sales outstanding ("DSO") was 40 DSO at December 31, 2017; an increase from 39 DSO at June 30, 2017. The decrease in the Company's cash in the quarter was primarily due to an increase in inventory and ordinary fluctuations in deposits from international customers. The Company does adjust product forecast, order quantities and safety stock based on changes in demand patterns in order to manage inventory levels.

As of December 31, 2017, the Company was party to a Loan and Security Agreement, dated February 27, 2017, with Summit Financial Resources, L.P. (the “Credit Agreement”), under which the Company had $2,000,000 available for borrowing (the “Credit Facility”). The Company’s obligations under the Credit Facility are secured by all of the Company’s personal property, both tangible and intangible, pursuant to the terms and subject to the conditions set forth in the Credit Agreement. Availability of funds under the Credit Agreement is based on the Company’s accounts receivable and inventory but will not exceed $2,000,000.00. At December 31, 2017 availability under the Credit Agreement was $2,000,000. At December 31, 2017, the Company expected that it will use the Credit Facility to finance the Company’s operations in the short term.

The Credit Facility will be available, subject to its terms, on a revolving basis until it expires on February 27, 2019. Advances will bear interest at a rate equal to 2.00% in excess of the prime rate as reported in the Wall Street Journal and subject to a minimum availability fee of 0.25% (25 basis points) per month on the maximum availability ($5,000 per month). In addition to interest, the Credit facility requires that the Company pay the lender a monthly administration fee in an amount equal to forty-seven hundredths percent (0.47%) of the average outstanding daily principal amount of loan advances for the each calendar month, or portion thereof.

Under the Credit Agreement, advances are generally subject to customary borrowing conditions and to Summit's sole discretion to fund the advances. The Credit Agreement also contains covenants with which the Company must comply during the term of the Credit Facility. Among other things, such covenants require the Company to maintain insurance on the collateral, operate in the ordinary course and not engage in a change of control, dissolve or wind up the Company. In the event of default, interest is calculated on a variable interest rate equal to 20.00% above the prime rate, adjusted as of the date of any change in the prime rate.

At December 31, 2017, the Company had no aggregate indebtedness, including capital lease obligations, short-term debt, and long term debt.

The Company was in compliance with all of the covenants associated with the Credit Facility at December 31, 2017.

Litigation and Contingencies

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

Critical Accounting Policies

The impact and any associated risks related to the Company's critical accounting policies on business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect the Company's reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended June 30, 2017.

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Recently Issued Accounting Guidance

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk

At December 31, 2017, the Company did not have any debt outstanding. The Credit Facility bears interest at a rate using the Prime Rate, as reported in the Wall Street Journal, as the basis, and therefore is subject to additional expense should there be an increase in market interest rates while borrowing on the revolving credit facility.

The Company had no holdings of derivative financial or commodity instruments at December 31, 2017. 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, 2017, 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, 2017 that have materially affected, or are reasonably likely to materially affect, the registrant’s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Stuyvesant Falls Power Litigation. The Company is currently involved in litigation with Niagara Mohawk Power Corporation d/b/a National Grid ("Niagara"), which provides electrical power to the Company's facility in Stuyvesant Falls, New York, and one other party. The Company maintains in its defense of the lawsuit that it is entitled to a certain amount of free electricity based on covenants running with the land which have been honored for more than a century. After the commencement of the litigation, Niagara began sending invoices to the Company for electricity used at the Company's Stuyvesant Falls plant. Niagara's attempts to collect such invoices were stopped in December 2010 by a temporary restraining order. Among other things, Niagara seeks as damages the value of electricity received by the Company without charge. The total value of electricity at issue in the litigation is not known with certainty and Niagara has alleged different amounts of damages. Niagara alleged in its Second Amended Verified Complaint, dated February 6, 2012, damages of approximately $469,000 in free electricity from May 2003 through May 2010. Niagara also alleged in its Motion For Summary Judgment, filed on March 14, 2014, damages of approximately $492,000 in free electricity from May 2010 through the date of the filing. In April 2015, Allied received an invoice for electrical power at the Stuyvesant Falls plant with an "Amount Due" balance of $696,000 as of March 31, 2015 without any description as to the period of time covered by the invoice.

The Company filed a Motion for Summary Judgment on March 14, 2014, seeking dismissal of Niagara's claims and oral arguments on the motions were held on June 13, 2014. On October 1, 2014, the Court granted the Company's motion, denied Niagara's motion and ruled that the Company is entitled to receive electrical power pursuant to the power covenants. On October 26 and October 30, 2014, Niagara and the other party filed separate notices of appeal of the Court's decision. On March 31, 2016 the Supreme Court of New York, Appellate Division, Third Department reversed the trial court decision and held that the free power covenants are no longer enforceable. The Company's application for leave to appeal this ruling was dismissed as premature by the New York Court of Appeals on September 20, 2016. On May 26, 2017 the Company again moved for leave to appeal the March 31, 2016 decision. That motion was granted on October 7, 2017 by the New York State Court of Appeals.

The appellate decision terminated the enforceability of the free power covenants as of March 31, 2016. The appellate decision did not order the Company to pay any amounts for power consumed prior to such date and the Company believes that it is not liable for any such damages as a result of the appellate decision. On December 21, 2016, Niagara filed a motion to the trial court asking that it hold additional proceedings to establish what damages, if any, are owed to Niagara as the result of the appellate decision. The Company filed its response on January 23, 2017. On April 25, 2017, the court denied Niagara's motion in its entirety finding that no damages could be awarded based on the Appellate Division's decision. Niagara has filed a Notice of Appeal from that decision, but to date, has not filed the appeal.

As of December 31, 2017, the Company has not recorded a provision for this matter. The Company commenced paying for power at the Stuyvesant Falls facility in April 2016.

Item 6. Exhibits

(a) Exhibits:

31.1 Certification of Chief Executive Officer (filed herewith)

31.2 Certification of Chief Financial Officer (filed herewith)

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

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

101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

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

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

SIGNATURE

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

ALLIED HEALTHCARE PRODUCTS, INC.

/s/ Daniel C. Dunn
Daniel C. Dunn
Chief Financial Officer
Date: February 14, 2018