ALLIED HEALTHCARE PRODUCTS INC
Form 10-Q
February 13, 2012

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, 2011

¨ **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, 2012 is 8,124,386 shares.

INDEX

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

Statements contained in this Report, which are not historical facts or information, are "forward-looking statements." Words such as "believe," "expect," "intend," "will," "should," and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome and future results of operations, and financial condition to be materially different than stated or anticipated based on the forward-looking statements. Such risks and uncertainties include both general economic risks and uncertainties, risks and uncertainties affecting the demand for and economic factors affecting the delivery of health care services, 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, 2011. The Company cautions that any forward-looking statements contained in this report reflect only the belief of the Company or its management at the time the statement was made. Although the Company believes such forward-looking statements are based upon reasonable assumptions, such assumptions may ultimately prove inaccurate or incomplete. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALLIED HEALTHCARE PRODUCTS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

	Three months ended December 31, 2011	2010	Six months ended December 31, 2011	2010
Net sales	$10,681,395	$11,402,681	$22,076,403	$23,343,414
Cost of sales	7,946,458	8,592,712	16,935,449	17,982,718
Gross profit	2,734,937	2,809,969	5,140,954	5,360,696
Selling, general and administrative expenses	2,693,894	2,600,734	5,327,983	5,285,310
Income (loss) from operations	41,043	209,235	(187,029)	75,386
Interest income	(7,297)	(8,067)	(16,292)	(15,542)
Interest expense	-	-	336	66
Other, net	11,743	28,410	26,149	43,509
	4,446	20,343	10,193	28,033
Income (loss) before provision for (benefit from) income taxes	36,597	188,892	(197,222)	47,353
Provision for (benefit from) income taxes	13,907	71,779	(74,944)	17,994
Net income (loss)	$22,690	$117,113	$(122,278)	$29,359
Basic earnings (loss) per share	$0.00	$0.01	$(0.02)	$0.00
Diluted earnings (loss) per share	$0.00	$0.01	$(0.02)	$0.00
Weighted average shares outstanding - basic	8,124,386	8,098,366	8,124,386	8,095,876
Weighted average shares outstanding - diluted	8,124,834	8,119,386	8,124,386	8,114,724

See accompanying Notes to Consolidated Financial Statements.

3

ALLIED HEALTHCARE PRODUCTS, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	(Unaudited) December 31, 2011	June 30, 2011
Current assets:		
Cash and cash equivalents	$ 6,251,364	$ 6,512,887
Accounts receivable, net of allowances of $300,000	4,211,786	5,366,860
Inventories, net	11,072,733	10,553,289
Income tax receivable	169,507	95,578
Other current assets	503,979	213,745
Total current assets	22,209,369	22,742,359
Property, plant and equipment, net	8,952,244	8,660,507
Other assets, net	356,359	362,480
Total assets	$ 31,517,972	$ 31,765,346

See accompanying Notes to Consolidated Financial Statements.

(CONTINUED)

4

ALLIED HEALTHCARE PRODUCTS, INC.

CONSOLIDATED BALANCE SHEET

(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) December 31, 2011	June 30, 2011
Current liabilities:		
Accounts payable	$ 2,027,981	$ 1,644,910
Other accrued liabilities	1,468,468	1,645,552
Deferred income taxes	503,894	512,572
Deferred revenue	458,800	688,200
Total current liabilities	4,459,143	4,491,234
Deferred revenue	-	114,700
Commitments and contingencies (note 4)		
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, 2011 and June 30, 2011; 8,124,386 shares outstanding at December 31, 2011 and June 30, 2011	104,279	104,279
Additional paid-in capital	48,520,798	48,499,103
Accumulated deficit	(834,820)	(712,542)
Less treasury stock, at cost; 2,303,492 shares at December 31, 2011 and June 30, 2011	(20,731,428)	(20,731,428)
Total stockholders' equity	27,058,829	27,159,412
Total liabilities and stockholders' equity	$ 31,517,972	$ 31,765,346

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	Six months ended December 31, 2011	2010
Cash flows from operating activities:		
Net income (loss)	$(122,278)	$29,359
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	627,378	753,032
Stock based compensation	21,695	11,659
Provision for doubtful accounts and sales returns and allowances	17,030	19,713
Deferred taxes	(8,678)	(4,663)
Changes in operating assets and liabilities:		
Accounts receivable	1,138,044	1,173,565
Inventories	(519,444)	(268,477)
Income tax receivable	(73,929)	66,318
Other current assets	(290,234)	(15,795)
Accounts payable	383,071	172,964
Deferred revenue	(344,100)	(344,100)
Other accrued liabilities	(177,084)	(587,740)
Net cash provided by operating activities	651,471	1,005,835
Cash flows from investing activities:		
Capital expenditures	(912,994)	(100,622)
Net cash used in investing activities	(912,994)	(100,622)
Cash flows from financing activities:		
Stock options exercised	-	62,484
Excess tax benefit from exercise of stock options	-	8,405
Net cash provided by financing activities	-	70,889
Net (decrease) increase in cash and cash equivalents	(261,523)	976,102
Cash and cash equivalents at beginning of period	6,512,887	5,263,324
Cash and cash equivalents at end of period	$6,251,364	$6,239,426

See accompanying Notes to Consolidated Financial Statements.

6

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Allied Healthcare Products, Inc. (the "Company") have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2011.

Recently Adopted Accounting Pronouncements

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

In July 2010, the FASB issued guidance expanding disclosure requirements related to receivables. The guidance was issued to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The guidance is for receivables, off-balance sheet credit exposures and foreclosed and repossessed assets. The Company's summary of significant accounting policies shall now include: (i) basis for accounting for loans, trade receivables, and lease financing (including those classified as held for sale), (ii) method used in determining the lower of cost or fair value of nonmortgage loans held for sale, (iii) classification and method of accounting for interest-only strips, loans and other receivables and (iv) method for recognizing interest income on loan and trade receivables.

7

In addition, the allowance for credit losses, the allowance for doubtful accounts, and as applicable any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, shall be disclosed in the financial statements. The Company adopted this guidance, as required for both interim and annual reporting periods, for the quarter ended December 31, 2010. The adoption of this guidance does not impact the Company's consolidated results of operations or financial position. The Company has included its Accounts Receivable policy in Note 2 – Summary of Significant Accounting Policies.

Recently Issued Accounting Pronouncements

In September 2011, the FASB issued guidance titled "Disclosures about an Employers Participation in a Multiemployer Plan". The guidance requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures to provide users with more detailed information about an employer's involvement in multiemployer pension plans. The guidance is effective for years ending after December 15, 2011. Adoption of this pronouncement is not expected to have a material impact on the Company's consolidated 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, 2011	June 30, 2011
Work-in progress	$ 872,540	$ 820,586
Component parts	7,883,478	7,858,862
Finished goods	3,690,807	3,293,261
Reserve for obsolete and excess inventory	(1,374,092)	(1,419,420)
	$ 11,072,733	$ 10,553,289

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, 2011 and 2010 were 8,124,386 and 8,098,366, respectively. The number of diluted shares outstanding for the three months ended December 31, 2011 and 2010 were 8,124,834 and 8,119,386, respectively. The number of basic shares outstanding for the six months ended December 31, 2011 and 2010 was 8,124,386 and 8,095,876, respectively. The number of diluted shares outstanding for the six months ended December 31, 2011 and 2010 was 8,124,386 and 8,114,724, 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 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 consolidated 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. As of December 31, 2011, the Company has not recorded a provision for this matter as management intends to vigorously defend this allegation and believes the payment of this claim is not probable. The Company believes, however, that any liability it may incur would not have a material adverse effect on its financial condition or its result of operations.

Armstrong Medical Infringement Litigation. The Company is currently involved in litigation against Armstrong Medical Ltd., relating to the Company's marketing and sale of Litholyme® and a patent owned by Armstrong Medical regarding a carbon dioxide absorbent for use in anesthesiology. In this litigation, the Company asserts that Armstrong Medical's patent is invalid as being anticipated and obvious in light of material prior art and seeks a declaratory judgment that the marketing and sale of Litholyme® does not infringe Armstrong Medical's patent. Armstrong Medical has denied the Company's claims and counterclaimed for infringement. As of December 31, 2011, the Company cannot estimate a loss or range of loss for this matter because damages claimed by Armstrong Medical have not been specified and the proceedings are in early stages.

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 11, 2011 extending the maturity date to November 13, 2012. The Credit Facility will be available on a revolving basis until it expires on November 13, 2012, 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 LIBOR plus 3.50%. 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 90-day LIBOR rate was 0.58% on December 31, 2011.

At December 31, 2011 the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt.

The Company was in compliance with all of the financial covenants associated with the Credit Facility at December 31, 2011.

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,	
	2011	2010	2011	2010
Beginning balance	$630,850	$1,319,050	$802,900	$1,491,100
Revenue recognized as net sales	(172,050)	(172,050)	(344,100)	(344,100)
	458,800	1,147,000	458,800	1,147,000
Less - Current portion of deferred revenue	(458,800)	(688,200)	(458,800)	(688,200)
	$0	$458,800	$0	$458,800

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, 2011, $2,150,000 has been received as a result of product development activities.

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

Results of Operations

Three months ended December 31, 2011 compared to three months ended December 31, 2010

Allied had net sales of $10.7 million for the three months ended December 31, 2011, down from net sales of $11.4 million in the prior year same quarter. Domestic sales were down 10.7% while international sales, which represented 22.0% of second quarter sales, were up 13.3% from the prior year same quarter.

11

Sales for the three months ended December 31, 2011 include $172,050 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at $57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company's products for the three months ended December 31, 2011 of $9.5 million were $1.5 million or 13.6% lower than orders for the prior year same quarter of $11.0 million. Domestic orders are down 17.7% over the prior year same quarter while international orders, which represented 25.3% of second quarter orders, were 2.4% higher than orders for the prior year same quarter. The Company believes the drop in domestic orders from the prior year is due to normal variations in customer order patterns and does not reflect a drop in market share or a further drop in aggregate demand.

Gross Profit for the three months ended December 31, 2011 was $2.7 million, or 25.2% of net sales, compared to $2.8 million, or 24.6% of net sales, for the three months ended December 31, 2010. The decrease in Gross Profit is primarily the result of lower sales volume. The decrease in sales for the quarter also resulted in decreased production in comparison to the prior year and less utilization of fixed overhead cost. Gross Profit during the second quarter was favorably impacted from the prior year by an approximately $0.1 million reduction in shipping and other startup cost at its Stuyvesant Falls facility. In addition, decreases to Gross Profit were further offset by an approximate $0.2 million decrease in fringe benefits. The Company is self-insured for health care costs and has not changed its fringe benefit plans or providers from the prior year. The Company believes that the reduction in fringe benefits is primarily due to a reduction in medical claims by employees and their dependents.

Selling, general and administrative expenses for the three months ended December 31, 2011 were $2.7 million compared to selling, general and administrative expenses of $2.6 million for the three months ended December 31, 2010. Legal fees were approximately $58,000 higher than in the prior year.

Income from operations was $41,043 for the three months ended December 31, 2011 compared to income from operations of $0.2 million for the three months ended December 31, 2010. Allied had income before provision for income taxes in the second quarter of fiscal 2012 of $36,597, compared to $0.2 million in the prior year period.

Net income for the second quarter of fiscal 2012 was $22,690 or $0.00 per basic and diluted share compared to net income of $117,113 or $0.01 per basic and diluted share for the second quarter of fiscal 2011. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the second quarters of fiscal 2012 and 2011 were 8,124,386 and 8,098,366, respectively. The number of diluted shares outstanding for the three months ended December 31, 2011 and 2010 were 8,124,834 and 8,119,386, respectively.

Six months ended December 31, 2011 compared to six months ended December 31, 2010

Allied had net sales of $22.1 million for the six months ended December 31, 2011, down $1.2 million, or 5.2% from net sales of $23.3 million in the prior year same period resulting from lower order levels. Domestic sales were down 7.3% from the prior year same period while international sales were up 2.9% from the prior year same period. International business represented 20.1% of sales for the first six months of fiscal 2012.

Sales for the six months ended December 31, 2011 include $344,100 for the recognition into income of payments resulting from the agreement with Abbott Laboratories to cease the production and distribution of Baralyme®. Income from the agreement will continue to be recognized at $57,350 per month until the expiration of the agreement in August 2012. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®. The Company ceased the sale of Baralyme® on August 27, 2004.

Orders for the Company’s products for the six months ended December 31, 2011 of $20.7 million were $2.1 million or 9.2% lower than orders for the prior year same period of $22.8 million. Domestic orders are down 14.4% over the prior year same period while international orders, which represented 23.3% of orders for the first six months of fiscal 2012, were 14.3% higher than orders for the prior year same period. The Company believes the drop in domestic orders from the prior year is due to normal variations in customer order patterns and does not reflect a drop in market share or a further drop in aggregate demand. The decrease in domestic orders is also partially the result of a decrease in government orders from the prior year. The Company does not believe this fluctuation in government orders represents a decrease in market share, and represents variation in government spending from the prior year period.

Gross Profit for the six months ended December 31, 2011 was $5.1 million, or 23.1% of net sales, compared to $5.4 million, or 23.2% of net sales, for the six months ended December 31, 2010. The decrease in Gross Profit is primarily the result of lower sales than in the prior year. Gross Profit during the first six months was favorably impacted from the prior year by an approximately $0.1 million reduction in shipping and other startup cost at its Stuyvesant Falls facility. Gross Profit during the first six months of fiscal 2012 was also favorably impacted by an approximately $0.2 million decrease in fringe benefits. The Company is self-insured for health care costs and has not changed its fringe benefit plans or providers from the prior year. The Company believes that the reduction in fringe benefits is primarily due to a reduction in medical claims by employees and their dependents.

13

Selling, general and administrative expenses for the six months ended December 31, 2011 were $5.3 million unchanged from selling, general and administrative expenses of $5.3 million for the six months ended December 31, 2010. Sales commissions are approximately $0.1 million lower than in the prior year due to the decrease in sales. This decrease has been offset by legal costs which are approximately $0.1 million higher than in the prior year.

Loss from operations was $0.2 million for the six months ended December 31, 2011 compared to income from operations of $0.1 million for the six months ended December 31, 2010. Allied had a loss before benefit from income taxes in the first six months of fiscal 2012 of $0.2 million, compared to income before provision for income taxes in the first six months of fiscal 2011 of $47,353. The Company recorded a tax benefit of $74,944 for the six months ended December 31, 2011 compared to a tax provision of $17,994 for the six months ended December 31, 2010.

Net loss for the six months ended December 31, 2011 was $122,278 or $0.02 per basic and diluted share compared to net income of $29,359 or $0.00 per basic and diluted share for the first six months of fiscal 2011. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the first six months of fiscal 2012 and 2011 were 8,124,386 and 8,095,876, 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 2012 and 2011 were 8,124,386 and 8,114,724, 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 $17.8 million at December 31, 2011 compared to $18.3 million at June 30, 2011. Cash decreased $0.3 million, accounts payable increased by $0.4 million and accounts receivable decreased $1.2 million. Accounts receivable as measured in days of sales outstanding (“DSO”) was 37 DSO at December 31, 2011; down from 41 DSO at June 30, 2011. At December 31, 2011 these decreases in working capital were offset by an increase in other current assets of $0.3 million and an increase in inventory of $0.5 million. The increase in other current assets is primarily a result of prepayment of the Company’s insurance premiums.

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 has 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. See Note 5 – Financing to the Company’s consolidated unaudited financial statements for more information concerning the Credit Facility.

14

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 LIBOR plus 3.50%. Advances may be prepaid in whole or in part without premium or penalty. The 90-day LIBOR rate was 0.58% on December 31, 2011.

At December 31, 2011 the Company had no aggregate indebtedness, including capital lease obligations, short-term debt and long term debt.

In the event that economic conditions were to severely worsen for a protracted period of time, we believe that we will have borrowing capacity under credit facilities that will provide sufficient financial flexibility. The Company would have options available to ensure liquidity in addition to increased borrowing. Capital expenditures are projected at $1.8 million for the fiscal year ending June 30, 2012. However, capital expenditures in future years could be postponed.

During the first six months of fiscal 2012 the Company has experienced higher prices for raw materials due to increased commodity prices for brass and thermoplastic resins. Brass cost is driven by higher copper prices, the main component. These increases have been partially offset by higher revenues for recycled metals and purchasing initiatives for other components and finished goods.

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.

On May 27, 2011, the Company filed a declaratory judgment action challenging the validity of a patent owned by Armstrong Medical regarding a carbon dioxide absorbent for use in anesthesiology and seeking a declaratory judgment that the Company does not infringe such patent. Among other things, the Company has asserted that Armstrong Medical’s patent is invalid as being anticipated and obvious in light of material prior art. Armstrong Medical has answered, denying the Company’s claims and counterclaiming that the Company’s marketing and sale of Litholyme® infringes Armstrong’s patent. See Part II, Item 1. Legal Proceedings, below for detailed information concerning this litigation. The Company cannot estimate a possible loss or range of loss for this matter because damages claimed by Armstrong Medical have not been specified and the proceedings are in early stages.

Recently Issued Accounting Guidance

The impact and any associated risks related to the Company's critical accounting policies on business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended June 30, 2011.

15

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk

At December 31, 2011, the Company did not have any debt outstanding. The revolving credit facility bears an interest rate using the 90-day LIBOR rate 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, 2011. 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, 2011, 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, 2011 that have materially affected, or are reasonably likely to materially affect, the registrant’s internal control over financial reporting.

16

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

In response to a “cease and desist letter” previously received by the Company from Armstrong Medical Ltd., demanding that the Company stop its marketing and sale of Litholyme®, on May 27, 2011 the Company filed a declaratory judgment action in the United States District Court for the Eastern District of Missouri against Armstrong Medical. The declaratory judgment action challenges the validity of a patent owned by Armstrong Medical regarding a carbon dioxide absorbent for use in anesthesiology on the grounds that such patent is anticipated and obvious in light of material prior art and seeks a declaratory judgment that the Company does not infringe such patent. On September 15, 2011, Armstrong Medical filed an answer denying the Company’s claims and counterclaiming that the Company’s marketing and sale of Litholyme® infringes Armstrong’s patent. The Company has filed answers and affirmative defenses to Armstrong’s counterclaims and the litigation is ongoing.

Item 1A. Risk Factors

Please see the cautionary language regarding forward-looking statements in the introduction to this Report on Form 10-Q and Part I — Item 1A of our Report on Form 10-K for the fiscal year ended June 30, 2011, for information regarding risk factors. Other than the additional risk factor mentioned below, there are no material changes from the risk factors set forth in such Annual Report on Form 10-K.

If our businesses do not perform well, we may be required to establish a valuation allowance against our net deferred income tax asset, which could have a material adverse effect on our net income.

Deferred income taxes represent the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. If, based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. As of June 30, 2011, the Company had deferred tax assets of $1,434,412 offset by deferred tax liabilities of $1,624,971 resulting in a net deferred tax liability of $190,559. Due to the anticipated future reversals of deferred tax liabilities and available tax planning strategies, the Company did not carry a valuation allowance against its deferred tax assets. If the Company does not generate sufficient taxable income in the future, realization of the Company’s deferred tax assets may be dependent on the execution of the available tax planning strategies. In such a case, future facts and circumstances may require a valuation allowance to the extent that the execution of those strategies does not result in the full realization of the Company’s deferred tax assets. Charges to establish a valuation allowance could have a material adverse effect on our net income.

Item 6. Exhibits

(a) Exhibits:

31.1	Certification of Chief Executive Officer (filed herewith)

17

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 13, 2012 announcing second quarter earnings*
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2011, is formatted in XBRL interactive data files: (i) Consolidated Statement of Operations for the three and six months ended December 31, 2011 and 2010; (ii) Consolidated Balance Sheet at December 31, 2011, and June 30, 2011; (iii) Consolidated Statement of Cash Flows for the six months ended December 31, 2011 and 2010; and (iv) Notes to Financial Statements.**

*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.

** As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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 13, 2012