ALLIED HEALTHCARE PRODUCTS INC
Form 10-Q
February 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Action 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

Yes o No x

The number of shares of common stock outstanding at February 7, 2008 is 7,883,577 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, 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, 2007. 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 December 31, 2007	Three months ended December 31, 2006	Six months ended December 31, 2007	Six months ended December 31, 2006
Net sales	$ 13,626,016	$ 14,273,950	$ 27,727,634	$ 28,751,392
Cost of sales	10,714,172	10,757,222	21,648,777	21,715,111
Gross profit	2,911,844	3,516,728	6,078,857	7,036,281
Selling, general and administrative expenses	2,932,428	3,091,418	5,975,398	6,282,415
Income (loss) from operations	(20,584)	425,310	103,459	753,866
Interest income	(38,177)	(28,059)	(78,946)	(56,228)
Other, net	11,113	(53,182)	26,263	(43,878)
	(27,064)	(81,241)	(52,683)	(100,106)
Income before provision for income taxes	6,480	506,551	156,142	853,972
Provision for income taxes	-	213,395	62,597	359,183
Net income	$ 6,480	$ 293,156	$ 93,545	$ 494,789
Basic and diluted earnings per share	$ 0.00	$ 0.04	$ 0.01	$ 0.06
Weighted average shares outstanding - basic	7,883,577	7,877,120	7,883,577	7,868,512
Weighted average shares outstanding - diluted	8,130,901	8,059,573	8,122,607	8,064,650

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.
CONSOLIDATED BALANCE SHEET
ASSETS

	December 31, 2007 (Unaudited)	June 30, 2007
Current assets:		
Cash and cash equivalents	$ 4,732,692	$ 3,638,870
Accounts receivable, net of allowances of $325,000 and $460,000, respectively	6,190,756	7,251,767
Inventories, net	11,810,149	12,999,472
Other current assets	523,486	275,254
Total current assets	23,257,083	24,165,363
Property, plant and equipment, net	10,267,716	10,677,000
Goodwill	15,979,830	15,979,830
Other assets, net	562,161	496,127
Total assets	$ 50,066,790	$ 51,318,320

See accompanying Notes to Consolidated Financial Statements.

(CONTINUED)

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

	December 31, 2007 (Unaudited)	June 30, 2007
Current liabilities:		
Accounts payable	$ 2,719,389	$ 3,040,313
Other accrued liabilities	1,945,603	2,508,820
Deferred income taxes	726,861	882,001
Deferred revenue	465,000	465,000
Total current liabilities	5,856,853	6,896,134
Deferred revenue	1,705,000	1,937,500
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding	-	-
Series A preferred stock; $0.01 par value; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock; $0.01 par value; 30,000,000 shares authorized; 10,187,069 shares issued at December 31, 2007 and June 30, 2007; 7,883,577 shares outstanding at December 31, 2007 and June 30, 2007	101,871	101,871
Additional paid-in capital	47,479,012	47,441,163
Retained earnings	15,655,482	15,673,080
Less treasury stock, at cost; 2,303,492 shares at December 31, 2007 and June 30, 2007	(20,731,428)	(20,731,428)
Total stockholders' equity	42,504,937	42,484,686
Total liabilities and stockholders' equity	$ 50,066,790	$ 51,318,320

See accompanying Notes to Consolidated Financial Statements.

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

	Six months ended December 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 93,545	$ 494,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	667,929	605,260
Stock based compensation	37,849	39,036
Provision for doubtful accounts and sales returns and allowances	(100,477)	(36,231)
Deferred tax benefit	(15,140)	(12,754)
Loss on disposition of equipment	5,228	-
Changes in operating assets and liabilities:		
Accounts receivable	1,161,488	107,990
Inventories	1,189,323	(696,287)
Other current assets	(248,232)	(273,301)
Accounts payable	(320,924)	457,417
Deferred revenue	(232,500)	(232,500)
Other accrued liabilities	(849,766)	(164,121)
Net cash provided by operating activities	1,388,323	289,298
Cash flows from investing activities:		
Capital expenditures	(259,501)	(252,498)
Purchase of intangible asset	(35,000)	-
Net cash used in investing activities	(294,501)	(252,498)
Cash flows from financing activities:		
Stock options exercised	-	81,090
Excess tax benefit from exercise of stock options	-	28,424
Net cash provided by financing activities	-	109,514
Net increase in cash and cash equivalents	1,093,822	146,314
Cash and cash equivalents at beginning of period	3,638,870	2,696,324
Cash and cash equivalents at end of period	$ 4,732,692	$ 2,842,638

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, 2007.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition.

The Company adopted FIN 48 as of July 1, 2007. The cumulative effect of adopting FIN 48 has been recorded as a net decrease to retained earnings of $111,143. On the date of adoption of FIN 48, and December 31, 2007, the Company had approximately $220,000 of unrecognized tax benefits. Of the unrecognized tax benefits at December 31, 2007, approximately $82,000 would impact the Company's effective income tax rate if recognized.

The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax returns for the fiscal years ended June 30, 2005 and 2006 in the third quarter of fiscal 2007. The examination is anticipated to be complete by the end of fiscal 2008. As of December 31, 2007 the IRS has discussed certain potential adjustments with the Company. Management is currently evaluating those potential adjustments to determine if it agrees, but if accepted the Company does not anticipate the adjustments would result in a material change in its financial position. Due to the ongoing IRS examination, the Company anticipates that it is reasonably possible that the unrecognized tax benefits may increase or decrease, but are unable to reasonably estimate the range.

The Company's federal income tax returns for the tax fiscal years 2004 and after remain subject to examination. The various states in which the Company is subject to income tax are generally open for the tax fiscal years 2004 and after.

The Company classifies interest expenses on taxes payable as interest expense. The Company classifies penalties as a component of other expenses. The total interest and penalty expense related to tax uncertainties recognized for the three and six months ended December 31, 2007 were approximately $5,000 and $10,000, respectively. Accrued interest and penalties of $75,000 related to income tax uncertainties were recognized as a component of other noncurrent liabilities at December 31, 2007.

2. Inventories

Inventories are comprised as follows:

	December 31, 2007	June 30, 2007
Work-in progress	$ 1,033,680	$ 742,890
Raw materials and component parts	7,733,760	8,544,226
Finished goods	4,101,149	4,812,220
Reserve for obsolete and excess inventory	(1,058,440)	(1,099,864)
	$ 11,810,149	$ 12,999,472

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, 2007 and 2006 was 7,883,577 and 7,877,120 respectively. The number of diluted shares outstanding for the three months ended December 31, 2007 and 2006 was 8,130,901 and 8,059,573 respectively. The number of basic shares outstanding for the six months ended December 31, 2007 and 2006 was 7,883,577 and 7,868,512 respectively. The number of diluted shares outstanding for the six months ended December 31, 2007 and 2006 was 8,122,607 and 8,064,650 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 1, 2005, 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 from April 24, 2007 to September 1, 2008. Based on the Company's current level of debt, and performance, debt would bear interest at the Bank's prime rate. The prime rate was 7.25% on December 31, 2007. 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 also provides 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 4.73% at December 31, 2007.

At December 31, 2007 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, 2007.

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, 2007	Three Months ended December 31, 2006	Six Months ended December 31, 2007	Six Months ended December 31, 2006
Beginning balance	$ 2,286,250	$ 1,821,250	$ 2,402,500	$ 1,937,500
Payment Received from Abbott Laboratories	-	-	-	-
Revenue recognized as net sales	(116,250)	(116,250)	(232,500)	(232,500)
	2,170,000	1,705,000	2,170,000	1,705,000
Less - Current portion of deferred revenue	(465,000)	(465,000)	(465,000)	(465,000)
	$ 1,705,000	$ 1,240,000	$ 1,705,000	$ 1,240,000

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, 2007; $952,000 has been received, and $451,000 is receivable, as a result of product development activities. For the three and six months ended December 31, 2007; $451,000 and $549,000, have been included in Net Sales, respectively. For the three and six months ended December 31, 2007; $451,000 and $549,000 have 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, 2007 compared to three months ended December 31, 2006.

Allied had net sales of $13.6 million for the three months ended December 31, 2007, down $0.7 million, or 4.9%, from net sales of $14.3 million in the prior year same quarter, as a result of lower customer purchase order releases. Customer orders were $0.4 million higher than in the prior year same quarter, however, customer purchase order releases were $1.0 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 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®. Sales for the three months ended December 31, 2007 also include $451,000 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.

The Company ceased the sale of Baralyme® on August 27th, 2004. Sales for the three months ended December 31, 2006 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®. Sales for the three months ended December 31, 2006 also include $190,000 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 $38,750 per month. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®.

Domestic sales were down 2.8% from the prior year same quarter, while international business, which represented 17.9% of second quarter sales, was down 11.8%. Orders for the Company's products for the three months ended December 31, 2007 of $13.7 million were $0.4 million or 3.0% higher than orders for the prior year same quarter of $13.3 million. Domestic orders are up 4.9% over the prior year same quarter while international orders which represented 19.5% of second quarter orders, was down 4.4%.

Gross profit for the three months ended December 31, 2007 was $2.9 million, or 21.4% of net sales, compared to $3.5 million, or 24.6% of net sales, for the three months ended December 31, 2006. The decrease in gross profit as a percent of sales is primarily due to lower sales volume and a decrease in inventory. The lower level of sales combined with the $0.4 million decrease in inventory results in less effective utilization of the Company's manufacturing capacity and the fixed expenses associated with that capacity. Cost of sales for the three months ended December 31, 2007 also included $451,000 as a result of product development of a new carbon dioxide absorption product.

Selling, general and administrative expenses for the three months ended December 31, 2007 were $2.9 million, a net decrease of $0.2 million, or 6.5%, from $3.1 million for the three months ended December 31, 2006. Salaries and benefits decreased by $122,000 from the prior year same quarter as a result of employee turnover. There have not been changes to staffing levels from the prior year. Research and development expenses decreased by approximately $60,000 from the same quarter of the prior year, and insurance expense also improved approximately $20,000 from the same quarter of the prior year.

Loss from operations was $20,584 for the three months ended December 31, 2007 compared to income from operations of $0.4 million for the three months ended December 31, 2006. Interest income was $43,327 for the three months ended December 31, 2007 compared to interest income of $28,059 for the three months ended December 31, 2006. Allied had income before provision for income taxes in the second quarter of fiscal 2008 of $6,480, compared to income before provision for income taxes in the second quarter of fiscal 2007 of $0.5 million. The Company did not record a tax provision for the three-months ended December 31, 2007, compared to a tax provision of $0.2 million for the three months ended December 31, 2006.

Net income for the second quarter of fiscal 2008 was $6,480 or $0.00 per basic and diluted share compared to net income of $0.3 million or $0.04 per basic and diluted share for the second quarter of fiscal 2007. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the second quarters of fiscal 2008 and 2007 were 7,883,577 and 7,877,120 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 2008 and fiscal 2007 were 8,130,901 and 8,059,573 shares, respectively.

Six Months ended December 31, 2007 compared to six months ended December 31, 2006.

Allied had net sales of $27.7 million for the six months ended December 31, 2007, down $1.1 million, or 3.8%, from net sales of $28.8 million in the prior year same period. The overall sales decrease is primarily due to lower customer purchase order releases. Customer orders were $0.2 million lower than in the prior year same period, however, 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, 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. 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.

The Company ceased the sale of Baralyme® on August 27th, 2004. Sales for the six months ended December 31, 2006 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, 2006 also include $340,000 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 $38,750 per month. Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®.

Domestic sales were down 6.4% from the first six months of the prior year, while international business, which represented 19.8% of the first six months of sales, was up 10.0%. Orders for the Company's products for the six months ended December 31, 2007 of $26.9 million were $0.2 million or 0.7% lower than orders for the prior year same period of $27.1 million. International orders are down 8.2% over the prior year same period while domestic orders are up 0.8% over the prior year same period. The Company believes that the decrease in international orders, primarily for international construction projects, is a result of order timing, and is not reflective of a loss of market share.

Gross profit for the six months ended December 31, 2007 was $6.1 million, or 21.9% of net sales, compared to $7.0 million, or 24.5% of net sales, for the six months ended December 31, 2006. The decrease in gross profit as a percent of sales is primarily due to lower sales volume and a decrease in inventory. The lower level of sales combined with the $1.2 million decrease in inventory results in less effective utilization of the Company's manufacturing capacity and the fixed expenses associated with that capacity. Cost of sales for the six months ended December 31, 2007 also included $549,000 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, 2007 were $6.0 million, a net decrease of $0.3 million, or 4.8%, from $6.3 million for the six months ended December 31, 2006. Salaries and benefits decreased by $0.1 million from the prior year primarily as a result of employee turnover. There have not been changes in staffing levels over the prior year. The decrease in selling, general and administrative expense also includes a decrease of approximately $0.1 million for relocation expense and a $0.1 million decrease in research and development expenses.

Income from operations was $0.1 million for the six months ended December 31, 2007 compared to $0.8 million for the six months ended December 31, 2006. Interest income was $84,096 for the six months ended December 31, 2007 compared to interest income of $56,228 for the six months ended December 31, 2006. Allied had income before provision for income taxes for the first six months of fiscal 2008 of $0.2 million, compared to income before provision for income taxes for the first six months of fiscal 2007 of $0.9 million. The Company recorded a tax provision of $0.1 million for the six-month period ended December 31, 2007, versus a tax provision of $0.4 million for the six-month period ended December 31, 2006.

In fiscal 2008, the net income for the first six months was $0.1 million or $0.01 per basic and diluted share compared to net income of $0.5 million or $0.06 per basic and diluted share for the first six months of fiscal 2007. The weighted average number of common shares outstanding, used in the calculation of basic earnings per share for the first six months of fiscal 2008 and 2007 were 7,883,577 and 7,868,512 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 2008 and fiscal 2007 were 8,122,607 and 8,064,650 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 $17.4 million at December 31, 2007 compared to $17.3 million at June 30, 2007. Cash and cash equivalents increased by $1.1 million. Other current assets increased $0.2 million as a result of an increase in prepaid insurance and accrued liabilities decreased $0.6 million. Accounts payable decreased $0.3 million and deferred income taxes decreased $0.2 million. At December 31, 2007 these increases in working capital were offset by a decrease in inventory of $1.2 million and $1.1 million decrease in accounts receivable to $6.2 million at December 31, 2007, due to a decrease in sales. Accounts receivable as measured in days of sales outstanding ("DSO") decreased to 38 DSO at December 31, 2007, down from 45 DSO at June 30, 2007.

On September 1, 2005, 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 from April 24, 2007 to September 1, 2008. Based on the Company's current level of debt, and performance, debt would bear interest at the Bank's prime rate. The prime rate was 7.25% on December 31, 2007. 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 also provides 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 4.73% at December 31, 2007.

At December 31, 2007 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, 2007.

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 $1.5 million for the fiscal year ended June 30, 2008, could be postponed. At December 31, 2007, 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 June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition.

The Company adopted FIN 48 as of July 1, 2007. The cumulative effect of adopting FIN 48 has been recorded as a net decrease to retained earnings of $111,143. On the date of adoption of FIN 48, and December 31, 2007, the Company had approximately $220,000 of unrecognized tax benefits. Of the unrecognized tax benefits at December 31, 2007, approximately $82,000 would impact the Company's effective income tax rate if recognized.

The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax returns for the fiscal years ended June 30, 2005 and 2006 in the third quarter of fiscal 2007. The examination is anticipated to be complete by the end of fiscal 2008. As of December 31, 2007 the IRS has discussed certain potential adjustments with the Company. Management is currently evaluating those potential adjustments to determine if it agrees, but if accepted the Company does not anticipate the adjustments would result in a material change in its financial position. Due to the ongoing IRS examination, the Company anticipates that it is reasonably possible that the unrecognized tax benefits may increase or decrease, but are unable to reasonably estimate the range.

The Company's federal income tax returns for the tax fiscal years 2004 and after remain subject to examination. The various states in which the Company is subject to income tax are generally open for the tax fiscal years 2004 and after.

The Company classifies interest expenses on taxes payable as interest expense. The Company classifies penalties as a component of other expenses. The total interest and penalty expense related to tax uncertainties recognized for the three and six months ended December 31, 2007 were approximately $5,000 and $10,000, respectively. Accrued interest and penalties of $75,000 related to income tax uncertainties were recognized as a component of other noncurrent liabilities at December 31, 2007.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

At December 31, 2007, 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, 2007. Allied Healthcare Products 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

(a) As of December 31, 2007, the Company, under the supervision, and with the participation, of its management, including its principal executive officer and principal financial officer, performed an evaluation of the Company's disclosure controls and procedures, as contemplated by Securities Exchange Act Rule 13a-15. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that such disclosure controls and procedures were effective as of December 31, 2007.

(b) There has been no change in our internal controls over financial reporting during the quarter ended December 31, 2007, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

31.1 Certification of Chief Executive Officer (filed herewith)

31.2 Certification of Chief Financial Officer (filed herewith)

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

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

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

SIGNATURE

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

ALLIED HEALTHCARE PRODUCTS, INC.

/s/ Daniel C. Dunn

Daniel C. Dunn
Chief Financial Officer

Date: February 8, 2008