

ALLIED HEALTHCARE PRODUCTS INC  
Form 10-K  
September 26, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year June 30, 2014

OR

**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 (I.R.S. employer identification no.)  
Incorporation or organization)  
1720 Sublette Avenue  
St. Louis, Missouri **63110**  
(Address of principal executive offices) (zip code)

**Registrant's telephone number, including area code (314) 771-2400**

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**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

Title of each class	Name of each exchange on which registered
Common Stock, \$.01	The NASDAQ Stock Market LLC

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:** None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

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 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes.  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 (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes.  No.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 12 b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12 b-2). Yes " No  
x

As of December 31, 2013, the last business day of the registrant's most recently completed second fiscal quarter; the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$10,181,924.

As of September 5, 2014, there were 8,027,147 shares of common stock, \$0.01 par value (the "Common Stock"), outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Proxy Statement to be filed within 120 days after June 30, 2014 (portion) (Part III)

**ALLIED HEALTHCARE PRODUCTS, INC.**

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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, impacts of the U.S. Affordable Care Act and specific matters which relate directly to the Company’s operations and properties as discussed in Items 1, 1A, 3 and 7 of this Report. 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

**Item 1. Business**

**General**

Allied Healthcare Products, Inc. (“Allied”, the “Company”, “we”, or “us”) manufactures a variety of respiratory products used in the health care industry in a wide range of hospital and alternate site settings, including sub-acute care facilities, home health care and emergency medical care. The Company’s product lines include respiratory care products, medical gas equipment and emergency medical products. The Company believes that it maintains significant market shares in selected product lines.

The Company’s products are marketed under well-recognized and respected brand names to hospitals, hospital equipment dealers, hospital construction contractors, home health care dealers, emergency medical products dealers and others. Allied’s product lines include:

**Respiratory Care Products**

respiratory care/anesthesia products

- home respiratory care products

**Medical Gas Equipment**

- medical gas system construction products
- medical gas system regulation devices
- disposable oxygen and specialty gas cylinders
- portable suction equipment

**Emergency Medical Products**

- respiratory/resuscitation products
- trauma and patient handling products

The Company's principal executive offices are located at 1720 Sublette Avenue, St. Louis, Missouri 63110, and its telephone number is (314) 771-2400.

**Markets and Products**

In fiscal 2014, respiratory care products, medical gas equipment and emergency medical products represented approximately 27%, 53% and 20%, respectively, of the Company's net sales. In comparison, in fiscal 2013, respiratory care products, medical gas equipment and emergency medical products represented approximately 23%, 57%, and 20%, respectively, of the Company's net sales. The Company operates in a single industry segment and its principal products are described in the following table:

<b>Product</b>	<b>Description</b>	<b>Principal Brand Names</b>	<b>Primary Users</b>
<b><i>Respiratory Care Products</i></b>			
Respiratory Care/Anesthesia Products	Large volume compressors; ventilator calibrators; humidifiers and mist tents; and carbon dioxide absorbent	Timeter; Carbolime®;  Lytholyme®	Hospitals and sub-acute facilities
Home Respiratory Care Products	O2 cylinders; pressure regulators; nebulizers; portable large volume compressors; portable suction equipment and disposable respiratory products	Timeter; B&F; Schuco	Patients at home
<b><i>Medical Gas Equipment</i></b>			
Construction Products	In-wall medical gas system components; central station pumps and compressors and headwalls	Chemetron; Oxequip	Hospitals and sub-acute facilities
Regulation Devices	Flowmeters; vacuum regulators; pressure regulators and related products	Chemetron; Oxequip; Timeter	Hospitals and sub-acute facilities
Disposable Cylinders	Disposable oxygen and gas cylinders	Lif-O-Gen	First aid providers and specialty gas distributors
Suction Equipment	Portable suction equipment and disposable suction canisters	Gomco; Allied; Schuco	Hospitals, sub-acute facilities and homecare products
<b><i>Emergency Medical Products</i></b>			
Respiratory/Resuscitation	Demand resuscitation valves; bag mask resuscitators; emergency transport ventilators, oxygen regulators, SurgeX - surge suppressing post valve, and mass casualty ventilation line	LSP; Omni-Tech	Emergency service providers
Trauma and Patient Handling Products	Spine immobilization products; pneumatic anti-shock garments, trauma burn kits and Xtra backboards	LSP	Emergency service providers

**Respiratory Care Products**

**Market.** Respiratory care products are used in the treatment of acute and chronic respiratory disorders such as asthma, emphysema, bronchitis and pneumonia. Respiratory care products are used in both hospitals and alternate care settings. Sales of respiratory care products are made through distribution channels focusing on hospitals and other sub-acute facilities. Sales of home respiratory care products are made through durable medical equipment dealers through telemarketing, and by contract sales with national chains.

**Respiratory Care/Anesthesia Products.** The Company manufactures and sells a broad range of products for use in respiratory care and anesthesia delivery, including carbon dioxide absorbents. These products include large volume air compressors, calibration equipment, humidifiers, croup tents, equipment dryers and a complete line of respiratory disposable products such as oxygen tubing, facemasks, cannulas and ventilator circuits.



**Home Respiratory Care Products.** Home respiratory care products represent one of Allied's potential growth areas. Allied's broad line of home respiratory care products include aluminum oxygen cylinders, oxygen regulators, pneumatic nebulizers, portable suction equipment and a full line of respiratory disposable products.

## Medical Gas Equipment

**Market.** The market for medical gas equipment consists of hospitals, alternate care settings and surgery centers. The medical gas equipment group is broken down into three separate categories: construction products, regulation devices and suction equipment, and disposable cylinders.

**Construction Products.** Allied's medical gas system construction products consist of in-wall medical system components, central station pumps and compressors, and headwalls. These products are typically installed during construction or renovation of a health care facility and are built in as an integral part of the facility's physical plant. Typically, the contractor for the facility's construction or renovation purchases medical gas system components from manufacturers and ensures that the design specifications of the health care facility are met.

Allied's in-wall components, including outlets, manifolds, alarms, ceiling columns and zone valves, serve a fundamental role in medical gas delivery systems.

Central station pumps and compressors are individually engineered systems consisting of compressors, reservoirs, valves and controls designed to drive a hospital's medical gas and suction systems. Each system is designed specifically for a given hospital or facility, which purchases pumps and compressors from suppliers. The Company's sales of pumps and compressors are driven, in large part, by its share of the in-wall components market.

The Company's construction products are sold primarily to hospitals, alternate care settings and hospital construction contractors. The Company believes that it holds a significant share of the U.S. market for its construction products, that these products are installed in more than three thousand hospitals in the United States and that its installed base of equipment in this market will continue to generate follow-on sales. The Company believes that most hospitals and sub-acute care facility construction spending is for expansion or renovation of existing facilities. Many hospital systems and individual hospitals undertake major renovations to upgrade their operations to improve the quality of care they provide, reduce costs and attract patients and personnel.

**Regulation Devices and Suction Equipment.** The Company's medical gas system regulation products include flowmeters, vacuum regulators and pressure regulators, as well as related adapters, fittings and hoses which measure,

regulate, monitor and help transfer medical gases from walled piping or equipment to patients in hospital rooms, operating theaters or intensive care areas. The Company's leadership position in the in-wall components market provides a competitive advantage in marketing medical gas system regulation devices that are compatible with those components.

Portable suction equipment is typically used when in-wall suction is not available or when medical protocol specifically requires portable suction. The Company also manufactures disposable suction canisters, which are clear containers used to collect the fluids suctioned by in-wall or portable suction systems. The containers have volume calibrations, which allow the medical practitioner to measure the volume of fluids suctioned.

The market for regulation devices and suction equipment includes hospital and sub-acute care facilities. Sales of these products are made through the same distribution channel as our respiratory care products. The Company believes that it holds a significant share of the U.S. market in both regulation devices and suction equipment.

***Disposable Cylinders.*** Disposable oxygen cylinders are designed to provide oxygen for short periods of time in emergency situations. Since they are not subjected to the same pressurization as standard containers, they are much lighter and less expensive than standard gas cylinders. The Company markets filled disposable oxygen cylinders through industrial safety distributors and similar customers, principally to first aid providers, restaurants, industrial plants and other customers that require oxygen for infrequent emergencies.

## **Emergency Medical Products**

**Market.** Emergency medical products are used in the treatment of trauma-induced injuries. The Company's emergency medical products provide patient resuscitation or ventilation during cardiopulmonary resuscitation or respiratory distress as well as immobilization and treatment for burns. The Company expects that additional countries will develop trauma care systems in the future, although no assurance can be given that such systems will develop or that they will have a favorable impact on the Company. Sales of emergency medical products are made through specialized emergency medical products distributors to ambulance companies, fire departments and emergency medical systems volunteer organizations.

The emergency medical products are broken down into two categories: respiratory/resuscitator products and trauma patient handling products.

**Respiratory/Resuscitation Products.** The Company's respiratory/resuscitation products include demand resuscitation valves, portable resuscitation systems, bag masks and related products, emergency transport ventilators, precision oxygen regulators, minilators, multilators and humidifiers.

Demand resuscitation valves are designed to provide 100% oxygen to breathing or non-breathing patients. In an emergency situation, they can be used with a mask or tracheotomy tubes and operate from a standard regulated oxygen system. The Company's portable resuscitation systems provide fast, simple and effective means of ventilating a non-breathing patient during cardiopulmonary resuscitation and 100% oxygen to breathing patients on demand with minimal inspiratory effort. The Company also markets a full line of disposable and reusable bag mask resuscitators, which are available in a variety of adult and child-size configurations. Disposable mouth-to-mask resuscitation systems have the added advantage of reducing the risk of transmission of communicable diseases.

The Company's autovent transport ventilator can meet a variety of needs in different applications ranging from typical emergency medical situations to more sophisticated air and ground transport. Each autovent is accompanied by a patient valve, which provides effective ventilation during cardiopulmonary resuscitation or respiratory distress. When administration of oxygen is required at the scene of a disaster, in military field hospitals or in a multiple-victim incident, Allied's minilators and multilators are capable of providing oxygen to one or a large number of patients.

The Company's transport and mass casualty ventilation line has been designed to meet the unique ventilation demands that affect everyday inter-hospital and intra-hospital transport scenarios, and amplify exponentially during a mass casualty event or pandemic. Our ventilators for transport and mass casualty are rugged, easy to operate, and capable of providing reliable ventilation even in unpredictable environments and conditions. Additionally, they are affordable to purchase and require little periodic maintenance, minimizing the cost of ownership over time. Our newest

ventilator, the AHP300, is a broad featured transport ventilator that carries the capabilities of critical care ventilators, but is offered at a fraction of the cost of ownership of other ventilators in its field. This value, combined with its rugged build and ease of use make it an attractive ventilator for pre-hospital and intra hospital transport, and an ideal ventilator for pandemic and mass casualty applications.

To complement the family of respiratory/resuscitation products, the Company offers a full line of oxygen product accessories. This line of accessory products includes reusable aspirators, tru-fit masks, disposable cuffed masks and related accessories.

***Trauma and Patient Handling Products.*** The Company's trauma and patient handling products include spine immobilization products, pneumatic anti-shock garments and trauma burn kits. Spine immobilization products include a backboard that is designed for safe immobilization of injury victims and provides a durable and cost effective means of emergency patient transportation and extrication. The infant/pediatric immobilization board is durable and scaled for children. The half back extractor/rescue vest is useful for both suspected cervical/spinal injuries and for mountain and air rescues. The Company's pneumatic anti-shock garments are used to treat victims experiencing hypovolemic shock. Allied's trauma burn kits contain a comprehensive line of products for the treatment of trauma and burns.

## **Sales and Marketing**

Allied sells its products primarily to hospitals, hospital equipment dealers, hospital construction contractors, home health care dealers, emergency medical products dealers and others. The Company maintains a sales force of 16 sales professionals, all of whom are full-time employees of the Company.

The sales force includes seven domestic hospital, homecare and emergency specialists, three domestic construction specialists, and three international sales representatives. A total of three sales managers lead each of the sales groups. Two product managers are responsible for the marketing activities of our product lines.

The domestic hospital specialists are responsible for sales of all Allied products with the exception of construction products within their territory. Sales of hospital products are accomplished through respiratory care/anesthesia distributors for the regulation devices, suction equipment, respiratory care/anesthesia products and disposable cylinders. The domestic construction specialists are responsible for sales of all Allied construction products within their territory. Emergency products are principally sold to ambulance companies, fire departments and emergency medical systems volunteer organizations through specialized emergency medical products distributors.

Construction products are sold direct to hospital construction contractors and through distributors.

The Company's international specialists sell all Allied products within their territory. Allied's net sales to foreign markets totaled 25% of total net sales in fiscal 2014, 24% in 2013 and 22% in 2012. International sales are made through a network of dealers, agents and U.S. exporters who distribute the Company's products throughout the world. Allied has market presence in Canada, Mexico, Central and South America, Europe, the Middle East and the Far East.

## **Manufacturing**

Allied's manufacturing processes include fabrication, electro-mechanical assembly operations, plastics manufacturing, and chemical processing with automated packaging. A significant part of Allied's manufacturing operations involves electro-mechanical assembly of proprietary products and the Company is vertically integrated in most elements of metal machining and fabrication. Most of Allied's hourly employees are involved in machining, metal fabrication, plastics manufacturing and product assembly.

Allied manufactures small metal components from bar stock in a machine shop, which includes automatic screw machines, horizontal lathes and drill presses and computer controlled machining centers. The Company makes larger metal components from sheet metal using computerized punch presses, brake presses and shears. In its plastics manufacturing processes, the Company utilizes both extrusion and injection molding. In its chemical process, the Company utilizes mixing, drying, and sizing equipment. The Company believes that its production facilities and equipment are in good condition and sufficient to meet planned increases in volume over the next few years and that the conditions in local labor markets should permit the implementation of additional shifts and days operated.

## **Research and Development**

Allied Healthcare Products' research and development group is responsible for the development of new products. This group is staffed with mechanical and electrical engineers.

During fiscal year 2014 the research and development group completed the design and FDA review of the AHP300 and AHP300P ventilators.

The group is actively working on other products that were not released during the fiscal year 2014.

## Government Regulation

The Company's products and its manufacturing activities are subject to extensive and rigorous government regulation by federal and state authorities in the United States and other countries. In the United States, medical devices for human use are subject to comprehensive review by the United States Food and Drug Administration (the "FDA"). The Federal Food, Drug, and Cosmetic Act ("FDC Act"), and other federal statutes and regulations, govern or influence the research, testing, manufacture, safety, labeling, storage, record keeping, approval, advertising and promotion of such products. Noncompliance with applicable requirements can result in warning letters, fines, recall or seizure of products, injunction, refusal to permit products to be imported into or exported out of the United States, refusal of the government to clear or approve marketing applications or to allow the Company to enter into government supply contracts, or withdrawal of previously approved marketing applications and criminal prosecution.

The Company is required to file a premarket notification in the form of a premarket approval ("PMA") with the FDA before it begins marketing a new medical device that offers new technology that is currently not on the market. The Company also must file a premarket notification in the form of a 510(k) with the FDA before it begins marketing a new medical device that utilizes existing technology for devices that are currently on the market. The 510(k) submission process is also required when the Company makes a change or modifies an existing device in a manner that could significantly affect the device's safety or effectiveness.

Compliance with the regulatory approval process in order to market a new or modified medical device can be uncertain, lengthy and, in some cases, expensive. There can be no assurance that necessary regulatory approvals will be obtained on a timely basis, or at all. Delays in receipt or failure to receive such approvals, the loss of previously received approvals, or failure to comply with existing or future regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company manufactures and distributes a broad spectrum of respiratory therapy equipment, emergency medical equipment and medical gas equipment. To date, all of the Company's FDA clearances have been obtained through the 510(k) clearance process. These determinations are very fact specific and the FDA has stated that, initially, the manufacturer is best qualified to make these determinations, which should be based on adequate supporting data and documentation. The FDA however, may disagree with a manufacturer's determination not to file a 510(k) and require the submission of a new 510(k) notification for the changed or modified device. Where the FDA believes that the change or modification raises significant new questions of safety or effectiveness, the agency may require a manufacturer to cease distribution of the device pending clearance of a new 510(k) notification. Certain of the Company's medical devices have been changed or modified subsequent to 510(k) marketing clearance of the original device by the FDA. Certain of the Company's medical devices, which were first marketed prior to May 28, 1976, and therefore, grandfathered and exempt from the 510(k) notification process, also have been subsequently changed or

modified. The Company believes that these changes or modifications do not significantly affect the devices' safety or effectiveness, or make a major change or modification in the devices' intended uses and, accordingly, submission of new 510(k) notification to the FDA is not required. There can be no assurance, however, that the FDA would agree with the Company's determinations.

In addition, commercial distribution in certain foreign countries is subject to additional regulatory requirements and receipt of approvals that vary widely from country to country. The Company believes it is in compliance with regulatory requirements of the countries in which it sells its products.



The Medical Device Reporting regulation requires that the Company provide information to the FDA on deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. The Medical Device Tracking regulation requires the Company to adopt a method of device tracking of certain devices, such as ventilators, which are life-supporting or life-sustaining devices used outside of a device user facility, some of which are permanently implantable devices. The regulation requires that the method adopted by the Company will ensure that the tracked device can be traced from the device manufacturer to the person for whom the device is indicated (i.e., the patient). In addition, the FDA prohibits a company from promoting an approved device for unapproved applications and reviews a company's labeling for accuracy. Labeling and promotional activities also are in certain instances, subject to scrutiny by the Federal Trade Commission.

The Company's medical device manufacturing facilities are registered with the FDA, and have received ISO 9001 certification under the Medical Device Directive (MDD - European) for certain products in 1998. The Company's St. Louis facility is ISO 9000 certified. The Company is subject to audit by the FDA, International Organization for Standardization ("ISO"), and European auditors for compliance with the Good Manufacturing Practices ("GMP"), the ISO and MDD regulations for medical devices. These regulations require the Company to manufacture its products and maintain its products and documentation in a prescribed manner with respect to design, manufacturing, testing and control activities. The Company also is subject to the registration and inspection requirements of state regulatory agencies.

There can be no assurance that any required FDA or other governmental approval will be granted, or, if granted, will not be withdrawn. Governmental regulation may prevent or substantially delay the marketing of the Company's proposed products and cause the Company to undertake costly procedures. In addition, the extent of potentially adverse government regulation that might arise from future administrative action or legislation cannot be predicted. Any failure to obtain, and maintain, such approvals could adversely affect the Company's ability to market its products or proposed products.

Sales of medical devices outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Medical products shipped to the European Community generally require CE certification. The letters "CE" are an abbreviation of Conformité Européenne, French for European conformity. Whether or not FDA approval has been obtained, approval of a device by a comparable regulatory authority of a foreign country generally must be obtained prior to the commencement of marketing in those countries. The time required to obtain such approvals may be longer or shorter than that required for FDA approval. In addition, FDA approval may be required under certain circumstances to export certain medical devices.

The Company is also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protections, fire hazard control and disposal of hazardous or potentially hazardous substances.

### **Patents, Trademarks and Proprietary Technology**

The company owns and maintains domestic and foreign patents on several products it believes are useful to the business and provided the Company with an advantage over its competitors. During fiscal 2014 the company received a US patent on the EPV200 ventilator and is pursuing patents on the AHP300 ventilator. Several foreign patents were issued for the Litholyme® carbon dioxide absorbent product. The company continues to seek foreign patents on the EPV200 and AHP300 ventilators.

Patents which will expire in the period of 2014 to 2031 in the aggregate are believed to be of material importance in the operation of Allied's business. Allied believes no single patent, except that related to Litholyme®, is material in relation to Allied's future business as a whole. Although the expiration of an individual patent may lead to increased competition, other factors such as a competitors need to obtain regulatory approvals prior to marketing a competitive product and the nature of the market, may allow Allied to continue to have commercial advantages after the expiration of the patent.

The company owns and maintains U.S. trademarks for Allied Healthcare Products, Inc., Chemetron, Gomco, Oxequip, Lif-O-Gen, Life Support Products, Timeter, Vacutron, and Schuco, its principal trademarks. Registrations for these trademarks are also owned and maintained in countries where such products are sold and such registrations are considered necessary to preserve the Company's proprietary rights therein.

## **Environmental and Safety Regulation**

The Company is subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the treatment, storage and disposal of toxic and hazardous wastes. The Company is also subject to the Federal Occupational Safety and Health Act and similar state statutes. From time to time, the Company has been involved in environmental proceedings involving cleanup of hazardous waste. There are no such material proceedings currently pending. Costs of compliance with environmental, health and safety requirements have not been material to the Company. The Company believes it is in material compliance with all applicable environmental laws and regulations.

## **Competition**

The Company has different competitors within each of its product lines. Many of the Company's principal competitors are larger than the Company and have greater financial and other resources. The Company competes primarily on the basis of price, quality and service. The Company believes that it is well positioned with respect to product cost, brand recognition, product reliability, and customer service to compete effectively in each of its markets.

## **Employees**

At June 30, 2014, the Company had approximately 243 full-time employees. Approximately 148 employees in the Company's principal manufacturing facility located in St. Louis, Missouri, are covered by a collective bargaining agreement that will expire on May 31, 2015.

## **Executive Officers of the Registrant**

This section provides information regarding the executive officers of the Company who are appointed by and serve at the pleasure of the Board of Directors:

Name	Age	Position
Earl R Refsland	71	Director, President and Chief Executive Officer (1)
Eldon P Rosentrater	60	Vice President of Administration & Corporate Planning (2)

Robert B Harris	57	Vice President of Operations (3)
Daniel C Dunn	54	Vice President of Finance, Chief Financial Officer, Secretary & Treasurer (4)

(1) Mr. Refsland has been Director, President and Chief Executive Officer of the Company since September, 1999.

Mr. Rosentrater has been Vice President-Administration/Corporate Planning of the Company since March, 2003. He previously held the position of Vice President — Operations from October 1999 to 2003. Prior to that time, Mr. Rosentrater held the positions of Assistant to the President from 1998 to 1999; Director of Information Technologies from 1995 to 1998; Director of Business Development from 1993 to 1995 and Group Product Manager from 1989 to 1993. Mr. Rosentrater has announced his intention to retire from the Company, effective October 20, 2014.

Mr. Harris has been Vice President — Operations since July, 2006. He previously held the positions for Command Medical Products, Inc. of Vice President — Operations from January 2002 to January 2006 and Director of Operations from October 1999 to December 2001. Prior to that time, Mr. Harris held the position of Plant Manager for Sherwood Medical, a subsidiary of Tyco Healthcare from 1997 to 1999. Mr. Harris has announced his resignation from the Company, which will be effective on November 15, 2014.

Mr. Dunn has been Vice President — Finance, Chief Financial Officer, Secretary and Treasurer since July, 2001. He (4) previously held the position of Director of Finance at MetalTek International from 1998 to 2001. Prior to that time, Mr. Dunn held the position of Corporate Controller at Allied Healthcare Products, Inc. from 1994 to 1998.

### **Item 1A. Risk Factors**

The Company's business, operations and financial condition are subject to various risks and uncertainties. You should carefully consider the risks and uncertainties described below, together with all of the other information in this annual report on Form 10-K and in the Company's other filings with the Securities and Exchange Commission ("SEC") before making any investment decision with respect to the Company's securities. The risks and uncertainties described below may not be the only ones the Company faces. Additional risks and uncertainties not presently known by the Company or that the Company currently deems immaterial may also affect the Company's business. If any of these known or unknown risks or uncertainties actually occur or develop, the Company's business, financial condition, and results of operations could change.

#### ***We participate in a highly competitive environment.***

The medical device industry is characterized by rapid technological change, changing customer needs and frequent new product introductions. Our products may be rendered obsolete as a result of future innovations. We face intense competition from other manufacturers. Some of our competitors may be larger than we are and may have greater financial, technical, research, marketing, sales, distribution and other resources than we do. We believe that price competition will continue among products developed in our markets. Our competitors may develop or market technologies and products that are more effective or commercially attractive than any we are developing or marketing. Our competitors may succeed in obtaining regulatory approval and introducing or commercializing products before we do. Such developments could have a significant negative effect on our business, financial condition and results of operations. Even if we are able to compete successfully, we may not be able to do so in a profitable manner.

#### ***Decreased availability or increased costs of raw materials could increase our costs of producing our products.***

We purchase raw materials, fabricated components and services from a variety of suppliers. Raw materials such as brass, plastics, and calcium hydroxide are considered key raw materials. We believe that our relationships with our suppliers are satisfactory and that alternative sources of supply are readily available. From time to time, however, the prices and availability of these raw materials fluctuate due to global market demands, which could impair the company's ability to procure necessary materials, or increase the cost of such materials. Inflationary and other increases in costs of these raw materials have occurred in the past and may recur from time to time. In addition, freight costs associated with shipping and receiving product and sales are impacted by fluctuations in the cost of oil and gas.

A reduction in the supply or increase in the cost of those raw materials could impact our ability to manufacture our products and could increase the cost of production.

***Changes in third party reimbursement could negatively impact our revenues and profitability.***

The cost of a majority of medical care in the United States is funded by the U.S. Government through the Medicare and Medicaid programs and by private insurance programs, such as corporate health insurance plans. Although we do not receive payments for our products directly from these programs, home respiratory care providers and durable medical equipment suppliers, who are the primary customers for several of our products, depend heavily on payments from Medicare, Medicaid and private insurers as a major source of revenues. In addition, sales of certain of our products are affected by the extent of hospital and health care facility construction and renovation at any given time. The federal government indirectly funds a significant percentage of such construction and renovation costs through Medicare and Medicaid reimbursements. In recent years, governmentally imposed limits on reimbursement to hospitals and other health care providers have impacted spending for services, consumables and capital goods. A material decrease from current reimbursement levels or a material change in the method or basis of reimbursing health care providers is likely to adversely affect future sales of our products.

***Our success depends upon the development of new products and product enhancements, which entails considerable time and expense.***

We place a high priority on the development of new products to add to our product portfolio and on the development of enhancements to our existing products. Product development involves substantial expense and we cannot be certain that a completed product will generate sufficient revenue for our business to justify the resources that we devote to research and development related to such product. The time and expense required to develop new products and product enhancements is difficult to predict and we cannot assure you that we will succeed in developing, introducing and marketing new products and product enhancements. Our inability to successfully develop and introduce new or enhanced products on a timely basis or at all, or to achieve market acceptance of such products, could materially impair our business.

***We are dependent on adequate protection of our patent and proprietary rights.***

We rely on patents, trade secrets, trademarks, copyrights, know-how, license agreements and contractual provisions to establish and protect our intellectual property rights. However, these legal means afford us only limited protection and may not adequately protect our rights or remedies to gain or keep any advantages we may have over our competitors. We cannot assure you that others may not independently develop the same or similar technologies or otherwise obtain access to our technology and trade secrets. Our competitors, many of which have substantial resources and may make substantial investments in competing technologies, may apply for and obtain patents that will prevent, limit, or interfere with our ability to manufacture or market our products. Further, while we do not believe that any of our products or processes interfere with the rights of others, third parties may nonetheless assert patent infringement claims against us in the future.

Costly litigation may be necessary to enforce patents issued to us, to protect trade secrets or know-how we own, to defend us against claimed infringement of the rights of others or to determine the ownership, scope, or validity of our proprietary rights and the rights of others. Any claims of infringement against us may involve significant liabilities to third parties, could require us to seek licenses from third parties, and could prevent or delay us from manufacturing, selling, or using our products. The occurrence of such litigation or the effect of an adverse determination in any of this type of litigation could have a material adverse effect on our business, financial condition and results of operations.

***Our business of manufacturing, marketing, and selling of medical devices involves the risk of liability claims and such claims could seriously harm our business, particularly if our insurance coverage is inadequate.***

Our business exposes us to potential product liability claims that are inherent in the testing, production, marketing and sale of medical devices. Like other participants in the medical device market, we are from time to time involved in

lawsuits, claims and proceedings alleging product liability and related claims such as negligence. If any current or future product liability claims become substantial, our reputation could be damaged significantly, thereby harming our business. We may be required to pay substantial damage awards as a result of any successful product liability claims. Any product liability claim against us, whether with or without merit, could result in costly litigation, and divert the time, attention, and resources of our management.

As a result of our exposure to product liability claims, we currently carry product liability insurance covering our products with policy limits per occurrence and in the aggregate that we have deemed to be sufficient. Our insurance may not cover certain product liability claims or our liability for any claims may exceed our coverage limits. Therefore, we cannot predict whether this insurance is sufficient, or if not, whether we will be able to obtain sufficient insurance to cover the risks associated with our business or whether such insurance will be available at premiums that are commercially reasonable. In addition, these insurance policies must be renewed annually. Although we have been able to obtain liability insurance, such insurance may not be available in the future on acceptable terms, if at all. A successful claim against us or settlement by us with respect to uninsured liabilities or in excess of our insurance coverage, or our inability to maintain insurance in the future, or any claim that results in significant costs to or adverse publicity against us, could have a material adverse effect on our business, financial condition and results of operations.



***We are subject to substantial domestic and international government regulation, including regulatory quality standards applicable to our manufacturing and quality processes. Failure by us to comply with these standards could have an adverse effect on our business, financial condition or results of operations.***

The FDA regulates the approval, manufacturing, and sales and marketing of many of our products in the U.S. Significant government regulation also exists in Canada, Japan, Europe, and other countries in which we conduct business. As a device manufacturer, we are required to register with the FDA and are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation ("QSR") requirements, which require manufacturers of medical devices to adhere to certain regulations, including testing, quality control and documentation procedures. In addition, the federal Medical Device Reporting regulations require us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections by the FDA. In the European Community, we are required to maintain certain ISO certifications in order to sell our products and must undergo periodic inspections by notified bodies to obtain and maintain these certifications. Failure to comply with current governmental regulations and quality assurance guidelines could lead to temporary manufacturing shutdowns, product recalls or related field actions, product shortages or delays in product manufacturing. Efficacy or safety concerns, an increase in trends of adverse events in the marketplace, and/or manufacturing quality issues with respect to our products could lead to product recalls or related field actions, withdrawals, and/or declining sales.

***Our products may be subject to product recalls even after receiving FDA clearance or approval, which would harm our reputation and our business.***

The FDA and similar governmental authorities in other countries in which our products are sold, have the authority to request and, in some cases, require the recall of our products in the event of material deficiencies or defects in design or manufacture. A government-mandated or voluntary recall by us could occur as a result of component failures, manufacturing errors or design defects. Any recall of product would divert managerial and financial resources, may harm our reputation with our customers and could damage our business.

***We are exposed to certain credit risks, resulting primarily from customer sales.***

Substantially all of our receivables are due from homecare providers, distributors, hospitals, and contractors. Our customers are located throughout the U.S. and around the world. We record an estimated allowance for uncollectible amounts based primarily on our evaluation of the payment pattern, financial condition, cash flows, and credit history of our customers, as well as current industry and economic conditions. Our inability to collect on our trade accounts receivable could substantially reduce our income and have a material adverse effect on our financial condition and results of operations.

*Our common stock is thinly traded and its market price may fluctuate widely.*

Our common stock is listed on the NASDAQ Global Market but is thinly traded. As a result, stockholders may not be able to sell shares of common stock on short notice. Additionally, the market price of our common stock could be subject to significant fluctuations in response to quarter-to-quarter variation in our operating results, announcements of new products or services by us or our competitors, and other events or factors. For example, a shortfall in net sales or net income, or an increase in losses could have an immediate and significant adverse effect on the market price and volume fluctuations that have particularly affected the market prices of many micro and small capitalization companies and that have often been unrelated or disproportionate to the operating performance of these companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price for our common stock.

***If a natural or man-made disaster strikes our manufacturing facilities, we may be unable to manufacture certain products for a substantial amount of time and our revenue could decline.***

We have two manufacturing operations. In the event that one of these facilities were severely damaged or destroyed as a result of a natural or man-made disaster we would be forced to relocate production to other facilities and/or rely on third-party manufacturers. Such an event could have a material adverse effect on our business, results of operations and financial condition. Although we have insurance for damage to our property and the interruption of our business, this insurance may not be sufficient in scope or amount to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

***If we are unable to hire or retain key employees, it could have a negative impact on our business.***

Our failure to attract and retain skilled personnel could hinder the management of our business, our research and development, our sales and marketing efforts, and our manufacturing capabilities. However, there is no assurance that we will continue to be able to hire or retain key employees. We compete to hire new employees, and then must train them and develop their skills and competencies. Our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any unplanned turnover could deplete our institutional knowledge base and erode our competitive advantage.

***The U.S. healthcare environment is changing in many ways, some of which may not be favorable to us, as a result of recent federal healthcare legislation.***

Our products and services are primarily intended to function within the current structure of the healthcare industry in the United States. In recent years, the healthcare industry has undergone significant changes designed to control costs. The use of managed care has increased; Medicare and Medicaid reimbursement levels have declined; distributors, manufacturers, healthcare providers have consolidated; and large, sophisticated purchasing groups have become more prevalent.

In March 2010, Congress approved, and the President signed into law, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively the "Healthcare Reform Acts"). Among other things, the Healthcare Reform Acts seek to expand health insurance coverage to approximately 32 million uninsured Americans. Many of the significant changes in the Healthcare Reform Acts did not take effect until 2014, including a requirement that most Americans carry health insurance. We expect expansion of access to health insurance to increase the demand for our products and services, but other provisions of the Healthcare Reform Acts could affect us adversely. The Healthcare Reform Acts contain many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid. Beginning in 2013, each medical device

manufacturer must now pay a tax in an amount equal to 2.3% of the price for which the manufacturer sells its medical devices, as discussed in “Item 7- Management’s Discussion and Analysis of Financial Condition and Results of Operations” below. We manufacture and sell devices that are subject to this tax. We also could be adversely affected by, among other things, changes in the delivery or pricing of or reimbursement for medical devices.

Other provisions of this law as currently enacted, including an independent payment advisory board and pilot programs to evaluate alternative payment methodologies, could meaningfully change the way healthcare is developed and delivered, and may adversely affect our business and results of operations. Further, we cannot predict what healthcare programs and regulations will be ultimately implemented at the federal or state level, or the effect of any future legislation or regulation in the U.S. or internationally. However, any changes that lower reimbursements for our products, reduce medical procedure volumes or increase cost containment pressures on us or other participants in the healthcare industry could adversely affect our business and results of operations.

***New regulations related to conflict minerals could adversely impact our business.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements required due diligence efforts beginning in fiscal 2014, with initial disclosure requirements which began in May 2014. There were and continue to be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

***We have a history of net losses in fiscal 2012, 2013 and 2014 and we may not be able to return to profitability in the future, which may cause the market price of our common stock to decline.***

We have a history of net losses. We reported net income of \$0.2 million in fiscal 2011, a net loss of \$0.4 million in fiscal 2012, a net loss of \$1.3 million in fiscal 2013 and a net loss of \$2.8 million in fiscal 2014. We will need to generate and sustain increased sales levels in the future to become consistently profitable, and, even if we do, we may not be able to maintain or increase our level of profitability. We intend to improve our sales execution both domestically and internationally and also expand markets for our new ventilator products and our new carbon dioxide absorbent, Litholyme®. However, there is no guarantee that we will be successful in our efforts. We may also incur losses in the future for a number of reasons, including the other risks described in this Form 10-K, and unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of our common stock may significantly decrease.

***Item 1B. Unresolved Staff Comments***

Not applicable.

***Item 2. Properties***

The Company's headquarters are located in St. Louis, Missouri and the Company maintains manufacturing facilities in Missouri and New York. Set forth below is certain information with respect to the Company's manufacturing facilities at June 30, 2014.

<b>Location</b>	<b>Square Footage (Approximate)</b>	<b>Owned/Leased</b>	<b>Activities/Products</b>
St. Louis, Missouri	242,000	Owned	Headquarters; medical gas equipment; respiratory care products; emergency medical products
Stuyvesant Falls, New York	30,000	Owned	Carbon dioxide absorbent

In addition, the Company owns a 16.8-acre parcel of undeveloped land in Stuyvesant Falls, New York.

**Item 3. *Legal Proceedings***

Product liability lawsuits are filed against the Company from time to time for various injuries alleged to have resulted from defects in the manufacture and/or design of the Company's products. Any such proceedings that are currently pending are not expected to have a material adverse effect on the Company. The Company maintains comprehensive general liability insurance coverage which it believes to be adequate for the continued operation of its business, including coverage of product liability claims.

In addition, from time to time the Company's products may be subject to product recalls in order to correct design or manufacturing flaws in such products. 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.

However, for these matters, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on the Company's financial condition as a whole, though the outcomes could be material to the Company's operating results for a particular period, depending, in part, upon the operating results for such period.

**Item 4. *Mine Safety Disclosures***

None

**PART II**

**Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Allied Healthcare Products, Inc. trades on the NASDAQ Global Market under the symbol AHPI. As of September 11, 2014, there were 152 record owners of the Company's common stock. The following tables summarize information with respect to the high and low prices for the Company's common stock as listed on the NASDAQ Global Market for each quarter of fiscal 2014 and 2013, respectively. The Company currently does not pay, and in the most recent fiscal years has not paid, any dividend on its common stock.

**Common Stock Information**

2014	High	Low	2013	High	Low
September quarter	\$2.93	\$2.19	September quarter	\$3.33	\$2.50
December quarter	\$2.60	\$2.21	December quarter	\$2.80	\$2.44
March quarter	\$3.90	\$2.10	March quarter	\$3.33	\$2.44
June quarter	\$2.72	\$2.02	June quarter	\$2.93	\$2.44

Information concerning securities authorized for issuance under equity compensation plans is incorporated by reference to the Company's proxy statement for the 2014 annual meeting of stockholders, which will be filed within 120 days after June 30, 2014.



**Item 6. Selected Financial Data**

(In thousands, except per share data)

Year ended June 30,	2014	2013	2012	2011	2010
<b>Statement of Operations Data</b>					
Net sales	\$36,371	\$38,552	\$43,446	\$46,783	\$46,034
Cost of sales	29,057	30,310	33,485	35,781	34,945
Gross profit	7,314	8,242	9,961	11,002	11,089
Selling, general and administrative expenses	10,423	10,736	10,611	10,594	11,872
Income (loss) from operations	(3,109 )	(2,494 )	(650 )	408	(783 )
Interest expense	-	-	-	-	4
Interest income	(5 )	(12 )	(27 )	(33 )	(10 )
Other, net	42	(485 )	48	78	117
Income (loss) before provision for (benefit from) income taxes	(3,146 )	(1,997 )	(670 )	363	(894 )
Provision for (benefit from) income taxes	(340 )	(740 )	(246 )	159	(294 )
Net income (loss)	\$(2,806 )	\$(1,257 )	\$(424 )	\$204	\$(600 )
Basic earnings (loss) per share	\$(0.35 )	\$(0.16 )	\$(0.05 )	\$0.03	\$(0.07 )
Diluted earnings (loss) per share	\$(0.35 )	\$(0.16 )	\$(0.05 )	\$0.03	\$(0.07 )
Basic weighted average common shares outstanding	8,027	8,071	8,124	8,107	8,067
Diluted weighted average common shares outstanding	8,027	8,071	8,124	8,125	8,067

(In thousands)

June 30,	2014	2013	2012	2011	2010
<b>Balance Sheet Data</b>					
Working capital	\$11,390	\$13,682	\$16,006	\$18,251	\$17,627
Total assets	26,032	29,339	31,477	31,845	33,031
Stockholders' equity	22,509	25,315	26,777	27,159	26,819

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****Results of Operations**

The Company manufactures and markets respiratory products, including respiratory care products, medical gas equipment and emergency medical products. Set forth below is certain information with respect to amounts and percentages of net sales attributable to respiratory care products, medical gas equipment and emergency medical products for the fiscal years ended June 30, 2014, 2013, and 2012.



Year ended June 30,	Dollars in thousands		
	2014		
	Net	% of Total	
	Sales	Net Sales	
Respiratory care products	\$ 9,688	26.6	%
Medical gas equipment	19,426	53.4	%
Emergency medical products	7,257	20.0	%
Total	\$ 36,371	100.0	%

Year ended June 30,	Dollars in thousands		
	2013		
	Net	% of Total	
	Sales	Net Sales	
Respiratory care products	\$8,944	23.2	%
Medical gas equipment	21,871	56.7	%
Emergency medical products	7,737	20.1	%
Total	\$38,552	100.0	%

Year ended June 30,	Dollars in thousands		
	2012		
	Net	% of Total	
	Sales	Net Sales	
Respiratory care products	\$ 10,082	23.2	%
Medical gas equipment	24,804	57.1	%
Emergency medical products	8,560	19.7	%
Total	\$ 43,446	100.0	%

The following table sets forth, for the fiscal periods indicated, the percentage of net sales represented by the various income and expense categories reflected in the Company's Statement of Operations.

Year ended June 30,	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of sales	79.9	78.6	77.1
Gross profit	20.1	21.4	22.9
Selling, general and administrative expenses	28.6	27.8	24.4
Loss from operations	(8.5 )	(6.4 )	(1.5 )
Other, net	0.1	(1.3 )	0.0
Loss before benefit from income taxes	(8.6 )	(5.1 )	(1.5 )
Benefit from income taxes	(0.9 )	(1.9 )	(0.5 )
Net loss	(7.7 )%	(3.2 )%	(1.0 )%

## **Critical Accounting Policies**

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates estimates and judgments on an ongoing basis, including those related to bad debts, inventory valuations, property, plant and equipment, intangible assets, income taxes, and contingencies and litigation. Estimates and judgments are based on historical experience and on various other factors that may be reasonable under the circumstances. Actual results may differ from these estimates. The following areas are considered to be the Company's most significant accounting policies:

*Revenue recognition:*

Revenue is recognized for all sales, including sales to agents and distributors, at the time products are shipped and title has transferred, provided that a purchase order has been received or a contract executed, there are not uncertainties regarding customer acceptance, the sales price is fixed and determinable and collectability is reasonably assured. Sales discounts, returns and allowances are included in net sales, and the provision for doubtful accounts is included in selling, general and administrative expenses. Additionally, it is the Company's practice to include revenues generated from freight billed to customers in net sales with corresponding freight expense included in cost of sales in the Statement of Operations. The Company reports sales taxes on sales transactions on a net basis in the Statement of Operations, and therefore does not include sales taxes in revenues or costs.

The sales price is fixed by the Company's acceptance of the buyer's firm purchase order. The sales price is not contingent, or subject to additional discounts. The Company's standard shipment terms are "F.O.B. shipping point" as stated in the Company's Terms and Conditions of Sale. The customer is responsible for obtaining insurance for and bears the risk of loss for product in-transit. Additionally, sales to customers do not include the right to return merchandise without the prior consent of the Company. In those cases where returns are accepted, product must be current and restocking fees must be paid by the respective customer. A provision has been made for estimated sales returns and allowances. These estimates are based on historical analysis of credit memo data and returns.

The Company does not provide installation services for its products. Most products shipped are ready for immediate use by the customer. The Company's in-wall medical system components, central station pumps and compressors, and headwalls do require installation by the customer. These products are typically purchased by a third-party contractor who is ultimately responsible for installation services. Accordingly, the customer purchase order or contract does not require customer acceptance of the installation prior to completion of the sale transaction and revenue recognition. The Company's standard payment terms are net 30 days from the date of shipment, and payment is specifically not subject to customer inspection or acceptance, as stated in the Company's Terms and Conditions of Sale. The buyer becomes obligated to pay the Company at the time of shipment. The Company requires credit applications from its customers and performs credit reviews to determine the creditworthiness of new customers. The Company requires letters of credit, where warranted, for international transactions. The Company also protects its legal rights under mechanics lien laws when selling to contractors.

The Company does offer limited warranties on its products. The standard warranty period is one year. The Company's cost of providing warranty service for its products for the years ended June 30, 2014, June 30, 2013, and June 30, 2012 was \$113,209, \$150,944, and \$152,625, respectively. The related liability for warranty service amounted to \$130,000 at June 30, 2014 and 2013, respectively.

*Inventory reserve for obsolete and excess inventory:*

Inventory is recorded net of a reserve for obsolete and excess inventory which is determined based on an analysis of inventory items with no usage in the preceding year and for inventory items for which there is greater than two years' usage on hand. This analysis considers those identified inventory items to determine, in management's best estimate, if parts can be used beyond one year, if there are alternate uses or at what values such parts may be disposed for. At June 30, 2014 and 2013, inventory is recorded net of a reserve for obsolete and excess inventory of \$1.4 million and \$1.3 million, respectively.

*Income taxes:*

The Company accounts for income taxes under the FASB Accounting Standards Codification ("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. Management uses a more likely than not criterion in its assessment and considers all available evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance for deferred tax assets is needed. In assessing the need for a valuation allowance the Company first considers the reversals of existing temporary deferred tax liabilities and available tax planning strategies. To the extent these items are not sufficient to cause the realization of deferred tax assets, the Company would then consider the availability of future taxable income only to the extent such income is considered likely to occur based on the Company's earnings history, current income trends and projections.

In light of its history of operating losses the Company does not rely on the existence of future taxable income as it currently cannot conclude future taxable income is likely to occur. The Company does rely on reversals of existing temporary deferred tax liabilities and tax planning strategies to the extent available to support the value of its existing deferred tax assets. As of June 30, 2014, the Company's deferred tax assets exceeded the amount supportable through reversals of existing deferred tax liabilities and tax planning strategies causing for a valuation allowance to be recorded against the excess deferred tax assets.

*Accounts receivable net of allowances:*

Accounts receivable are recorded net of an allowance for doubtful accounts, which is determined based on an analysis of past due accounts including accounts placed with collection agencies, and an allowance for returns and credits, which is based on historical analysis of credit memo data and returns. The Company maintains an allowance for doubtful accounts to reflect the uncollectibility of accounts receivable based on past collection history and specific risks indentified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. At June 30, 2014 and 2013, accounts receivable is recorded net of allowances of \$170,000.

*Valuation of Long-Lived Assets:*

The impairment of long-lived assets is assessed when changes in circumstances (such as, but not limited to, a decrease in market value of an asset, current and historical operating losses or a change in business strategy) indicate that their carrying value may not be recoverable. This assessment is based on management's expectations and judgments regarding future business and economic conditions, future market values and disposal costs. Actual results and events could differ significantly from management's estimates. Based upon our most recent analysis, we believe that no impairment exists at June 30, 2014. There can be no assurance that future impairment tests will not result in a charge to net earnings (loss).

*Self-insurance:*

The Company maintains a self-insurance program for a portion of its health care costs. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and the estimated liability for claims incurred but not reported. As of June 30, 2014 and 2013, the Company had approximately \$150,000 and \$200,000, respectively, of accrued liabilities related to health care claims. In order to establish the self-insurance reserves, the Company utilized actuarial estimates of expected claims based on analyses of historical data.

*Share Based Compensation:*

Allied calculates share based compensation using the Black-Sholes-Merton (“Black-Scholes”) option-pricing model, which requires the input of highly subjective assumptions including the expected stock price volatility. For the twelve-month periods ended June 30, 2014, 2013, and 2012, Allied recorded approximately \$10,000, \$44,000 and \$44,000, respectively, in share-based employee compensation. This compensation cost is included in the general and administrative expenses in the accompanying Statements of Operations.



**Significant Factors Affecting Past and Future Operating Results***Agreement with Abbott Laboratories:*

On August 27, 2004, the Company entered into an agreement with Abbott Laboratories (“Abbott”) pursuant to which Allied agreed to cease production of its product Baralyme®, and to effect the withdrawal of Baralyme® product held by distributors. The agreement permits Allied to pursue the development of a new carbon dioxide absorbent product. Baralyme®, a carbon dioxide absorbent product, has been used safely and effectively in connection with inhalation anesthetics since its introduction in the 1920s. In recent years, the number of inhalation anesthetics has increased, giving rise to concerns regarding the use of Baralyme® in conjunction with these newer inhalation anesthetics if Baralyme® has been allowed, contrary to recommended practice, to become desiccated. The agreement also provides that, for a period of eight years, Allied will not manufacture, distribute, promote, market, sell, commercialize or donate any Baralyme® product or similar product based upon potassium hydroxide and will not develop or license any new carbon dioxide absorbent product containing potassium hydroxide.

In consideration of the foregoing, Abbott agreed to pay Allied an aggregate of \$5,250,000 of which \$1,530,000 was paid on September 30, 2004 and the remainder payable in four equal annual installments of \$930,000 due on July 1, 2005 through July 1, 2008. The last installment due on July 1, 2008 was received by Allied on June 19, 2008.

The payments received from Abbott were recognized into income, as net sales, over the eight-year term of the agreement. Allied has no further obligations under this agreement which would require the Company to repay these amounts or otherwise impact this accounting treatment. During the fiscal years ended June 30, 2014, 2013, and 2012, Allied recognized \$0, \$114,700 and \$688,200, respectively into income as net sales in each year.

A reconciliation of deferred revenue resulting from the agreement with Abbott, with the amounts received under the agreement, and amounts recognized as net sales for fiscal years 2014 and 2013 is as follows:

	Twelve Months ended June 30, 2014 2013	
Beginning balance	\$ -	\$ 114,700
Revenue recognized as net sales	-	(114,700 )
	-	0
Less - Current portion of deferred revenue	-	0

\$ - \$ 0

In 2004, Allied's sales of Baralyme® were approximately \$2.0 million and contributed approximately \$0.6 million in pre-tax earnings and cash flow from operations. The \$5,250,000 Allied received from Abbott was recognized into income over the eight-year term of the agreement. The net cash flow realized by Allied under the agreement with Abbott is substantially equivalent to the net cash flow Allied would have expected to realize from continued manufacture and sales of Baralyme® during the initial five years of the period. As discussed below, the agreement with Abbott expired in August 2012 and the Company will not recognize further income from the agreement after such expiration. In 2014 there was \$114,700 less income recognized than in 2013.

*Medical Device Tax:*

Beginning January 1, 2013, the Healthcare Reform Act imposed a tax to be paid by medical device manufacturers equal to 2.3% of the sale price of medical devices. Many of our products are subject to this tax. For the year ended June 30, 2014, the Company recorded an expense of approximately \$292,000. For the six-month period that the law was in place during the year ended June 30, 2013, the Company recorded an expense of approximately \$153,000.

**Fiscal 2014 Compared to Fiscal 2013**

The Company had a loss of \$3.1 million before taxes for fiscal 2014, compared to a loss of \$2.0 million before taxes for fiscal 2013. It recorded an income tax benefit of \$0.3 million in fiscal 2014, compared to an income tax benefit of \$0.7 million in fiscal 2013.

As previously disclosed in the Company's annual report on Form 10-K for the 2013 fiscal year, the realization of the Company's deferred tax assets have been based on the reversal of existing temporary deferred tax liabilities and tax planning strategies. For the year ended June 30, 2014 the Company's tax benefit of cumulative losses has exceeded the supportable value of the deferred tax assets and a valuation allowance of \$800,203 has been established. To the extent that the Company's losses continue, the tax benefit of those losses would be fully offset by a valuation allowance.

Net sales for fiscal 2014 of \$36.4 million were \$2.2 million or 5.7% less than net sales of \$38.6 million in fiscal 2013. Domestically, sales decreased by \$2.0 million dollars. For 2013, domestic sales included approximately \$0.1 million for the recognition into sales of payments resulting from the agreement with Abbott. Internationally, sales decreased by \$0.2 million. International business is dependent upon hospital construction projects, and the development of medical facilities in those regions in which the Company operates.

Orders for the Company's products for the year ended June 30, 2014 of \$36.2 million were \$1.3 million or 3.5% lower than orders for the year ended June 30, 2013 of \$37.5 million. Customer purchase order releases for the year ended June 30, 2014 of \$35.3 million were \$2.1 million or 5.6% lower than customer purchase order releases of \$37.4 million from the prior fiscal year. Customer purchase order releases depend on the scheduling practices of individual customers.

Respiratory care product sales, which include homecare products in 2014, were \$9.7 million, which is \$0.8 million, or 9.0% higher than sales of \$8.9 million in the prior year. Respiratory care products also include carbon dioxide absorbants.

Allied continues to sell Carbolime®, a carbon dioxide absorbent with a different formulation than Baralyme®, as well as Litholyme®, a new premium carbon dioxide absorbent. For the year ended June 30, 2014 the Company had carbon dioxide absorbent sales of Carbolime® and Litholyme® of \$3.5 million dollars, compared with \$2.4 million for the year ended June 30, 2013. Sales increased as a result of the continued market acceptance of Litholyme® and additional product configurations for both Carbolime® and Litholyme®.

Medical gas equipment sales, which include construction products, of \$19.4 million in fiscal 2014 were approximately \$2.5 million, or 11.4% lower than prior year levels of \$21.9 million. Internationally, sales of medical gas equipment in fiscal 2014 were approximately \$0.2 million lower than in the prior year. Domestically, sales of medical gas equipment in fiscal 2014 were \$2.3 million lower than in the prior year, primarily related to the sale of construction products. The Company believes the hospital construction market declined significantly in 2014, leading to lower orders and sales. The Company believes it has implemented improvements to the sales management process to improve sales performance and increase market share of medical gas equipment sales.

Emergency medical product sales in fiscal 2014 of \$7.3 million were \$0.4 million or 5.2% lower than fiscal 2013 sales of \$7.7 million. International sales of emergency medical products decreased by \$0.2 million from the prior year while domestic sales decreased by \$0.2 million. The Company believes that domestic demand for these products, which are normally largely consumed by local agencies, continues to be impacted by economic conditions.

International sales, which are included in the product lines discussed above, decreased \$0.2 million, or 2.1%, to \$9.2 million in fiscal 2014 compared to sales of \$9.4 million in fiscal 2013. As discussed above, the Company's international shipments are dependent on hospital construction projects and the expansion of medical care in those regions. In fiscal 2014, international sales of medical gas equipment, including construction products, decreased by \$0.2 million dollars, and sales of respiratory care products increased by approximately \$0.2 million. International sales of emergency products decreased by approximately \$0.2 million. The decrease in international sales was concentrated in Russia and Ukraine. The Company believes that Russian government spending on medical infrastructure was cut during 2014.

Gross profit in fiscal 2014 was \$7.3 million, or 20.1% of sales, compared to a gross profit of \$8.2 million, or 21.2% of sales in fiscal 2013. Gross profit was negatively impacted by the decrease in sales and production during the period. Gross margins were favorably impacted by approximately \$0.1 million in cost improvements from lower commodity costs, purchasing improvements, and improvements in operating efficiencies. The Company continues to review the cost of production and seek opportunities to lower those costs. Gross profit for 2014 was negatively impacted by approximately \$292,000, as a result of Medical Device Excise Tax (MDET) expense. Under the Patient Protection and Affordable Care Act, beginning on January 1, 2013, this tax is imposed on all U.S. sales of certain medical devices at the rate of 2.3% of the sale price of covered products. This tax was imposed on the Company for all of 2014, versus only six months in fiscal 2013. In 2014 the Company had expense of \$252,000 in MDET versus expense of \$153,000 in 2013. In addition, gross margins in the prior year were favorably impacted by an approximately \$170,000 LIFO adjustment which did not repeat in the current year.

The Company invested \$0.4 million in capital expenditures in fiscal 2014 compared to \$1.4 million in fiscal 2013 for manufacturing equipment, plant maintenance, and computer systems, which continue to decrease production costs and improve efficiencies for several product lines. The Company continues to control cost and actively pursue methods to reduce its costs through automation and process changes.

Selling, General, and Administrative (“SG&A”) expenses for fiscal 2014 were \$10.4 million compared to SG&A expenses of \$10.7 million in fiscal 2013. Personnel cost, primarily salaries and fringe benefits, decreased by approximately \$0.6 million. Outside consulting expense decreased by approximately \$0.2 million and phone expense decreased by approximately \$0.1 million. These decreases were offset by an increase in legal expense of approximately \$0.7 million.

Other income and expenses for the year ended June 30, 2014 was approximately \$42,000, compared to income of approximately \$485,000 in fiscal 2013. In fiscal 2013, the Company recorded approximately \$516,000 of income realized as a result of the demutualization of the Company’s product liability insurer. Interest income in fiscal 2014 was approximately \$5,000 compared to interest income of \$12,000 in fiscal 2013.

The Company’s effective tax rate in 2014 was a benefit of 11% down from a benefit of 37% in 2013. The decrease in the effective tax benefit was due to the need to reflect a valuation allowance in the amount of \$800,203 offsetting tax benefits recorded during 2014.

Net loss in fiscal 2014 was \$2.8 million or \$0.35 per basic and diluted earnings per share, an increase from a net loss of \$1.3 million, or \$0.16 per basic and diluted earnings per share in fiscal 2013. In 2014, the weighted number of shares used in the calculation of basic and diluted earnings per share was 8,027,147. In 2013, the weighted number of shares used in the calculation of basic and diluted earnings per share was 8,070,645.

### **Fiscal 2013 Compared to Fiscal 2012**

The Company had a loss of \$2.0 million before taxes for fiscal 2013, compared to a loss of \$0.7 million before taxes for fiscal 2012. It recorded an income tax benefit of \$0.7 million in fiscal 2013, compared to an income tax benefit of \$0.2 million in fiscal 2012.

Net sales for fiscal 2013 of \$38.6 million were \$4.8 million or 11.1% less than net sales of \$43.4 million in fiscal 2012. Domestically, sales decreased by \$4.6 million dollars. Domestic sales for fiscal 2013 include approximately \$0.1 million for the recognition into sales of payments resulting from the agreement with Abbott, as discussed below. For 2012, domestic sales included approximately \$0.7 million for the recognition into sales of payments resulting from the agreement with Abbott. Internationally, sales decreased by \$0.2 million. International business is dependent upon hospital construction projects, and the development of medical facilities in those regions in which the Company operates.

Orders for the Company's products for the year ended June 30, 2013 of \$37.5 million were \$4.0 million or 9.6% lower than orders for the year ended June 30, 2012 of \$41.5 million. Customer purchase order releases for the year ended June 30, 2013 of \$37.4 million were \$3.7 million or 9.0% lower than customer purchase order releases of \$41.1 million from the prior fiscal year.

Respiratory care product sales, which include homecare products in 2013, were \$8.9 million, which is \$1.2 million, or 11.9% lower than sales of \$10.1 million in the prior year. A portion of this decrease, \$0.6 million, is attributable to the end of recognition of payments from the agreement with Abbott Laboratories pursuant to which the Company received payments in exchange for its ceasing production and distribution of Baralyme®. As previously disclosed, recognition of these payments ended in August of 2012. Sales for the year ended June 30, 2013 included \$0.1 million for the recognition into sales of payments resulting from the agreement with Abbott Laboratories, in comparison to \$0.7 million in 2012.

In 2013, Allied continued to sell Carbolime®, as well as Litholyme®. For the year ended June 30, 2013 the Company had carbon dioxide absorbent sales of Carbolime® and Litholyme® of \$2.4 million dollars, compared with \$1.7 million for the year ended June 30, 2012. Sales increased as a result of the continued market acceptance of Litholyme® and additional product configurations for both Carbolime® and Litholyme®.

Medical gas equipment sales, which include construction products, of \$21.9 million in fiscal 2013 were approximately \$2.9 million, or 11.7% lower than prior year levels of \$24.8 million. Internationally, sales of medical gas equipment in fiscal 2013 were approximately \$0.5 million lower than in the prior year. Domestically, sales of medical gas equipment in fiscal 2013 were \$2.4 million lower than in the prior year, primarily related to the sale of construction products. The Company believes it has implemented improvements to the sales management process to improve sales performance and increase market share of medical gas equipment sales, including increased training and consolidation of the domestic sales force in St. Louis, Missouri.

Emergency medical product sales in fiscal 2013 of \$7.7 million were \$0.9 million or 10.5% lower than fiscal 2012 sales of \$8.6 million. International sales of emergency medical products increased by \$0.4 million from the prior year while domestic sales decreased by \$1.3 million. The Company believes that domestic demand for these products, which are normally largely consumed by local agencies, continues to be impacted by economic conditions. In addition, the Company believes the sales of the Company's mass casualty products included in emergency medical products decreased as a result of decreased mass casualty equipment purchases by governments.

International sales, which are included in the product lines discussed above, decreased \$0.2 million, or 2.1%, to \$9.4 million in fiscal 2013 compared to sales of \$9.6 million in fiscal 2012. As discussed above, the Company's international shipments are dependent on hospital construction projects and the expansion of medical care in those regions. In fiscal 2013, international shipments of medical gas equipment, including construction products, decreased by \$0.5 million dollars, and sales of respiratory care products decreased by approximately \$0.1 million. These

decreases were partially offset by a \$0.4 million increase in the sale of emergency products. The decrease in international sales was concentrated in Venezuela. The Company believes this decrease in sales to Venezuela was a result of the change in the political leadership of that country.

Gross profit in fiscal 2013 was \$8.2 million, or 21.2% of sales, compared to a gross profit of \$10.0 million, or 23.0% of sales in fiscal 2012. Gross profit was negatively impacted by the decrease in sales and production during the period. Lower sales and production result in lower utilization of fixed overhead expenses. Gross profit during this period was favorably impacted compared to the prior year by an approximately \$0.3 million improvement in margins from improved production at its Stuyvesant Falls facility. These improvements were the result of higher sales and production levels for the products produced at that plant and improved operating efficiency. Gross margins were also favorably impacted by approximately \$0.4 million in cost improvements from lower commodity costs, purchasing improvements, and improvements in operating efficiencies. Gross profit for 2013 was also negatively impacted by approximately \$153,000 as a result of the Medical Device Excise Tax (MDET). Under the Patient Protection and Affordable Care Act, beginning on January 1, 2013, this tax is imposed on all U.S. sales of certain medical devices at the rate of 2.3% of the sale price of covered products.



The Company invested \$1.4 million in capital expenditures in fiscal 2013 compared to \$2.2 million in fiscal 2012 for manufacturing equipment, plant maintenance, and computer systems, which continue to decrease production costs and improve efficiencies for several product lines.

Selling, General, and Administrative (“SG&A”) expenses for fiscal 2013 were \$10.7 million compared to SG&A expenses of \$10.6 million in fiscal 2012. Personnel cost, primarily salaries and fringe benefits, increased by approximately \$0.4 million. Business travel expense increased by approximately \$0.2 million as a result of relocating the majority of the sales force to St. Louis from regional locations. These increases were offset by a decrease in legal expense of approximately \$0.2 million resulting from the completion of the Armstrong Medical litigation in prior year, a decrease of \$0.1 million in recruiting expense, and a decrease approximately \$0.2 million in other spending.

Other income and expenses for the year ended June 30, 2013 included approximately \$516,000 of income realized by the Company as a result of the demutualization of the Company’s product liability insurer. Interest income in fiscal 2013 was approximately \$12,000 compared to interest income of \$27,000 in fiscal 2012.

Net loss in fiscal 2013 was \$1.3 million or \$0.16 per basic and diluted earnings per share, and increase from a net loss of \$0.4 million, or \$0.05 per basic and diluted earnings per share in fiscal 2012. In 2013, the weighted number of shares used in the calculation of basic and diluted earnings per share was 8,070,645. In 2012, the weighted number of shares used in the calculation of basic and diluted earnings per share was 8,124,386.

### Financial Condition, Liquidity and Capital Resources

The following table sets forth selected information concerning Allied's financial condition at June 30:

Dollars in thousands	2014	2013	2012
Cash & cash equivalents	\$1,367	\$3,688	\$5,285
Working Capital	\$11,390	\$13,682	\$16,006
Total Debt	\$-	\$-	\$-
Current Ratio	4.23:1	4.40:1	4.41:1

The Company’s working capital was \$11.4 million at June 30, 2014 compared to \$13.7 million at June 30, 2013. Accounts Payable decreased by approximately \$0.2 million and Accrued Liabilities decreased by approximately \$0.2 million. During fiscal 2014, these increases in working capital were offset by a \$2.3 million decrease in Cash and a \$0.5 million decrease in Accounts Receivable. Accounts Receivable declined primarily due to the decrease in Sales. Accounts Receivable was \$3.7 million at June 30, 2014, a decrease from \$4.2 million at June 30, 2013. Accounts

Receivable as measured in days sales outstanding (“DSO”) is 36 DSO, down from 39 DSO at June, 30, 2013. The Company does adjust product forecast, order quantities and safety stock based on changes in demand patterns in order to manage inventory levels.

The net decrease in Cash for the fiscal year ended June 30, 2014 was \$2.3 million. The net decrease in Cash for the fiscal year ended June 30, 2013 was \$1.6 million. Cash flows used by operating activities were approximately \$1.9 million for fiscal 2014 compared to cash flows provided by operating activities of approximately \$20,000 for fiscal 2013. This decrease in Cash provided by operating activities includes a \$1.5 million increase in net loss and a decrease in Accounts Payable of approximately \$0.2 million. These decreases were offset by increases in cash provided by Accounts Receivable of approximately \$0.5 million due to lower sales. The change in Accounts Payable is primarily the result of the timing of payments between the two years as the Company did not change its payment terms or policies.

Cash flows provided by operating activities for the fiscal year ended June 30, 2013 consisted of a net loss of \$1.3 million, supplemented by \$1.3 million in non-cash charges to operations for amortization and depreciation. Cash was used to make capital expenditures of \$0.4 million in fiscal 2014 and \$1.4 million in 2013. In 2014, the Company made capital expenditures of approximately \$0.3 million to further develop capacity for the production of carbon dioxide absorbent products. Additional capital expenditures were made to improve efficiency and save costs.

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 \$5,000,000 (the "Credit Facility"). At June 30, 2014, the Company had \$5,000,000 available for borrowing on the line of credit. The Company's obligations under the Credit Facility are secured by certain assets of the Company pursuant to the terms and subject to the conditions set forth in the Credit Agreement.

The Credit Facility was amended on November 12, 2013 extending the maturity date to November 11, 2014. The Credit Facility will be available on a revolving basis until it expires on November 11, 2014, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances under the Credit Facility will be made pursuant to a Revolving Credit Note executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to 3.50% in excess of the 30-day LIBOR rate. Advances may be prepaid in whole or in part without premium or penalty.

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

The 30-day LIBOR rate was 0.15% on June 30, 2014.

At June 30, 2014 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 June 30, 2014.



The following table summarizes the Company's contractual obligations at June 30, 2014:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Long-Term Debt	-	-	-	-	-
Capital Lease Obligations	-	-	-	-	-
Operating Leases	\$250,406	\$82,021	\$168,385	-	-
Unconditional Purchase Obligations	-	-	-	-	-
Other Long-Term Obligations	-	-	-	-	-
Total Contractual Cash Obligations	\$250,406	\$82,021	\$168,385	\$ -	\$ -

Capital expenditures were \$0.4 million, \$1.4 million and \$2.2 million in fiscal 2014, 2013, and 2012, respectively. In 2014, the Company made capital expenditures of approximately \$0.3 million to further develop capacity for the production of carbon dioxide absorbent products. Additional capital expenditures were made to improve efficiency save costs, develop new products, and maintain plant capacity. The Company believes that cash flows from operations and available borrowings under its credit facilities will be sufficient to finance fixed payments and planned capital expenditures of \$0.3 million in 2015.

Cash flows from operations may be negatively impacted by decreases in sales, market conditions, and adverse changes in working capital. In the event that economic conditions were to severely worsen for a protracted period of time, we believe that we will be able to negotiate an amendment and waiver to our existing credit facility or procure a replacement credit facility, and our borrowing capacity under those arrangements 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 \$0.3 million for the fiscal year ended June 30, 2015, could be postponed. At June 30, 2014, the Company had no bank debt. During fiscal 2014, 2013 and 2012, there were no borrowings or repayments under the credit agreement.

The Company's credit facility will be available until it expires on November 11, 2014. Based on discussions with the Bank, the Company believes it will be able to negotiate an amendment with the Bank extending the term of the credit facility.

Inflation has not had a material effect on the Company's business or results of operations. The Company makes its foreign sales in U.S. dollars and, accordingly, sales proceeds are not affected by exchange rate fluctuations, although the effect on its customers does impact the pace of incoming orders.

## Seasonality and Quarterly Results

In recent years the Company has not been affected by seasonality, however, in past fiscal years, the Company has experienced moderate seasonal increases in net sales during its second and third fiscal quarters (October 1 through March 31) which in turn have affected net income. Such seasonal variations were likely attributable to an increase in hospital equipment purchases at the beginning of each calendar year (which coincides with many hospitals' fiscal years) and an increase in the severity of influenza during winter months.

The following table sets forth selected operating results for the eight quarters ended June 30, 2014. The information for each of these quarters is unaudited, but includes all normal recurring adjustments which the Company considers necessary for a fair presentation thereof. These operating results, however, are not necessarily indicative of results for any future period. Further, operating results may fluctuate as a result of the timing of orders, the Company's product and customer mix, the introduction of new products by the Company and its competitors, and overall trends in the health care industry and the economy. While these patterns have an impact on the Company's quarterly operations, the Company is unable to predict the extent of this impact in any particular period.

Dollars in thousands, except per share data

Three months ended,	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012
Net sales	\$ 9,798	\$ 9,116	\$ 8,749	\$ 8,708	\$ 10,133	\$ 9,210	\$ 9,921	\$ 9,287
Gross profit	1,861	1,748	1,944	1,761	2,478	1,680	2,106	1,979
Loss from operations	(395 )	(960 )	(892 )	(862 )	(122 )	(960 )	(751 )	(660 )
Net loss	(347 )	(969 )	(899 )	(591 )	(98 )	(279 )	(469 )	(411 )
Basic loss per share	(0.04 )	(0.12 )	(0.11 )	(0.07 )	(0.01 )	(0.03 )	(0.06 )	(0.05 )
Diluted loss per share	(0.04 )	(0.12 )	(0.11 )	(0.07 )	(0.01 )	(0.03 )	(0.06 )	(0.05 )

Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts will not necessarily equal the total for the year.

#### 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 such claims over its self-insured retention will be covered by the Company's product liability insurance.

#### Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements.

#### Recently Issued Accounting Pronouncements

See Item 8, Note 2 "Summary of Significant Accounting Policies" for a discussion of recent accounting pronouncements and their impact on the Company's financial statements, if any.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2014, 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 June 30, 2014. Allied has international sales; however these sales are denominated in U.S. dollars, mitigating foreign exchange rate fluctuation risk.



**Item 8. *Financial Statements and Supplementary Data***

The following described financial statements of Allied Healthcare Products, Inc. are included in response to this item:

<u>Report of Independent Registered Public Accounting Firm.</u>	28
<u>Statement of Operations for the fiscal years ended June 30, 2014, 2013 and 2012.</u>	29
<u>Balance Sheet for the fiscal years ended June 30, 2014 and 2013.</u>	30
<u>Statement of Changes in Stockholders' Equity for the fiscal years ended June 30, 2014, 2013 and 2012.</u>	31
<u>Statement of Cash Flows for the fiscal years ended June 30, 2014, 2013 and 2012.</u>	32
<u>Notes to Financial Statements.</u>	33

Schedule of Valuation and Qualifying Accounts and Reserves for the years ended June 30, 2014, 2013 and 2012.

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Allied Healthcare Products, Inc.

We have audited the accompanying balance sheet of Allied Healthcare Products, Inc. (the Company) as of June 30, 2014 and 2013, and the related statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2014. In connection with our audits of the financial statements, we also have audited the related financial statement schedule of valuation and qualifying accounts and reserves for the years ended June 30, 2014, 2013 and 2012. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allied Healthcare Products, Inc. as of June 30, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule referred to above, when considered in relation to the financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ RubinBrown LLP

St. Louis, Missouri

September 26, 2014



## ALLIED HEALTHCARE PRODUCTS, INC.

## STATEMENT OF OPERATIONS

Year ended June 30,	2014	2013	2012
Net sales	\$36,370,616	\$38,551,774	\$43,445,621
Cost of sales	29,056,367	30,309,484	33,484,512
Gross profit	7,314,249	8,242,290	9,961,109
Selling, general and administrative expenses	10,423,133	10,735,806	10,610,858
Loss from operations	(3,108,884 )	(2,493,516 )	(649,749 )
Other (income) expenses:			
Interest income	(4,818 )	(12,006 )	(27,368 )
Interest expense	-	-	336
Other, net	41,660	(484,699 )	47,629
	36,842	(496,705 )	20,597
Loss before benefit from income taxes	(3,145,726 )	(1,996,811 )	(670,346 )
Benefit from income taxes	(339,813 )	(740,038 )	(245,920 )
Net loss	\$(2,805,913 )	\$(1,256,773 )	\$(424,426 )
Basic loss per share:	\$(0.35 )	\$(0.16 )	\$(0.05 )
Diluted loss per share:	\$(0.35 )	\$(0.16 )	\$(0.05 )
Weighted average shares outstanding – Basic	8,027,147	8,070,645	8,124,386
Weighted average shares outstanding – Diluted	8,027,147	8,070,645	8,124,386

See accompanying Notes to Financial Statements.

## ALLIED HEALTHCARE PRODUCTS, INC.

**BALANCE SHEET**

	June 30, 2014	June 30, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,366,762	\$ 3,687,919
Accounts receivable, net of allowances of \$170,000	3,713,105	4,221,970
Inventories, net	9,406,098	9,338,343
Income tax receivable	17,166	36,766
Other current assets	410,098	420,978
Total current assets	14,913,229	17,705,976
Property, plant and equipment, net	8,935,601	9,722,344
Deferred income taxes	1,996,434	1,667,699
Other assets, net	187,163	242,712
Total assets	\$ 26,032,427	\$ 29,338,731
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,068,222	\$ 1,317,202
Other accrued liabilities	1,624,186	1,861,241
Deferred income taxes	830,946	845,539
Total current liabilities	3,523,354	4,023,982
Commitments and contingencies (Notes 4 and 10)		
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 June 30, 2014 and June 30, 2013; 8,027,147 shares outstanding at June 30, 2014 and June 30, 2013	104,279	104,279
Additional paid-in capital	48,585,236	48,584,999
Accumulated deficit	(5,199,654 )	(2,393,741 )
Less: treasury stock, at cost; 2,400,731 shares at June 30, 2014 and 2013	(20,980,788 )	(20,980,788 )
Total stockholders' equity	22,509,073	25,314,749
Total liabilities and stockholders' equity	\$ 26,032,427	\$ 29,338,731

See accompanying Notes to Financial Statements.

## ALLIED HEALTHCARE PRODUCTS, INC.

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance, July 1, 2011	\$ 104,279	\$ 48,499,103	\$ (712,542 )	\$ (20,731,428)	\$ 27,159,412
Stock based compensation	-	41,699	-	-	41,699
Net loss for the year ended June 30, 2012	-	-	(424,426 )	-	(424,426 )
Balance, June 30, 2012	104,279	48,540,802	(1,136,968 )	(20,731,428)	26,776,685
Purchases of treasury stock	-	-	-	(249,360 )	(249,360 )
Stock based compensation	-	44,197	-	-	44,197
Net loss for the year ended June 30, 2013	-	-	(1,256,773 )	-	(1,256,773 )
Balance, June 30, 2013	104,279	48,584,999	(2,393,741 )	(20,980,788)	25,314,749
Stock based compensation	-	9,655	-	-	9,655
Reversal of deferred tax provision, stock options forfeited	-	(9,418 )	-	-	(9,418 )
Net loss for the year ended June 30, 2014	-	-	(2,805,913 )	-	(2,805,913 )
Balance, June 30, 2014	\$ 104,279	\$ 48,585,236	\$ (5,199,654 )	\$ (20,980,788)	\$ 22,509,073

See accompanying Notes to Financial Statements.

**ALLIED HEALTHCARE PRODUCTS, INC.****STATEMENT OF CASH FLOWS**

Year ended June 30,	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net loss	\$(2,805,913)	\$(1,256,773)	\$(424,426 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,280,796	1,306,044	1,283,349
Stock based compensation	9,655	44,197	44,179
Provision for doubtful accounts and sales returns and allowances	18,852	10,372	27,025
Deferred tax benefit	(352,746 )	(757,699 )	(257,501 )
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	490,013	741,251	446,242
Inventories	(67,755 )	662,883	552,063
Income tax receivable	19,600	9,276	49,536
Other current assets	10,880	(20,301 )	(186,932 )
Other assets, net	-	-	(275,000 )
Accounts payable	(248,980 )	(479,942 )	152,234
Deferred revenue	-	(114,700 )	(688,200 )
Other accrued liabilities	(237,055 )	(124,338 )	260,027
Net cash provided by (used in) operating activities	(1,882,653)	20,270	982,596
<b>Cash flows from investing activities:</b>			
Capital expenditures	(438,504 )	(1,367,534)	(2,210,940)
Net cash used in investing activities	(438,504 )	(1,367,534)	(2,210,940)
<b>Cash flows from financing activities:</b>			
Purchases of treasury stock	-	(249,360 )	-
Net cash used in financing activities	-	(249,360 )	-
Net decrease in cash and cash equivalents	(2,321,157)	(1,596,624)	(1,228,344)
Cash and cash equivalents at beginning of year	3,687,919	5,284,543	6,512,887
Cash and cash equivalents at end of year	\$1,366,762	\$3,687,919	\$5,284,543
<b>Supplemental disclosures of cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Interest	\$-	\$-	\$336
Income taxes	\$17,999	\$1,450	\$25,266
<b>Non-cash investing and financing activity</b>			
Deferred tax provision on stock options forfeited and reclassified to additional paid in capital	\$9,418	\$-	\$-



See accompanying Notes to Financial Statements.

## **ALLIED HEALTHCARE PRODUCTS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. Organization**

Allied Healthcare Products, Inc. (the “Company” or “Allied”) is a manufacturer of respiratory products used in the health care industry in a wide range of hospital and alternate site settings, including post-acute care facilities, home health care and trauma care. The Company's product lines include respiratory care products, medical gas equipment and emergency medical products.

#### **2. Summary of Significant Accounting Policies**

The significant accounting policies followed by Allied are described below.

##### **Use of estimates**

The policies utilized by the Company in the preparation of the financial statements conform to accounting principles generally accepted in the United States of America, and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

##### **Revenue recognition**

Revenue is recognized for all sales, including sales to agents and distributors, at the time products are shipped and title has transferred, provided that a purchase order has been received or a contract executed, there are not uncertainties regarding customer acceptance, the sales price is fixed and determinable and collectability is reasonably assured. Sales discounts, returns and allowances are included in net sales, and the provision for doubtful accounts is included in selling, general and administrative expenses. Additionally, it is the Company's practice to include revenues generated from freight billed to customers in net sales with corresponding freight expense included in cost of sales in the Statement of Operations. The Company reports sales taxes on sales transactions on a net basis in the Statement of Operations, and therefore does not include sales taxes in revenues or costs.

The sales price is fixed by Allied's acceptance of the buyer's firm purchase order. The sales price is not contingent, or subject to additional discounts. Allied's standard shipment terms are "F.O.B. shipping point" as stated in Allied's Terms and Conditions of Sale. The customer is responsible for obtaining insurance for and bears the risk of loss for product in-transit. Additionally, sales to customers do not include the right to return merchandise without the prior consent of Allied. In those cases where returns are accepted, product must be current and restocking fees must be paid by the respective customer. A provision has been made for estimated sales returns and allowances. These estimates are based on historical analysis of credit memo data and returns.

Allied does not provide installation services for its products. Most products shipped are ready for immediate use by the customer. The Company's in-wall medical system components, central station pumps and compressors, and headwalls do require installation by the customer. These products are typically purchased by a third-party contractor who is ultimately responsible for installation services. Accordingly, the customer purchase order or contract does not require customer acceptance of the installation prior to completion of the sale transaction and revenue recognition. Allied's standard payment terms are net 30 days from the date of shipment, and payment is specifically not subject to customer inspection or acceptance, as stated in Allied's Terms and Conditions of Sale. The buyer becomes obligated to pay Allied at the time of shipment. Allied requires credit applications from its customers and performs credit reviews to determine the creditworthiness of new customers. Allied requires letters of credit, where warranted, for international transactions. Allied also protects its legal rights under mechanics lien laws when selling to contractors.

Allied does offer limited warranties on its products. The standard warranty period is one year. The Company's cost of providing warranty service for its products for the years ended June 30, 2014, 2013, and 2012 was \$113,209, \$150,944, and \$152,625, respectively. The related liability for warranty service amounted to \$130,000 at June 30, 2014 and 2013.

### **Marketing and Advertising Costs**

Promotional and advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the Statement of Operations. Advertising expenses for the years ended June 30, 2014, 2013 and 2012 were \$17,904, \$46,691, and \$46,278, respectively.

### **Cash and cash equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents.

The Company maintains funds in bank accounts that, at times, may exceed the limit insured by the Federal Deposit Insurance Corporation. The risk of loss attributable to these uninsured balances is mitigated by depositing funds only in high credit quality financial institutions. The Company has not experienced any losses in such accounts.

### **Foreign currency transactions**

Allied has international sales which are denominated in U.S. dollars, the functional currency for these transactions.

### **Accounts receivable and concentrations of credit risk**

Accounts receivable are recorded at the invoiced amount. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses based on past experience and an analysis of current amounts due, and historically such losses have been within management's expectations. The Company maintains an allowance for doubtful accounts to reflect the uncollectibility

of accounts receivable based on past collection history and specific risks indentified among uncollected accounts. Accounts receivable are charged to the allowance for doubtful accounts when the Company determines that the receivable will not be collected and/or when the account has been referred to a third party collection agency. The Company's customers can be grouped into three main categories: medical equipment distributors, construction contractors and health care institutions. At June 30, 2014, the Company believes that it has no significant concentration of credit risk.

## **Inventories**

Inventories are stated at the lower of cost, determined using the last-in, first-out ("LIFO") method, or market. If the first-in, first-out method (which approximates replacement cost) had been used in determining cost, inventories would have been \$2,473,787 and \$2,343,788 higher at June 30, 2014 and 2013, respectively. Changes in the LIFO reserve are included in cost of sales. Cost of sales was reduced by \$0, \$171,918, and \$164,645 in fiscal 2014, 2013, and 2012 respectively, as a result of LIFO liquidations. Costs in inventory include raw materials, direct labor and manufacturing overhead.

Inventory is recorded net of a reserve for obsolete and excess inventory which is determined based on an analysis of inventory items with no usage in the preceding year and for inventory items for which there is greater than two years' usage on hand. The reserve for obsolete and excess inventory was \$1,433,718 and \$1,312,600 at June 30, 2014 and 2013, respectively.

## **Property, plant and equipment**

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 35 years. Expenditures for repairs, maintenance and renewals are charged to income as incurred. Expenditures, which improve an asset or extend its estimated useful life, are capitalized. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

## **Impairment of long-lived assets**

The Company evaluates impairment of long-lived assets under the provisions of ASC Topic 360: "Property, Plant and Equipment." ASC 360 provides a single accounting model for long-lived assets to be disposed of and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under ASC 360, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets, an impairment loss will be recognized. No impairment losses of long-lived assets or identifiable intangibles were recorded by the Company for fiscal years ended June 30, 2014, 2013, and 2012.

## **Collective Bargaining Agreement**

At June 30, 2014, the Company had approximately 243 full-time employees. Approximately 148 employees in the Company's principal manufacturing facility located in St. Louis, Missouri, are covered by a collective bargaining agreement that will expire on May 31, 2015.

## **Self-insurance**

The Company maintains a self-insurance program for a portion of its health care costs. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and the estimated liability for claims incurred but not reported. As of June 30, 2014 and 2013, the Company had \$150,000 and \$200,000 respectively, of accrued liabilities related to health care claims. In order to establish the self-insurance reserves, the Company utilized actuarial estimates of expected claims based on analyses of historical data.

#### 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.

#### 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 assessing the need for a valuation allowance the Company first considers the reversals of existing temporary deferred tax liabilities and available tax planning strategies. To the extent these items are not sufficient to cause the realization of deferred tax assets, the Company considers the availability of future taxable income to the extent such income is considered likely to occur based on the Company's earnings history, current income trends and projections.

In light of its history of operating losses the Company does not rely on the existence of future taxable income as it currently cannot conclude future taxable income is likely to occur. The Company does rely on reversals of existing temporary deferred tax liabilities and tax planning strategies to the extent available to support the value of its existing deferred tax assets. As of June 30, 2014, the Company's deferred tax assets exceeded the amount supportable through reversals of existing deferred tax liabilities and tax planning strategies causing for a valuation allowance to be recorded against the excess deferred tax assets.

The Company recognizes tax liabilities when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. To the extent the Company deems it necessary to record a liability for its tax positions, the current portion of the liability is included in income taxes payable and the noncurrent portion is included in other liabilities in balance sheet. If upon the final tax outcome of these matters the ultimate liability is different than the amounts recorded, such differences are reflected in income tax expense in the period in which such determination is made. The Company files a federal and multiple state income tax returns. The Company's federal and state income tax returns are open for fiscal years ending after June 30, 2011.

The Company classifies interest expenses on taxes payable as interest expense. Penalties are classified as a component of other expenses.

### **Research and development costs**

Research and development costs are expensed as incurred and are included in selling, general and administrative expenses. Research and development expenses for the years ended June 30, 2014, 2013 and 2012 were \$657,356, \$937,598, and \$948,213, respectively.

### **Earnings per share**

Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the year. 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 year. The weighted average number of basic and diluted shares outstanding for the years ended June 30, 2014, 2013 and 2012 was 8,027,147, 8,070,645 and 8,124,386 shares, respectively. The dilutive effect of the Company's employee and director stock option plans are determined by use of the treasury stock method. Potential common shares not included in the calculation of net loss per share, as their effect would be anti-dilutive, are 0, 0 and 3,806 for the years ended June 30, 2014, 2013 and 2012 respectively.

The following information is necessary to calculate earnings per share for the periods presented:

Year ended June 30,	2014	2013	2012
Net loss, as reported	\$(2,805,913)	\$(1,256,773)	\$(424,426 )



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Weighted average common shares outstanding	8,027,147	8,070,645	8,124,386
Effect of dilutive stock options	-	-	-
Weighted average diluted common shares outstanding	8,027,147	8,070,645	8,124,386
Net loss per common share			
Basic	\$(0.35	) \$(0.16	) \$(0.05
Diluted	\$(0.35	) \$(0.16	) \$(0.05
Employee stock options excluded from computation of diluted income per share amounts because their effect would be anti-dilutive	-	-	3,806

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## Employee stock-based compensation

The company follows the provisions of ASC Topic 718: “Compensation – Stock Compensation”, which sets accounting requirements for “share-based” compensation to employees, including employee stock purchase plans, and requires companies to recognize in the statement of operations the grant-date fair value of the stock options and other equity-based compensation.

The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following table summarizes the weighted average assumptions utilized in the Black-Scholes option pricing model for options granted during the fiscal years ended June 30, 2014, 2013 and 2012.

	2014	2013	2012
Weighted-average fair value	\$1.04	\$1.15	\$1.60
Weighted-average volatility	45 %	46 %	46 %
Weighted-average expected life (in years)	6.0	6.0	6.0
Weighted-average risk-free interest rate	1.68%	0.93%	1.67%
Dividend yield	0 %	0 %	0 %

Expected volatility is based on the historical volatility of the Company’s common stock to estimate future volatility. The risk-free rates are taken from rates as published by the Federal Reserve and represent the yields on actively traded treasury securities for terms equal or approximately equal to the expected terms of the options. The expected term is calculated using the SEC Staff Accounting Bulletin 107 (ASC 718-10-S99) simplified method. The dividend yield is zero based on the fact that the Company has no intention of paying dividends in the near term.

Share-based compensation expense included in the Statement of Operations for the fiscal years ended June 30, 2014, 2013 and 2012 was approximately \$10,000, \$44,000 and \$44,000, respectively. Unrecognized share-based compensation cost related to unvested stock options as of June 30, 2014 amounts to approximately \$2,000. The cost is expected to be recognized over the next fiscal year.

The Company recognized income tax benefits for share-based compensation arrangements of approximately \$4,000, \$18,000 and \$18,000 for the years ended June 30, 2014, 2013 and 2012, respectively.

No stock options were exercised during fiscal years 2014, 2013 and 2012.

### **Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America (“U.S. GAAP”). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating which transition approach to use and the full impact this ASU will have on our future financial statements.

### **3. 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. Currently the agreement provides for borrowing availability of up to \$5,000,000 (the "Credit Facility"). At June 30, 2014, the Company had \$5,000,000 available for borrowing on the line of credit. The Company's obligations under the Credit Facility are secured by certain assets of the Company pursuant to the terms and subject to the conditions set forth in the Credit Agreement.

The Credit Facility was amended on November 12, 2013 extending the maturity date to November 11, 2014. The Credit Facility will be available on a revolving basis until it expires on November 11, 2014, at which time all amounts outstanding under the Credit Facility will be due and payable. Advances under the Credit Facility will be made pursuant to a Revolving Credit Note executed by the Company in favor of Enterprise Bank & Trust. Such advances will bear interest at a rate equal to 3.50% in excess of the 30-day LIBOR rate. Advances may be prepaid in whole or in part without premium or penalty.

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

The 30-day LIBOR rate was 0.15% on June 30, 2014.

At June 30, 2014 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 June 30, 2014.

#### 4. Lease Commitments

The Company leases certain of its equipment under non-cancelable operating lease agreements. Minimum lease payments under operating leases at June 30, 2014 are as follows:

<u>Fiscal Year</u>	Operating Leases
2015	82,021
2016	60,575
2017	53,246
2018	50,630
2019	3,934
Total minimum lease payments	\$ 250,406

Rental expense incurred on operating leases in fiscal 2014, 2013, and 2012 totaled \$236,826, \$255,517 and \$238,486, respectively.

#### 5. Income Taxes

The provision for (benefit from) income taxes consists of the following:

	2014	2013	2012
Current:			
Federal	\$-	\$-	\$-
State	12,933	17,661	11,581
Total current	12,933	17,661	11,581
Deferred:			
Federal	(1,050,750)	(698,712)	(252,778)
State	(102,199 )	(58,987 )	(4,723 )
Valuation Allowance	800,203	-	-
Total deferred	(352,746 )	(757,699)	(257,501)
	\$ (339,813 )	\$ (740,038)	\$ (245,920)

A reconciliation of income taxes, with the amounts computed at the statutory federal rate is as follows:

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	2014	2013	2012
Computed tax at federal statutory rate	\$(1,069,547)	\$(678,916)	\$(227,917)
State income taxes, net of federal tax (benefit) provision	(62,712 )	(32,502 )	(4,982 )
Non deductible expenses	18,141	20,162	17,572
Federal research credit	(15,328 )	(43,095 )	(31,507 )
Other, net	(10,570 )	(5,687 )	914
Valuation Allowance	800,203	-	-
Total	\$(339,813 )	\$(740,038)	\$(245,920)

The deferred tax assets and deferred tax liabilities recorded on the balance sheet as of June 30, 2014 and 2013 are as follows:

	2014		2013	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Current:				
Bad debts	\$40,000	\$ —	\$40,000	\$ —
Prepaid expenses	—	22,971	—	16,646
Accrued liabilities	304,747	—	335,744	—
Inventory	—	1,152,722	—	1,204,637
	344,747	1,175,693	375,744	1,221,283
Non Current:				
Depreciation	—	535,510	—	479,840
Net operating loss and credit carryforwards	2,987,082	—	1,771,164	—
Intangible assets	1,306	—	143	—
Accrued pension liability	29,700	—	32,840	—
Stock options	363,385	—	368,941	—
Other	—	49,327	—	25,549
	3,381,473	584,837	2,173,088	505,389
Valuation Allowance	(800,203 )	—	—	—
Total deferred taxes	\$2,926,017	\$ 1,760,530	\$2,548,832	\$ 1,726,672

At June 30, 2014 there were \$7.6 million dollars of federal net operating loss carryforwards which will expire in 2031 through 2034. In addition, the Company has state tax net operating losses of approximately \$6.6 million that expire in varying years from 2029 through 2034.

The Company files a federal and multiple state income tax returns. The Company's federal and state income tax returns are open for fiscal years ending after June 30, 2011.

Management of the Company is not aware of any additional needed liability for unrecognized tax benefits at June 30, 2014 and 2013.

## 6. Employee Retirement Benefits



The Company offers a retirement savings plan under Section 401(k) of the Internal Revenue Code to certain eligible salaried employees. Each employee may elect to enter a written salary deferral agreement under which a portion of such employee's pre-tax earnings may be contributed to the plan.

During the fiscal years ended June 30, 2014, 2013 and 2012, the Company made contributions of \$277,374, \$278,212, and \$247,576, respectively, to the retirement savings plan. The Company contributes 2% of eligible salaried employee's annual income to the plan. In addition, the Company provides a 25% match on the first 8% of employee deferrals for eligible employees.

The risk of participating in multi-employer pension plan is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

The Company's participation in a multi-employer pension plan for the year ended June 30, 2014, is outlined in the table below. The "EIN/PN" column provides the Employee Identification Number (EIN) and the three-digit plan number (PN). The most recent Pension Protection Act (PPA) zone status for 2013 and 2012 is for the plan year-ends as indicated below. The zone status is based on information that the Company obtained from the Notes to the Financial Statements included with the plan's Form 5500. Among other factors, plans in the red zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. In addition to regular plan contributions, the Company may be subject to a surcharge if the plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the plan. The last column lists the expiration date(s) of the collective-bargaining agreement (CBA) to which the plan is subject.

Pension Trust Fund	EIN/PN	PPA Zone Status		FIP/RP Status Pending/Implemented	Contributions by the Company			Surcharge Imposed	Expiration Date of CBA
		2013	2012		2014	2013	2012		
District No. 9 International Association of Machinist and Aerospace Workers Pension Plan	51-0138317/001	Green	Green	Implemented	\$293,377	\$309,373	\$331,154	No	5/31/2015

The Company was not listed in the Form 5500 for the above plan as of the plan year ends as providing more than 5 percent of total contributions.

## 7. Stock Based Compensation

The Company has established a 1994 Employee Stock Option Plan, 1999 Incentive Stock Plan, and a 2009 Incentive Stock Plan (collectively the “Employee Plans”). The Employee Plans provide for the granting of options to the Company's executive officers and key employees to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 2,150,000 shares of common stock may be granted under the Employee Plans. Options generally become exercisable ratably over a four year period or one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the first or second anniversary of the date granted. The right to exercise the options generally expires in ten years from the date of grant, or earlier if an option holder ceases to be employed by the Company.

In addition, the Company has established a 1995 Directors Non-Qualified Stock Option Plan, 2005 Directors Non-Qualified Stock Option Plan, and a 2013 Incentive Plan for Non-Employee Directors (collectively the “Directors Plans”). The Directors Plans provide for the granting of options to the Company's directors who are not employees of the Company to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 300,000 shares of common stock may be granted under the Directors Plans. Options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of the date granted, except for certain options which become exercisable with respect to all of the shares covered thereby one year after the grant date. The right to exercise the options expires in ten years from the date of grant, or earlier if an option holder ceases to be a director of the Company.

Upon stock-settled compensation exercises and awards, the Company issues new shares of common stock.

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A summary of stock option transactions in fiscal 2012, 2013 and 2014, respectively, pursuant to the Employee Plans and the Directors Plans is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
June 30, 2011	448,000	\$ 4.38		
Options Granted	51,000	\$ 3.51		
Options Exercised	0	\$ 0.00		
Options Forfeited or Expired	(31,000 )	\$ 3.40		
June 30, 2012	468,000	\$ 4.35	4.1	\$ 330
June 30, 2012	468,000	\$ 4.35		
Options Granted	6,000	\$ 2.59		
Options Exercised	0	\$ 0.00		
Options Forfeited or Expired	(1,500 )	\$ 2.90		
June 30, 2013	472,500	\$ 4.34	3.2	\$ 960
June 30, 2013	472,500	\$ 4.34		
Options Granted	6,000	\$ 2.31		
Options Exercised	0	\$ 0.00		
Options Forfeited or Expired	(12,500 )	\$ 4.74		
June 30, 2014	466,000	\$ 4.30	2.3	\$ 660
Exercisable at June 30, 2014	460,000	\$ 4.32	2.2	\$ -

The following table provides additional information for options outstanding and exercisable at June 30, 2014:

***Options Outstanding***

Range of Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price
2.31 - 4.24	69,000	7.2 years	\$ 3.37
4.25 - 4.25	320,000	1.2 years	\$ 4.25
4.26 - 6.84	77,000	2.7 years	\$ 5.33
\$2.31 - 6.84	466,000	2.3 years	\$ 4.30

***Options Exercisable***

Range of Exercise Prices	Number	Weighted Average Exercise Price
2.31 - 4.24	63,000	\$ 3.47
4.25 - 4.25	320,000	\$ 4.25
4.26 - 6.84	77,000	\$ 5.33
\$2.31 - 6.84	460,000	\$ 4.32

See Note 2 for discussion of accounting for stock awards and related fair value disclosures.

## 8. Supplemental Balance Sheet Information

	June 30,		
	2014	2013	
Inventories			
Work in progress	\$616,474	\$663,100	
Component parts	7,605,543	7,530,506	
Finished goods	2,617,799	2,457,337	
Reserve for obsolete and excess inventory	(1,433,718)	(1,312,600)	
	\$9,406,098	\$9,338,343	
		Estimated	
		Useful Life	
		(years)	
Property, plant and equipment			
Machinery and equipment	3-10	\$14,609,438	\$14,306,930
Buildings	28-35	13,048,090	12,912,094
Land and land improvements	5-7	934,216	934,216
Total property, plant and equipment at cost		28,591,744	28,153,240
Less accumulated depreciation and amortization		(19,656,143)	(18,430,896)
		\$8,935,601	\$9,722,344

Depreciation expense was approximately \$1.2 million, \$1.2 million, and \$1.3 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Other accrued liabilities		
Accrued compensation expense	\$1,064,354	\$1,187,224
Customer deposits	252,496	359,597
Other	307,336	314,420
	\$1,624,186	\$1,861,241

## 9. Demutualization of Product Liability Insurer

The Company's product liability insurer, Medmarc Insurance Group, demutualized and was acquired by ProAssurance Corporation on January 1, 2013. As a policyholder of a mutual insurance company, Allied was entitled to receive a portion of the proceeds received by Medmarc. In January 2013 the Company received a cash payment of approximately \$516,000 as its share of these proceeds. These proceeds are included in Other Income and Expenses. The Company does not anticipate receiving future proceeds of a material amount.

## **10. Commitments and Contingencies**

### **Legal Claims**

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

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

Stuyvesant Falls Power Litigation. The Company is currently involved in litigation with Niagara Mohawk Power Corporation d/b/a National Grid (“Niagara”) and other parties, which provides electrical power to the Company’s facility in Stuyvesant Falls, New York. In fiscal year 2011, Niagara began sending invoices to the Company for electricity used at the Company’s Stuyvesant Falls plant. The Company maintains in its defense of the lawsuit that it is entitled to a certain amount of free electricity based on covenants running with the land which have been honored for more than a century. Niagara’s attempts to collect such invoices were stopped in December 2010 by a temporary restraining order, although a court has not yet ruled on the merits of all of Niagara’s claims. Among other things, Niagara seeks as damages the value of electricity received by the Company without charge. While the total value of electricity at issue in the litigation is not known with certainty, Niagara alleges in its Motion For Summary Judgment, filed on March 14, 2014, damages of approximately \$492,000 in free electricity since May 2010. Alternatively, Niagara asserts that, in the event that the free power covenant is still enforceable, the Company is still responsible for delivery fees relating to any free power to which it is entitled. The Company filed its own 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. As of June 30, 2014, the Company has not recorded a provision for this matter as management intends to vigorously defend this litigation and believes it is not probable that the Company will be required to pay for electricity as Niagara claims. The Company believes, however, that any liability it may incur should it not prevail in the litigation would not have a material adverse effect on its financial condition, its result of operations, or its cash flows.

Dräger Patent Litigation. On or about October 4, 2013, Dräger Medical GmbH and certain affiliates (the “Dräger Plaintiffs”) filed a patent infringement lawsuit against the Company in the District of Delaware, asserting that the Company infringes United States Patent Nos. 7,487,776 and 8,286,633, both protecting particular combinations of carbon dioxide absorption cartridges and adapters which fit on anesthesia machines. The Dräger Plaintiffs assert that the Company’s sales of certain models of its Litholyme and Carbolyme single-use carbon dioxide absorption cartridges infringe both patents. The Company has answered the Complaint, asserting invalidity of the patents, non-infringement, and implied license under the doctrine of permissive repair.

On October 25, 2013, the Dräger Plaintiffs filed a motion for preliminary injunction requesting that the Company be enjoined from selling certain models of its Litholyme and Carbolyme cartridges during the pendency of the litigation. A hearing on the motion for preliminary injunction was held on February 7, 2014. On March 24, 2014, the Court ruled in Allied’s favor and denied Dräger’s motion for a preliminary injunction, stating among other things that Dräger had not carried its burden of showing that Allied had infringed Dräger’s patents.

As of June 30, 2014, the Company has not recorded a provision for this matter because the Company cannot estimate a possible loss or range of loss for this matter because the Dräger Plaintiffs have not specified damages claimed and the proceedings are in the early stages. The Company intends to defend against any further litigation brought by the Dräger Plaintiffs and pursue counterclaims for invalidity, non-infringement, and implied license.

## **Employment Contract**



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

## 11. Segment Information

The Company operates in one segment consisting of the manufacturing, marketing and distribution of a variety of respiratory products used in the health care industry to hospitals, hospital equipment dealers, hospital construction contractors, home health care dealers and emergency medical product dealers. The Company's product lines include respiratory care products, medical gas equipment and emergency medical products. The Company does not have any one single customer that represents more than 10 percent of total sales. Sales by region, and by product, are as follows:

### Sales by Region

	2014	2013	2012
Domestic United States	\$27,214,060	\$29,180,042	\$33,816,317
Europe	858,735	1,421,347	1,510,197
Canada	758,392	673,011	603,530
Latin America	4,291,530	4,113,201	4,883,288
Middle East	1,214,389	1,228,318	925,658
Far East	2,011,714	1,841,771	1,594,172
Other International	21,796	94,084	112,459
	\$36,370,616	\$38,551,774	\$43,445,621

### Sales by Product

	2014	2013	2012
Respiratory care products	\$9,688,486	\$8,944,319	\$10,082,450
Medical gas equipment	19,425,522	21,870,840	24,803,614
Emergency medical products	7,256,608	7,736,615	8,559,557
	\$36,370,616	\$38,551,774	\$43,445,621

**12. Quarterly Financial Data (unaudited)**

Summarized quarterly financial data for fiscal 2014 and 2013 appears below (all amounts in thousands except per share amounts):

Three months ended,	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012
Net sales	\$ 9,798	\$ 9,116	\$ 8,749	\$ 8,708	\$ 10,133	\$ 9,210	\$ 9,921	\$ 9,287
Gross profit	1,861	1,748	1,944	1,761	2,478	1,680	2,106	1,979
Loss from operations	(395 )	(960 )	(892 )	(862 )	(122 )	(960 )	(751 )	(660 )
Net loss	(347 )	(969 )	(899 )	(591 )	(98 )	(279 )	(469 )	(411 )
Basic loss per share	(0.04 )	(0.12 )	(0.11 )	(0.07 )	(0.01 )	(0.03 )	(0.06 )	(0.05 )
Diluted loss per share	(0.04 )	(0.12 )	(0.11 )	(0.07 )	(0.01 )	(0.03 )	(0.06 )	(0.05 )

Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts will not necessarily equal the total for the year.

**13. Baralyme® Agreement**

On August 27, 2004, Allied entered into an agreement with Abbott Laboratories (“Abbott”) pursuant to which Allied agreed to cease production of its product Baralyme®, and to effect the withdrawal of Baralyme® product held by distributors. The agreement permits Allied to pursue the development of a new carbon dioxide absorbent product. Baralyme®, a carbon dioxide absorbent product, has been used safely and effectively in connection with inhalation anesthetics since its introduction in the 1920s. In recent years, the number of inhalation anesthetics has increased, giving rise to concerns regarding the use of Baralyme® in conjunction with these newer inhalation anesthetics if Baralyme® has been allowed, contrary to recommended practice, to become desiccated. The agreement also provides that, for a period of eight years, Allied will not manufacture, distribute, promote, market, sell, commercialize or donate any Baralyme® product or similar product based upon potassium hydroxide and will not develop or license any new carbon dioxide absorbent product containing potassium hydroxide.

In consideration of the foregoing, Abbott agreed to pay Allied an aggregate of \$5,250,000 of which \$1,530,000 was paid on September 30, 2004 and the remainder payable in four equal annual installments of \$930,000 due on July 1, 2005 through July 1, 2008.

The initial payment of \$1,530,000 from Abbott was received on September 30, 2004. The agreement required Abbott to pay Allied \$600,000 for reimbursement of Allied's cost incurred in connection with withdrawal of Baralyme® from the market, the disposal of such product, and severance payments payable as a result of such withdrawal. The payments by Abbott have been included in net sales, in accordance with ASC Topic 605: "Revenue Recognition." The Company is the primary obligor in the arrangement. It has sole authority to determine the method of withdrawal of Baralyme® and discretion in such matters as employee layoffs, disposal methods, and customer communications regarding the sale of replacement products. The costs of executing the withdrawal are the sole responsibility of the Company.

The payments received from Abbott have been recognized into income, as net sales, over the eight-year term of the agreement. Allied has no further obligations under this agreement which would require the Company to repay these amounts or otherwise impact this accounting treatment. During the fiscal years ended June 30, 2014, 2013, and 2012, Allied recognized \$0, \$114,700 and \$688,200, respectively into income as net sales in each year. The agreement expired in August 2012 and no further income will be recognized from the agreement after such expiration.

A reconciliation of deferred revenue resulting from the agreement with Abbott, with the amounts received under the agreement, and amounts recognized as net sales is as follows:

	Twelve Months ended June 30, 2014 2013	
Beginning balance	\$ -	\$ 114,700
Revenue recognized as net sales	-	(114,700 )
	-	0
Less - Current portion of deferred revenue	-	0
	\$ -	\$ 0

#### 14. Share Repurchases

On November 21, 2012 the Company's Board of Directors approved the purchase of up to 100,000 shares of the Company's common stock. This authority terminated on February 1<sup>st</sup>, 2013. Pursuant to this authorization, the Company repurchased 94,139 shares of stock at an average price of \$2.54 for an aggregate total purchase price of \$240,952.

On February 25, 2013 the Company's Board of Directors authorized the repurchase of up to 100,000 shares of the Company's common stock for a period of 90 days. Repurchases may be made in the open market or in privately negotiated transactions, with the timing and terms of such transaction in the discretion of the Chairman of the Board unless terminated by the Board, the repurchase authority renews for successive 90 day periods. The repurchase authority may be terminated by the Board at any time and without notice. Pursuant to this authorization, the Company repurchased a total of 3,100 shares on February 26, 2013 at an average price of \$2.69 per share for an aggregate total purchase price of \$8,408.

#### Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

#### Item 9A. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In connection with our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, as required under Rule 13a-15(b) of the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the date of such evaluation to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

(b) Internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, which is defined as a process designed by, or under supervision of, our principal executive and principle financial officer and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. However these inherent limitations are known features of the financial reporting process. It is possible to design into the process safeguards to reduce, though not eliminate, the risk that misstatements are not prevented or detected on a timely basis.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992). Based on this assessment, our management concluded that, as of June 30, 2014, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes to the Company's internal controls over financial reporting during the fourth quarter that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance***

A list of our executive officers and biographical information appears at the end of Item 1, in Part I of this report. A definitive proxy statement is expected to be filed with the Securities and Exchange Commission within 120 days after June 30, 2014. The information required by this item is set forth under the caption "Election of Directors", under the caption "Executive Officers", and under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the definitive proxy statement, which information is incorporated herein by reference thereto.

**Item 11. *Executive Compensation***

The information required by this item is set forth under the caption "Executive Compensation" in the definitive proxy statement, which information is incorporated herein by reference thereto.



**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the definitive proxy statement, which information is incorporated herein by reference thereto.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

None

**Item 14. *Principal Accounting Fees and Services***

The information required by this item will appear in the section entitled "Audit Fees" included in the definitive proxy statement relating to the 2014 Annual Meeting of stockholders and such information is incorporated herein by reference.

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules***

**1. Financial Statements**

The following financial statements of the Company are included in response to Item 8:

Statement of Operations for the years ended

June 30, 2014, 2013, and 2012

Balance Sheet at June 30, 2014 and 2013

Statement of Changes in Stockholders' Equity

for the years ended June 30, 2014, 2013 and 2012

Statement of Cash Flows for the years ended June 30, 2014,

2013 and 2012

Notes to Financial Statements

Report of Independent Registered Public Accounting Firm

## **2. Financial Statement Schedule**

Valuation and Qualifying Accounts and Reserves for the Years

Ended June 30, 2014, 2013 and 2012

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

## **3. Exhibits**

The exhibits listed on the accompanying Index to Exhibits are filed as part of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By:

/s/ Earl R. Refsland  
Earl R. Refsland  
President and Chief Executive Officer

/S/ Daniel C. Dunn  
Daniel C. Dunn  
Vice President, Chief Financial Officer, and Secretary

Dated: September 26, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on September 26th, 2014.

<b>Signatures</b>	<b>Title</b>
* John D. Weil	Chairman of the Board
* Earl R. Refsland	President, Chief Executive Officer and Director (Principal Executive Officer)
* William A. Peck	Director
* Joseph Root	Director
* Judy Graves.	Director

\* By: /s/ Earl R. Refsland  
Earl R. Refsland  
Attorney-in-Fact

\* Such signature has been affixed pursuant to the following Power of Attorney.

**ALLIED HEALTHCARE PRODUCTS, INC.**

## RULE 12-09 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts - describe	Deductions - describe	Balance at end of period
For the Year Ended June 30, 2014					
Accounts Receivable Allowances	\$ (170,000 )	\$(18,852 )	-	\$ 18,852	(1) \$ (170,000 )
Inventory Allowance For Obsolescence And Excess Quantities	\$ (1,312,600 )	\$(128,189)	\$ (29,128 )	)(3) \$ 36,199	(2) \$ (1,433,718 )
Deferred Tax Asset Valuation Allowance	\$ 0	\$(800,203)	-	-	\$(800,203 )
For the Year Ended June 30, 2013					
Accounts Receivable Allowances	\$ (170,000 )	\$(10,372 )	-	\$ 10,372	(1) \$ (170,000 )
Inventory Allowance For Obsolescence And Excess Quantities	\$ (1,327,291 )	\$(121,970)	\$ (37,265 )	)(3) \$ 173,926	(2) \$ (1,312,600 )
For the Year Ended June 30, 2012					
Accounts Receivable Allowances	\$ (170,000 )	\$(27,025 )	-	\$ 27,025	(1) \$ (170,000 )
Inventory Allowance For Obsolescence And Excess Quantities	\$ (1,419,420 )	\$(33,061 )	\$ (27,018 )	)(3) \$ 152,208	(2) \$ (1,327,291 )

(1) Decrease due to bad debt write-offs and recoveries.

(2) Decrease due to disposal of obsolete inventory.

(3) Increase due to inventory revaluation. The other account charged as a result of this revaluation was inventory before reserves. This did not result in a change to our net inventory or net income(loss).

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INDEX TO EXHIBITS

Exhibit

No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3(1) to the Company's Registration Statement on Form S-1, as amended, Registration No. 33-40128, filed with the Commission on May 8, 1991 (the "Registration Statement") and incorporated herein by reference)
3.2	By-Laws of the Registrant (filed as Exhibit 3(2) to the Registration Statement and incorporated herein by reference)
10.1	NCG Trademark License Agreement, dated April 16, 1982, between Liquid Air Corporation and Allied Healthcare Products, Inc. (filed as Exhibit 10(24) to the Registration Statement and incorporated herein by reference)
10.2	Employee Stock Purchase Plan (filed as Exhibit 10(3) to the Company's Annual Report on Form 10-K for the year ended June 30, 1998 and incorporated by reference)
10.3	Allied Healthcare Products, Inc. 1994 Employee Stock Option Plan (filed with the Commission as Exhibit 10(39) to the Company's Annual Report on Form 10-K for the year ended June 30, 1994 and incorporated herein by reference)
10.4	Allied Healthcare Products, Inc. 1995 Directors Non-Qualified Stock Option Plan (filed with the Commission as Exhibit 10(25) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995 and incorporated herein by reference)
10.5	Allied Healthcare Products, Inc. Amended 1994 Employee Stock Option Plan (filed with the Commission as Exhibit 10(28) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996 and incorporated herein by reference)
10.6	Form of Indemnification Agreement with officers and directors (filed with the Commission as Exhibit 10.22 to the 2002 Form 10-K and incorporated herein by reference).

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- 10.7 Amended and restated Employment Agreement dated December 21, 2009 by and between Allied Healthcare Products, Inc. and Earl Refsland (incorporated by reference to 10-Q filed May 7, 2010)
- Change of Control Agreement Employment Agreement dated March 16, 2007 by and between Allied
- 10.7.1 Healthcare Products, Inc. and certain executive officers (incorporated by reference to 8-K filed March 16, 2007 with event date of March 16, 2007)
- 10.8 Allied Healthcare Products, Inc. 1999 Incentive Stock Plan (filed with the Commission as Exhibit 10(26) to the 1999 Form 10-K and incorporated herein by reference)
- 10.9 Allied Healthcare Products, Inc. 2009 Incentive Stock Plan (filed with Commission as Appendix A to the 2009 Proxy Statement on Schedule 14A)
- 10.10 Loan and Security Agreement dated November 17, 2009 by and between the Company and Enterprise Bank & Trust, including Revolving Credit Note (incorporated by reference to 8-K filed November 18, 2009 with event date of November 13, 2009)
- 10.12 Patent License Agreement, dated June 8, 2012, by and between Allied Healthcare Products, Inc. and Armstrong Medical Limited (filed with the Commission as Exhibit 10.12 to the 2012 Form 10-K and incorporated herein by reference).
- 23.1 Consent of RubinBrown LLP (filed herewith)
- 24 Form of Power of Attorney – (filed herewith)
- 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 (provided herewith)\*
- 32.2 Sarbanes-Oxley Certification of Chief Financial Officer (provided herewith)\*
- 101 Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014, is formatted in XBRL interactive data files: (i) Statement of Operations for the fiscal years ended June 30, 2014, 2013 and 2012; (ii) Balance Sheet at June 30, 2014 and June 30, 2013; (iii) Statement of Changes in Stockholders' Equity for the fiscal years ended June 30, 2014, 2013 and 2012; (iiii) Statement of Cash Flows for the fiscal years ended June 30, 2014, 2013 and 2012; and (v) 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.



