ALLIED HEALTHCARE PRODUCTS INC
Form 10-K
September 27, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year June 30, 2013

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

_____

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

_____

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

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 x

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. x No. ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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. x 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, 2012, 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 $11,753,091.

As of September 11, 2013, 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, 2013 (portion) (Part III)

ALLIED HEALTHCARE PRODUCTS, INC.

INDEX TO FORM 10-K

"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, such as the expected impact on the Company of the excise tax commencing in 2013 on the sale of certain medical devices 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 2013 and 2012, 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:

Product	Description	Principal Brand Names	Primary Users
Respiratory Care Products			
Respiratory Care/Anesthesia Products	Large volume compressors; ventilator calibrators; humidifiers and mist tents; and carbon dioxide absorbent	Timeter; 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
Medical Gas Equipment			
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
Emergency Medical Products			
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
		LSP	

Trauma and Patient Handling Products	Spine immobilization products; pneumatic anti-shock garments, trauma burn kits and Xtra backboards	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 mass casualty ventilation line has been designed to meet the unique ventilation demands that can occur during a mass casualty event or pandemic. The mass casualty products are lightweight, robust, and easy to operate. Designed for surge capacity, these products are capable of providing reliable ventilation even in unpredictable environments and conditions, and require minimal periodic maintenance.

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 19 sales professionals, all of whom are full-time employees of the Company.

The sales force includes eight domestic hospital, homecare and emergency specialists, four domestic construction specialists, and four 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 24% of total net sales in fiscal 2013, 22% in 2012 and 20% in 2011. 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's research and development department is responsible for the development of new products. This group is staffed with mechanical and electrical engineers.

During fiscal year 2013 the research and development group completed the design of additional machine specific cartridges for Allied's Lytholyme® product line.

The group is actively working on other products that were not released during fiscal year 2013.

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 2013 the company continued to pursue patents on the EPV200 ventilator and a new product design still in research and development. Several foreign patents were issued for the Litholyme® carbon dioxide absorbent product.

Patents which will expire in the period of 2013 to 2030 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 needing 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, 2013, the Company had approximately 276 full-time employees. Approximately 164 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	70	Director, President and Chief Executive Officer (1)
Eldon P. Rosentrater	59	Vice President of Administration & Corporate Planning (2)
Robert B. Harris	56	Vice President of Operations (3)
Daniel C. Dunn	53	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.

(2) 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.

(3) 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.

(4) Mr. Dunn has been Vice President -- Finance, Chief Financial Officer, Secretary and Treasurer since July, 2001. He 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 do 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 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 will require due diligence efforts in fiscal 2014, with initial disclosure requirements beginning in May 2014. There will 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 fluctuating operating results, including net losses in fiscal 2012 and 2013 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 fluctuating operating results. We reported a net loss of $0.6 million in fiscal 2010, net income of $0.2 million in fiscal 2011, a net loss of $0.4 million in fiscal 2012 and a net loss of $1.3 million in fiscal 2013. 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 mass casualty 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, 2013.

Location	Square Footage (Approximate)	Owned/ Leased	Activities/Products
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, 2013, there were 157 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 2013 and 2012, 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

2013	High	Low	2012	High	Low
September quarter	$3.33	$2.50	September quarter	$4.69	$3.31
December quarter	$2.80	$2.44	December quarter	$3.91	$3.08
March quarter	$3.33	$2.44	March quarter	$3.54	$3.10
June quarter	$2.93	$2.44	June quarter	$3.47	$3.03

Information concerning securities authorized for issuance under equity compensation plans is incorporated by reference to the Company's proxy statement for the 2013 annual meeting of stockholders, which will be filed within 120 days after June 30, 2013.

Item 6. ***Selected Financial Data***

(In thousands, except per share data) Year ended June 30,	2013	2012	2011	2010	2009
Statement of Operations Data					
Net sales	$38,552	$43,446	$46,783	$46,034	$52,073
Cost of sales	30,310	33,485	35,781	34,945	40,273
Gross profit	8,242	9,961	11,002	11,089	11,800
Impairment of goodwill	-	-	-	-	15,980
Selling, general and administrative expenses	10,736	10,611	10,594	11,872	13,042
Income (loss) from operations	(2,494)	(650)	408	(783)	(17,222)
Interest expense	-	-	-	4	-

Interest income	(12)	(27)	(33)	(10)	(60)
Other, net	(485)	48	78	117	50
Income (loss) before provision for (benefit from) income taxes	(1,997)	(670)	363	(894)	(17,212)
Provision for (benefit from) income taxes	(740)	(246)	159	(294)	(450)
Net income (loss)	$(1,257)	$(424)	$204	$(600)	$(16,762)
Basic earnings (loss) per share	$(0.16)	$(0.05)	$0.03	$(0.07)	$(2.12)
Diluted earnings (loss) per share	$(0.16)	$(0.05)	$0.03	$(0.07)	$(2.12)
Basic weighted average common shares outstanding	8,071	8,124	8,107	8,067	7,899
Diluted weighted average common shares outstanding	8,071	8,124	8,125	8,067	7,899

(In thousands)

June 30,	2013	2012	2011	2010	2009
Balance Sheet Data					
Working capital	$13,682	$16,006	$18,251	$17,627	$16,987
Total assets	29,339	31,477	31,845	33,031	33,334
Stockholders' equity	25,315	26,777	27,159	26,819	26,685

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, 2013, 2012, and 2011.

Year ended June 30,	Dollars in thousands 2013 Net Sales	% of Total 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 Sales	% of Total 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	%

Year ended June 30,	Dollars in thousands 2011 Net Sales	% of Total Net Sales	
Respiratory care products	$10,797	23.1	%
Medical gas equipment	24,950	53.3	%
Emergency medical products	11,036	23.6	%

Total	$46,783	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,	2013	2012	2011
Net sales	100.0%	100.0%	100.0%
Cost of sales	78.6	77.1	76.5
Gross profit	21.4	22.9	23.5
Selling, general and administrative expenses	27.8	24.4	22.6
Income (loss) from operations	(6.4)	(1.5)	0.9
Other, net	(1.3)	0.0	(0.2)
Income (loss) before provision for (benefit from) income taxes	(5.1)	(1.5)	0.7
Provision for (benefit from) income taxes	(1.9)	(0.5)	0.3
Net income (loss)	(3.2)%	(1.0)%	0.4 %

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, 2013, June 30, 2012, and June 30, 2011 was $150,944, $152,625, and $125,369, respectively. The related liability for warranty service amounted to $130,000 and $139,906 at June 30, 2013 and 2012, 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, 2013 and 2012, inventory is recorded net of a reserve for obsolete and excess inventory of $1.3 million.

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.

The Company currently relies on reversals of existing temporary deferred tax liabilities and tax planning strategies to support the value of existing deferred tax assets. As of June 30, 2013 using currently available strategies there remains approximately $700,000 of future taxable income which would be generated through the strategies and available to offset future net operating losses and other deferred tax assets. To the extent future losses for the fiscal year 2014 exceed this amount the Company would not be able to continue to recognize the tax benefit of future losses.

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, 2013 and 2012, 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, 2013. 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, 2013 and 2012, the Company had approximately $200,000 and $190,000, 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, 2013, 2012, and 2011, Allied recorded approximately $44,000, $44,000 and $20,000, 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, 2013, 2012, and 2011, Allied recognized $114,700, $688,200 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 2013 and 2012 is as follows:

	Twelve Months ended June 30,	
	2013	2012
Beginning balance	$114,700	$802,900
Revenue recognized as net sales	(114,700)	(688,200)

	0	114,700
Less - Current portion of deferred revenue	0	(114,700)
	$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 majority of 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 2013 there was $573,500 less income recognized than in 2012 and in 2014 there will be $114,700 less income recognized than in 2013.

Medical Device Tax:

Beginning January 1, 2013, the Healthcare Reform Acts impose 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 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 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. The Company has relied on the use of available tax planning strategies to support the value of its deferred tax assets and the tax benefits attributable to the net operating losses that have been generated to date. As of June 30, 2013 using currently available strategies there remains approximately $700,000 of future taxable income which would be generated through the strategies and available to offset future net operating losses and other deferred tax assets. To the extent future losses for the fiscal year 2014 exceed this amount the Company would not be able to continue to recognize the tax benefit of future losses.

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. There will be no recognition of income into sales from the agreement with Abbott in 2014.

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, 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 are 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. The Company continues to review the cost of production and seek opportunities to lower those costs. 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. 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 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 of 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 include 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.

Fiscal 2012 Compared to Fiscal 2011

The Company had a loss of $0.7 million before taxes for fiscal 2012, compared to income of $0.4 million before taxes for fiscal 2011. The Company recorded an income tax benefit of $0.2 million in fiscal 2012, compared to an income tax provision of $0.2 million in fiscal 2011.

Net sales for fiscal 2012 of $43.4 million were $3.4 million or 7.3% less than net sales of $46.8 million in fiscal 2011. Domestically, sales decreased by $3.8 million dollars. Internationally, sales increased by $0.4 million. International business is dependent upon hospital construction projects, and the development of medical facilities in those regions in which the Company operates. Domestic sales for fiscal 2012 include approximately $0.7 million for the recognition into sales of payments resulting from the agreement with Abbott, as discussed below. For 2011, domestic sales included approximately $0.7 million for the recognition into sales of payments resulting from the agreement with Abbott as well.

The Company believes that the purchase of equipment and durable goods and the purchase of equipment by hospitals and municipalities was cut during this period to meet budgets and conserve cash. In addition, the Company believes that uncertainties surrounding the implementation of comprehensive healthcare legislation had some negative impact on sales. Orders for the Company's products for the year ended June 30, 2012 of $41.5 million were $3.3 million or 7.4% lower than orders for the year ended June 30, 2011 of $44.8 million. Customer purchase order releases for the year ended June 30, 2012 of $41.1 million were $3.9 million or 8.7% lower than customer purchase order releases of $45.0 million from the prior fiscal year.

Respiratory care product sales, which include homecare products in 2012 were $10.1 million, which is $0.7 million, or 6.5% lower than sales of $10.8 million in the prior year As in 2011, sales for the year ended June 30, 2012 included $0.7 million for the recognition into sales of payments resulting from the agreement with Abbott Laboratories to cease production and distribution of Baralyme®.

In fiscal year 2012, Allied continued 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, 2012 the Company had carbon dioxide absorbent sales of Carbolime® and Litholyme® of $1.7 million dollars, compared with $1.7 million for the year ended June 30, 2011.

Medical gas equipment sales, which include construction products, of $24.8 million in fiscal 2012 were approximately $0.2 million, or 0.8% lower than prior year levels of $25.0 million. Internationally, sales of medical gas equipment in fiscal 2012 were approximately $1.0 million higher than in the prior year. Domestically, sales of medical gas equipment in fiscal 2012 were $1.2 million lower than in the prior year. The Company believes that the timing of orders by distributors between years contributed to this decrease in sales. In addition, prior year sales included significant sales from large hospital projects which did not repeat in 2012.

Emergency medical product sales in fiscal 2012 of $8.6 million were $2.4 million or 21.8% lower than fiscal 2011 sales of $11.0 million. International sales of emergency medical products decreased by $0.6 million from the prior year while domestic sales decreased by $1.9 million. The Company believes that the decrease in domestic emergency sales in fiscal 2012 was primarily the result of a drop in federal government demand from prior year levels. The Company also believes that domestic demand for these products, which are normally largely consumed by local agencies, continues to be impacted by economic conditions as states and municipalities continued to struggle with decreased tax revenues.

International sales, which are included in the product lines discussed above, increased $0.5 million, or 5.5%, to $9.6 million in fiscal 2012 compared to sales of $9.1 million in fiscal 2011. 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 2012, international shipments of medical gas equipment, including construction products, increased by $1.0 million dollars, and sales of respiratory care products increased by approximately $0.1 million. These

increases were partially offset by a $0.6 million decrease in the sale of emergency products.

Gross profit in fiscal 2012 was $10.0 million, or 22.9% of sales, compared to a gross profit of $11.0 million, or 23.5% of sales in fiscal 2011. 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 decrease in direct startup cost the Company incurred at its Stuyvesant Falls facility in 2012 and 2011. During 2011 gross profit was negatively impacted by approximately $0.7 million in shipping, additional product cost, and other startup cost the Company incurred at its Stuyvesant Falls facility for the production of its carbon dioxide absorbent product lines. Higher commodity prices have led to higher costs for certain raw materials including brass and plastic resins during 2012. These higher costs for raw materials have been largely offset by cost reductions on other purchased components, and cost improvement programs in our principal manufacturing facility in St. Louis. The Company continues to review the cost of production and seek opportunities to lower those costs.

The Company invested $2.2 million in capital expenditures in fiscal 2012 compared to $0.3 million in fiscal 2011 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 2012 were unchanged from fiscal 2011 at $10.6 million. Sales commissions decreased by approximately $0.3 million as a result to changes in commission plans, lower sales levels, and open positions due to attrition. This cost decrease was partially offset by a $0.2 million increase in legal expense due to now completed legal proceedings with Armstrong Medical, and a $0.1 million increase in Research and Development direct charges.

Interest income in fiscal 2012 was approximately $27,000 compared to interest income of $33,000 in fiscal 2011.

Net loss in fiscal 2012 was $0.4 million or $0.05 per basic and diluted earnings per share, down from a net income of $0.2 million, or $0.03 per basic and diluted earnings per share in fiscal 2011. In 2012, the weighted number of shares used in the calculation of basic earnings per share was 8,124,386, and the number of shares used in diluted earnings per share was 8,124,386. In 2011, the weighted number of shares used in the calculation of basic earnings per share was 8,107,313, and the number of shares used in diluted earnings per share was 8,124,957.

Financial Condition, Liquidity and Capital Resources

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

Dollars in thousands	2013	2012	2011
Cash & cash equivalents	$3,688	$5,285	$6,513
Working Capital	$13,682		