

ALLIED HEALTHCARE PRODUCTS INC  
Form 10-Q  
November 06, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended September 30, 2009

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-19266

ALLIED HEALTHCARE PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Delaware	25-1370721
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

1720 Sublette Avenue, St. Louis, Missouri 63110  
(Address of principal executive offices, including zip code)

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

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter periods that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past ninety days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

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

Yes  No

The number of shares of common stock outstanding at November 6, 2009 is 8,091,886 shares.

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

Statements contained in this Report, which are not historical facts or information, are "forward-looking statements." Words such as "believe," "expect," "intend," "will," "should," and other expressions that indicate future events and trends identify such forward-looking statements. These forward-looking statements involve risks and uncertainties, which could cause the outcome and future results of operations, and financial condition to be materially different than stated or anticipated based on the forward-looking statements. Such risks and uncertainties include both general economic risks and uncertainties, risks and uncertainties affecting the demand for and economic factors affecting the delivery of health care services, and specific matters which relate directly to the Company's operations and properties as discussed in the Company's annual report on Form 10-K for the year ended June 30, 2009. The Company cautions that any forward-looking statements contained in this report reflect only the belief of the Company or its management at the time the statement was made. Although the Company believes such forward-looking statements are based upon reasonable assumptions, such assumptions may ultimately prove inaccurate or incomplete. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement was made.



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	Three months ended September 30,	
	2009	2008
Net sales	\$ 11,323,676	\$ 14,441,011
Cost of sales	8,920,800	10,939,957
Gross profit	2,402,876	3,501,054
Selling, general and administrative expenses	3,591,776	3,183,587
Income (loss) from operations	(1,188,900)	317,467
Interest income	(984)	(30,659)
Interest expense	2,413	-
Other, net	11,014	12,067
	12,443	(18,592)
Income (loss) before provision for (benefit from) income taxes	(1,201,343)	336,059
Provision for (benefit from) income taxes	(456,405)	127,702
Net income (loss)	\$ (744,938)	\$ 208,357
Basic and diluted earnings (loss) per share	\$ (0.09)	\$ 0.03
Weighted average shares outstanding - basic	7,988,321	7,891,232
Weighted average shares outstanding - diluted	7,988,321	8,132,931

See accompanying Notes to Consolidated Financial Statements.

ALLIED HEALTHCARE PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEET  
ASSETS

	(Unaudited) September 30, 2009	June 30, 2009
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,298,957	\$ 1,943,364
Accounts receivable, net of allowances of \$300,000	5,339,629	6,172,437
Inventories, net	12,597,816	12,663,938
Income tax receivable	1,632,577	937,273
Other current assets	334,337	327,203
<b>Total current assets</b>	<b>22,203,316</b>	<b>22,044,215</b>
Property, plant and equipment, net	10,510,423	10,799,089
Other assets, net	387,568	390,627
<b>Total assets</b>	<b>\$ 33,101,307</b>	<b>\$ 33,233,931</b>

See accompanying Notes to Consolidated Financial Statements.

(CONTINUED)

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

	(Unaudited) September 30, 2009	June 30, 2009
<b>Current liabilities:</b>		
Accounts payable	\$ 2,108,441	\$ 1,633,568
Other accrued liabilities	2,175,676	2,316,558
Deferred income taxes	171,980	419,213
Deferred revenue	688,200	688,200
Total current liabilities	5,144,297	5,057,539
Deferred revenue	1,319,050	1,491,100
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.01 par value; 1,500,000 shares authorized; no shares issued and outstanding	-	-
Series A preferred stock; \$0.01 par value; 200,000 shares authorized; no shares issued and outstanding	-	-
Common stock; \$0.01 par value; 30,000,000 shares authorized; 10,395,378 and 10,204,819 shares issued at September 30, 2009 and June 30, 2009, respectively; 8,091,886 and 7,901,327 shares outstanding at September 30, 2009 and June 30, 2009, respectively	103,954	102,048
Additional paid-in capital	48,327,749	47,632,049
Accumulated deficit	(1,062,315)	(317,377)
Less treasury stock, at cost; 2,303,492 shares at September 30, 2009 and June 30, 2009	(20,731,428)	(20,731,428)
Total stockholders' equity	26,637,960	26,685,292
Total liabilities and stockholders' equity	\$ 33,101,307	\$ 33,233,931

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended September 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (744,938)	\$ 208,357
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	355,309	375,667
Stock based compensation	618,084	(4,521)
Provision for doubtful accounts and sales returns and allowances	1,750	(18,311)
Deferred taxes	(247,233)	22,988
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	831,058	87,625
Inventories	66,122	(729,974)
Income tax receivable	(695,304)	-
Other current assets	(7,134)	(159,769)
Accounts payable	474,873	135,583
Deferred revenue	(172,050)	(172,500)
Other accrued liabilities	(140,882)	(846,512)
Net cash provided by (used in) operating activities	339,655	(1,101,367)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(63,584)	(1,004,286)
Net cash used in investing activities	(63,584)	(1,004,286)
<b>Cash flows from financing activities:</b>		
Stock options exercised	-	81,094
Minimum tax withholdings on stock options exercised	(406,110)	-
Excess tax benefit from exercise of stock options	485,632	-
Net cash provided by financing activities	79,522	81,094
Net increase (decrease) in cash and cash equivalents	355,593	(2,024,559)
Cash and cash equivalents at beginning of period	1,943,364	6,149,015
Cash and cash equivalents at end of period	\$ 2,298,957	\$ 4,124,456

See accompanying Notes to Consolidated Financial Statements.



ALLIED HEALTHCARE PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year. These statements should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements thereto included in the Company's Form 10-K for the year ended June 30, 2009.

Codification of Accounting Standards

On September 30, 2009, the Company adopted SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (the Codification). The Codification combines the previous U.S. GAAP hierarchy which included four levels of authoritative accounting literature distributed among a number of different sources. The Codification does not by itself create new accounting standards but instead reorganizes thousands of pages of existing U.S. GAAP accounting rules into approximately 90 accounting topics. All existing accounting standards documents are superseded by the Codification and all other accounting literature not included in the Codification is now considered non-authoritative. The Codification explicitly recognizes the rules and interpretive releases of the Securities and Exchange Commission ("SEC") under federal securities laws as authoritative GAAP for SEC registrants. The Codification is now the single source of authoritative nongovernmental accounting standards in the U.S.

As a result of the Codification, the references to authoritative accounting pronouncements included herein in this Quarterly Report on Form 10-Q now refer to the Codification topic section rather than a specific accounting rule as was past practice.

Subsequent Events

Allied Healthcare Products, Inc. has applied the provisions of the Subsequent Events Topic of the Accounting Standards Codification (ASC) to its consolidated interim financial statements for periods ended after June 15, 2009. The Subsequent Event Topic establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued. In particular, the Subsequent Events Topic sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. Accordingly, the Company has evaluated events and transactions occurring through November 6, 2009, the date the consolidated interim financial statements were issued, for potential recognition or disclosure in the financial statements.

#### Recently Issued Accounting Guidance

In April 2009, the FASB issued guidance (“Fair Value Determination Guidance”) in the Fair Value Measurements and Disclosures Topic of the ASC regarding the determination of fair value in instances where market conditions result in either inactive markets for assets and liabilities or disorderly transactions within markets. The Fair Value Determination Guidance affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. The Fair Value Determination Guidance requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence and expands certain disclosure requirements. The Fair Value Determination Guidance became effective for Allied Healthcare Products, Inc. in the quarter ended September 30, 2009, and its adoption did not have a significant effect on the Company’s financial position, results of operations, or cash flows.

In December 2007, the FASB issued the Business Combinations Topic of the ASC. The Business Combinations Topic replaces previously issued guidance regarding business combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. Departing from the cost-allocation process of previous guidance, the Business Combinations Topic requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity at the acquisition date, measured at their fair values as of that date. Contingent consideration is recognized and measured at fair value at the acquisition date, and acquisition related costs are expensed as incurred. The Business Combinations Topic also distinguishes between assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date and assets or liabilities arising from all other contingencies, requiring different treatment for each type of contingency. The Business Combinations Topic is effective for Allied Healthcare Products, Inc. on July 1, 2009. To the extent business combinations occur on or after the effective date, the Company’s accounting for those transactions will be significantly affected by the provisions of the Business Combinations Topic.

The Company has determined that all other recently issued accounting guidance will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

## Fair Value of Financial Instruments

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

## 2. Inventories

Inventories are comprised as follows:

	September 30, 2009	June 30, 2009
Work-in progress	\$ 1,050,336	\$ 718,711
Raw materials and component parts	8,745,491	8,981,435
Finished goods	4,125,745	4,311,440
Reserve for obsolete and excess inventory	(1,323,756)	(1,347,648)
	\$ 12,597,816	\$ 12,663,938

## 3. Earnings per share

Basic earnings per share are based on the weighted average number of shares of all common stock outstanding during the period. Diluted earnings per share are based on the sum of the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The number of basic shares outstanding for the three months ended September 30, 2009 and 2008 were 7,988,321 and 7,891,232 respectively. The number of diluted shares outstanding for the three months ended September 30, 2009 and 2008 was 7,988,321 and 8,132,931, respectively.

## 4. Commitments and Contingencies

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

## 5. Financing

The Company has entered into a credit facility arrangement with Bank of America, the successor in interest to LaSalle Bank National Association (the "Bank"). The credit facility was amended on September 26, 2002, September 26, 2003, August 25, 2004, September 1, 2005, and September 30, 2008.

Under the terms of the credit facility, the Company is required to be in compliance with certain financial covenants pertaining to stockholders' equity, capital expenditures and net income. Additionally, the terms of the credit facility restrict the Company from the payment of dividends on any class of its stock. At September 30, 2009, the Company was in violation of its fixed charge coverage ratio covenant under the credit agreement and the Company had no outstanding amounts under the credit facility. The Company is negotiating with the Bank for an acceptable waiver and amendment of the credit agreement. The Company is also negotiating with other financial institutions to obtain a replacement credit facility. Based on such discussions, the Company believes it will be able to negotiate an acceptable waiver and amendment with the Bank or to procure a replacement credit facility with another lender. Even if this were not possible, the Company does not anticipate the technical default under the credit facility to o;s purchases. As of September 30, 2016, the Company was obligated to pay \$6,021,325 to Elemetal as a trade payable, and had a \$1,088 receivable from Elemetal. Additionally, DGSE incurs interest on its outstanding payable. We also had an outstanding balance of \$2,303,359 as of September 30, 2016 under our Loan Agreement with NTR, which balances together with accrued and unpaid interest, would be due and payable on August 1, 2017. As discussed in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," we have entered into a stock purchase agreement with Elemetal pursuant to which \$3,500,000 of the trade payable we owe Elemetal and the outstanding balance under the Loan Agreement with NTR would be cancelled and forgiven in exchange for the issuance of common stock and a warrant to purchase common stock. The closing of the transactions is expected to take place following satisfaction of various closing conditions, including obtaining the approval of DGSE's stockholders and amendment of the Company's Articles of Incorporation. Both matters are scheduled to be submitted to a vote of stockholders at the Company's 2016 Annual Meeting of Stockholders to be held December 7, 2016. Excluding the warrant, and if closed on December 7, 2016, the transactions contemplated by the stock purchase agreement to be voted on at the December 7, 2016 Annual Meeting would result in a decrease in Total Liabilities and an increase in Stockholders' Equity of \$5,947,816.

If we do not obtain stockholder approval or other closing conditions are not satisfied, it could limit our ability to obtain the amount of bullion we need in order to satisfy our customer orders, which in turn would likely reduce our sales and results of operations. In addition, Elemetal may require DGSE to pay down the outstanding payable and NTR may not be willing to renew or extend the Loan Agreement, either of which would have a material adverse effect on our liquidity.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

## **ITEM 4. MINE SAFETY DISCLOSURES.**

None.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

<b>Exhibit Number</b>	<b>Description</b>	<b>Filed Herein</b>	<b>Incorporated by Reference</b>	<b>Form</b>	<b>Date Filed with SEC</b>	<b>Exhibit Number</b>
3.1	Articles of Incorporation dated September 17, 1965		X	8-A12G	June 23, 1999	3.1

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<b>Exhibit Number</b>	<b>Description</b>	<b>Filed Herein</b>	<b>Incorporated by Reference</b>	<b>Form</b>	<b>Date Filed with SEC</b>	<b>Exhibit Number</b>
3.2	Certificate of Amendment to Articles of Incorporation, dated October 14, 1981		X	8-A12G	June 23, 1999	3.2
3.3	Certificate of Resolution, dated October 14, 1981		X	8-A12G	June 23, 1999	3.3
3.4	Certificate of Amendment to Articles of Incorporation , dated July 15, 1986		X	8-A12G	June 23, 1999	3.4
3.5	Certificate of Amendment to Articles of Incorporation, dated August 23, 1998		X	8-A12G	June 23, 1999	3.5
3.6	Certificate of Amendment to Articles of Incorporation, dated June 26, 1992		X	8-A12G	June 23, 1999	3.6
3.7	Certificate of Amendment to Articles of Incorporation, dated June 26, 2001		X	8-K	July 3, 2001	1.0
3.8	Certificate of Amendment to Articles of Incorporation, dated May 22, 2007		X	8-K	May 31, 2007	3.1
3.9	By-laws, dated March 2, 1992		X	8-A12G	June 23, 1999	3.7
3.10	Amendment to By-laws, dated September 4, 2015		X	8-K	September 11, 2015	3.1
3.11	Amendment to By-laws, dated October 9, 2015		X	8-K	October 9, 2015	3.1
4.1	Specimen Common Stock Certificate		X	S-4	January 6, 2007	4.1
31.1	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Matthew M. Peakes	X				
31.2	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Stephen R. Patterson	X				
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Matthew M. Peakes	X				

<b>Exhibit Number</b>	<b>Description</b>	<b>Filed Herein</b>	<b>Incorporated by Reference</b>	<b>Form</b>	<b>Date Filed with SEC</b>	<b>Exhibit Number</b>
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Stephen R. Patterson	X				
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X

**SIGNATURES**

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

**DGSE COMPANIES, INC.**

(Registrant)

Date: November 14, 2016 By: /s/ MATTHEW M. PEAKES  
Matthew M. Peakes  
Chief Executive Officer

(Principal Executive Officer)

Date: November 14, 2016 /s/ Stephen R. Patterson  
Stephen R. Patterson  
[Acting] Chief Financial Officer

(Principal Financial Officer)