

FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year June 30, 1998

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:  
Name of each exchange  
Title of each class on which registered  
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None  
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:  
Common Stock  
Preferred Stock  
Preferred Stock Purchase Rights  
(Title of class)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes.  No.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

As of September 18, 1998, the aggregate market value of the voting stock held by non-affiliates (4,565,441 shares) of the Registrant was \$11,698,942 (based on the closing price, on such date, of \$2.5625 per share).

As of September 18, 1998, there were 7,806,682 shares of common stock, \$0.01 par value (the "Common Stock"), outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement dated October 9, 1998 (portion) (Part III)

ALLIED HEALTHCARE PRODUCTS, INC.

INDEX TO FORM 10-K

PART I

Item 1.	Business .	1
Item 2.	Properties	10
Item 3.	Legal Proceedings	11
Item 4.	Submission of Matters to a Vote of Security Holders	11

PART II

Item 5.	Market for Registrant's Common Stock and Related Stockholder Matters	11
Item 6.	Selected Financial Data	12
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 8.	Financial Statements and Supplementary Data	26
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	43

PART III

Item 10.	Directors and Executive Officers of the Registrant .	43
Item 11.	Executive Compensation	43
Item 12.	Security Ownership of Certain Beneficial Owners and Management	43

Item 13. Certain Relationships and Related Transactions 43

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports  
on Form 8-K 43

PART I

Item 1. Business

GENERAL

Allied Healthcare Products, Inc. ("Allied" or the "Company") 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 construction 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

SIGNIFICANT 1998/RECENT EVENTS

The following list includes significant events which are further discussed in the Management Discussion and Analysis (MDA) section and in the Consolidated Financial Statements in this 10-K report:

- Refinancing of bank debt with Foothill Capital Corporation in August 1997
- Sale of Bear Medical and BiCore to ThermoElectron Corporation in October 1997 and use of proceeds to significantly pay down outstanding debt.
- Non-recurring charges during second quarter of fiscal year 1998 principally due to write-down of goodwill.
- Amendment to Foothill agreement in September 1998 to separately finance the mortgage on the St. Louis facility and to reduce interest costs and fees.
- August 1998 announcement by the Company to close its B&F facility in Toledo and consolidation of those operations in St. Louis.

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 1998, respiratory care products, medical gas equipment and emergency medical products represented approximately 41%, 47% and 12% 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
<b>RESPIRATORY CARE PRODUCTS</b>			
Respiratory Care/Anesthesia Products	Large volume compressors; ventilator calibrators; humidifiers and mist tents	Timeter acute facilities	Hospitals and sub-
Home Respiratory Care Products	Oxygen concentrators; O2 cylinders; pressure regulators; nebulizers; portable large volume compressors; portable suction equipment and disp. respiratory products	Timeter; B&F; Schuco	Patients at home
<b>MEDICAL GAS EQUIPMENT</b>			
Construction Products	In-wall medical gas system components; central suction pumps and compressors and headwalls	Chemetron; Oxequip; Hospital Systems	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-0-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 home care products
<b>EMERGENCY MEDICAL PRODUCTS</b>			
Respiratory/Resuscitation	Demand resuscitation valves; bag mask resuscitators; emergency transport ventilators and oxygen regulators	LSP; Omni-Tech	Emergency service providers
Trauma and Patient Handling Products	Spine immobilization products; pneumatic anti-shock garments and trauma burn kits	LSP; Design Principles	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. The Company believes that the sales of respiratory care products will increase due to the growth in the aging population, increase in acute and chronic respiratory disorders and improved technology for the early diagnosis and treatment of these disorders.

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, independent sales representatives, and by contract sales with national chains. The Company holds a significant share of the U.S. market and selected foreign markets for certain respiratory care products.

RESPIRATORY CARE/ANESTHESIA PRODUCTS. The Company manufactures and sells a broad range of products for use in respiratory care and anesthesia delivery. These products include large volume air compressors, calibration equipment, humidifiers, croup tents, equipment dryers, CO2 absorbent and a complete line of respiratory disposable products such as oxygen tubing, face masks, 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 oxygen concentrators, aluminum oxygen cylinders, oxygen regulators, pneumatic nebulizers, portable suction equipment and the full line of respiratory disposable products.

## MEDICAL GAS EQUIPMENT

MARKET. The market for the 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 by the Company, 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.

Headwalls are prefabricated wall units for installation in patient rooms and intensive care areas which house medical gas, suction and electrical outlets, and fixtures for monitoring equipment. These prefabricated walls also incorporate designs for lighting and nurse call systems. Headwalls are built to customer design specifications and eliminate the need for time-consuming installation of fixtures, and outlets and related piping and wiring directly into the hospital wall. During fiscal 1995, the Company introduced the Trio headwall, which includes a detachable face plate that permits a health care provider to switch among one of three gases, thus providing greater flexibility to a hospital or sub-acute care facility.

The Company's construction products are sold primarily to hospitals, alternate care settings and hospital construction contractors. The Company believes that it holds a major 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. Since hospitals typically do not have more than one medical gas system, the manufacturer of the existing installed system has a competitive advantage in follow-on sales of such products to a hospital in which its systems are installed. 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. The Company expects its installed equipment base to continue to provide the Company with a significant competitive advantage in the hospital renovation market.

**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. Hospitals that procure medical gas system regulation devices from the Company's competitors were previously required to utilize adapters in order to use Allied's in-wall components. However, in August 1996, the Company introduced its patented Connect II universal outlet, the first such outlet to allow a hospital to utilize medical gas system regulation devices and in-wall components produced by different manufacturers.

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

**DISPOSABLE CYLINDERS.** Disposable oxygen cylinders are designed to provide oxygen supplied for short periods 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. The Company also markets disposable cylinders to specialty gas manufacturers for use by substance abuse compliance personnel.

#### EMERGENCY MEDICAL PRODUCTS

Emergency medical products are used in the treatment of trauma-induced injuries. The Company's emergency medical products provide patients resuscitation or ventilation during cardiopulmonary resuscitation or respiratory distress as well as immobilization and treatment for burns. The Company believes that the trauma care venue for health care services is positioned for growth in light of the continuing trend towards providing health care outside the traditional hospital setting. The Company also expects that other 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.

The Company believes it is a market share leader with respect to certain of its emergency medical products, including demand resuscitation systems, bag masks and related products, emergency transport ventilators, precision oxygen regulators, minilators and multilators and humidifiers. The emergency medical products are broken down into two account groups: 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 and 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.

In 1988 the Company introduced the first domestic line of emergency transport ventilators, or autovents, which are small and compact in design. The Company's autovent 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 for 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.

To complement the family of respiratory/resuscitation products, the Company offers a full line of oxygen products 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 which are 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 respiratory care/anesthesia product distributors, hospital construction contractors, emergency medical equipment dealers and directly to hospitals. The Company maintains a sales force of 49 sales professionals, all of whom are full-time employees of the Company. The sales force includes 19 respiratory products/homecare specialists, 17 hospital construction specialists, 5 emergency specialists and 8 international sales representatives. In addition, a director of corporate and national accounts is responsible for pursuing business with large national group purchasing organizations and large homecare national chains in OEM business. Five product managers are responsible for the marketing activities of these product lines.

Respiratory products specialists are responsible for sales of medical gas system regulation devices, portable suction equipment and respiratory care/anesthesia products. These products are principally sold to approximately 5,700 hospitals in the United States through specialized respiratory care/anesthesia product distributors. Many of these suppliers have had experience with the Company's products as hospital respiratory therapists. The Company hopes to capitalize on its brand name recognition and the familiarity of its products and their reputations among these former hospital therapists as a means of increasing its share of the respiratory care products market.

Respiratory products specialists are also responsible for sales into the homecare market. These products are sold through durable medical equipment suppliers, who then rent or sell the products directly to the patient for use in the home.

Emergency medical specialists are responsible for sales of respiratory/resuscitation products, trauma and patient handling products. These products are principally sold to ambulance companies, fire departments and emergency medical systems volunteer organizations through specialized emergency medical products distributors.

The Company's director of national accounts is responsible for marketing Allied's products to national hospital groups, managed care organizations and other health care providers and to national chains of durable medical equipment suppliers through sales efforts at the executive level. Generally, the national account representatives secure a commitment from the purchaser to buy a specified quantity of Allied's products over a defined time period at a discounted price based on volume.

#### INTERNATIONAL

Allied's international business represents a growth area which the Company has been emphasizing. The recent Asian situation has slowed incoming orders from Korea, Thailand and Taiwan. However, our efforts into China are now beginning to yield results in the construction products area.

Allied's net sales to foreign markets totaled 25% of the Company's net sales in fiscal 1998. International sales are made through a network of doctors, 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 and plastics manufacturing. 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. Additionally, five computer controlled machining centers were purchased and installed during fiscal 1997 in the Company's St. Louis, Missouri facility. This \$1.5 million investment has substantially modernized the Company's metal machining capabilities and will result in significant opportunities to reduce product costs from shorter set-up times, elimination of secondary operations in component manufacturing, reduced inventory levels, reductions in scrap and improvements in quality. 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. 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 conditions in local labor markets should permit the implementation of additional shifts and days operated to meet any future increased production capacity requirements.



During fiscal 1996 and 1997, manufacturing inefficiencies and capacity constraints prevented the Company from shipping to the level of demand for certain products from B&F Medicals' Toledo, Ohio facility. Accordingly, the Company invested \$1.1 million in molds and injection molding machinery to expand the production capacity and gain efficiencies at its Toledo, Ohio facility. This investment in enhanced injection molding capabilities is expected to increase production throughput, and to provide significant cost reduction opportunities, including reduced product material content, labor and utility costs, while improving overall quality and yields. Allied has recently announced the consolidation of its Toledo operations into the St. Louis facility. This move will be completed during the second quarter of fiscal 1999. The Company anticipates the expected production improvements at Toledo to carry over to the relocated operations in St. Louis. See further discussion of the relocation of the Toledo operation in the following MDA section of this Form 10-K.

#### RESEARCH AND DEVELOPMENT

In 1998 the Company expended \$1.7 million in research and development activities. Of that amount, \$0.6 million was utilized by the ventilation products division, that has since been sold. See further discussion of the sale of the ventilation products division in the following MDA section of this Form 10-K. Excluding the ventilation products division, research and development expenditures in 1997 and 1998 were approximately \$1.7 million and \$1.1 million, respectively.

The Company has recently increased its research and development efforts in order to keep pace with technological advances and expects to continue these activities into the future.

In the past several months, the Company has introduced several new products which resulted from its research and development programs. These products include the new Handi Vac II disposable suction canister that features improved flow and a new shut off mechanism. The Respical, a second generation ventilator calibrator, is a modernized version of the RT-200 ventilator calibrator with improved computer interfacing capabilities. In addition, the Company introduced into the emergency medical market a CO2 monitor that helps confirm proper patient intubation, and a new line of bag mask resuscitators, used to revive nonbreathing patients.

#### 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 ("FDCA"), 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 the 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 device's safety or effectiveness or make a major change or modification in the device's intended uses and, accordingly, that submission of new 510(k) notification to FDA is not required. There can be no assurance, however, that 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 Company's medical device manufacturing facilities are registered with the FDA, and recently received ISO 9001 Certification for the St. Louis facility and certification per the Medical Device Directive (MDD - European) for certain products. As such, the Company will be audited by FDA, ISO, and European auditors for compliance with the GMP, 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.

The Medical Device Reporting regulation requires that the Company provide information to 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 of which are permanently implantable devices. The regulation requires that the method adopted by the Company ensures 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, 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.

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, or delay in obtaining, such approvals could adversely affect the Company's ability to market its 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 require CE certification. 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 also is 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.

#### THIRD PARTY REIMBURSEMENT

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 the Company does not receive payments for its products directly from these programs, home respiratory care providers and durable medical equipment suppliers, who are the primary customers for several of the Company's products, depend heavily on payments from Medicare, Medicaid and private insurers as a major source of revenues. In addition, sales of certain of the Company's 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 renovations costs through Medicare and Medicaid reimbursements. In recent years, governmentally imposed limits on reimbursement of hospitals and other health care providers have impacted spending for services, consumables and capital goods. In addition the Balanced Budget Act was signed into law in 1997 which reduced reimbursements by 25% for oxygen and oxygen equipment. An additional 5% reduction will take place in 1999. 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 the Company's products.

#### PATENTS, TRADEMARKS AND PROPRIETARY TECHNOLOGY

The Company owns and maintains patents on several products which it believes are useful to the business and provide the Company with an advantage over its competitors.

The Company owns and maintains U.S. trademark registrations for 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.

#### COMPETITION

The Company has different competitors within each of its product lines. Many of the Company's principal competitors are larger than Allied and the Company believes that most of these competitors have greater financial and other resources than the Company. 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, 1998, the Company has 603 full-time employees and 79 part-time employees. Approximately 215 employees in the Company's principal manufacturing facility located in St. Louis, Missouri, are covered by a collective bargaining agreement which expires in May, 2000. An aggregate of approximately 146 employees at the Company's facilities in Oakland, California, Toledo, Ohio and Stuyvesant Falls, New York are also covered by collective bargaining agreements which will expire in 2001 for the Oakland and Stuyvesant Falls facilities and in 2000 for the Toledo facility. As indicated elsewhere in this Form 10-K, Allied's facility in Toledo will be shut down and the operations consolidated into St. Louis during the second quarter of fiscal 1999.

## 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 clean-up 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.

## ITEM 2. PROPERTIES

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

LOCATION	SQUARE FOOTAGE (APPROXIMATE)	OWNED/ LEASED	ACTIVITIES/PRODUCTS
St. Louis, Missouri	270,000	Owned	Headquarters; medical gas equipment; respiratory therapy equipment; emergency medical products
Toledo, Ohio	56,700	Owned	Home healthcare products
Stuyvesant Falls, New York	30,000	Owned	CO2 absorbent
Oakland, California	12,500	Leased	Headwalls

In the event of the expiration, cancellation or termination of a lease relating to Company's leased property, the Company anticipates no significant difficulty in connection with leasing alternate space at reasonable rates. The Company leases a facility in Mt. Vernon, Ohio, which is currently unused as its operations were consolidated into the Toledo facility as a part of its plant consolidation strategy for its disposable products operations. In addition, the Company also owns an additional 16.8 acre parcel of undeveloped land in Stuyvesant Falls, New York. As indicated elsewhere in this Form 10-K, the Company's facility in Toledo will be shut down and the operations consolidated into St. Louis during the second quarter of fiscal 1999.

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. Several such proceedings are currently pending, which 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. To date, no such recalls have been material to the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Allied Healthcare Products, Inc. began trading on the NASDAQ National market under the symbol AHPI on January 14, 1992, following its initial public offering. As of September 18, 1998, there were 266 record owners of the Company's Common Stock. The following tables summarize information with respect to the high and low closing prices for the Company's Common Stock as listed on the NASDAQ National market for each quarter of fiscal 1998 and 1997, respectively. The Company currently does not pay any dividend on its Common Stock.

COMMON STOCK INFORMATION

1998	HIGH	LOW	1997	HIGH	LOW
September quarter	\$7-7/8	\$ 6-3/8	September quarter	\$10-1/4	\$6-1/4
December quarter	8-1/2	7-1/4	December quarter	7-3/4	6-3/8
March quarter	8	6-7/16	March quarter	9-1/4	7
June quarter	6-1/2	4-1/4	June quarter	7-1/8	5-3/8

## ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share data)

Year ended June 30,	1998	1997	1996	1995	1994
<b>STATEMENT OF OPERATIONS DATA</b>					
Net sales	\$ 96,467	\$118,118	\$120,123	\$111,639	\$74,129
Cost of sales	69,110	82,365	80,550	68,430	44,172
Gross profit	27,357	35,753	39,573	43,209	29,957
Selling, general and administrative expenses	23,889	33,910	31,449	24,849	16,824
Gain on sale of business (1)	(12,813)	--	--	--	--
Non-recurring impairment losses (2)	9,778	--	--	--	--
Income from operations	6,503	1,843	8,124	18,360	13,133
Interest expense	4,152	7,606	4,474	3,704	1,338
Other, net	198	186	350	(21)	1
Income (loss) before provision (benefit) for income taxes and extraordinary loss	2,153	(5,949)	3,300	14,677	11,794
Provision (benefit) for income taxes (3)	9,019	(1,428)	1,473	5,854	4,539
Income (loss) before extraordinary loss	(6,866)	(4,521)	1,827	8,823	7,255
Extraordinary loss on early extinguishment of debt, net of income tax benefit	530	--	--	--	--
Net income (loss)	\$ (7,396)	\$ (4,521)	\$ 1,827	\$ 8,823	\$ 7,255
Basic and diluted earnings (loss) per share (4)	\$ (0.95)	\$ (0.58)	\$ 0.25	\$ 1.45	\$ 1.31
Weighted average common shares outstanding	7,805	7,797	7,378	6,067	5,522

(In thousands)

June 30,	1998	1997	1996	1995	1994
<b>BALANCE SHEET DATA</b>					
Working capital	\$ 21,308	\$ 18,743	\$ 38,030	\$ 2,810	\$ 5,018
Total assets	80,180	126,343	136,760	126,192	64,593
Short-term debt	3,443	12,891	3,849	34,420	13,108
Long-term debt (net of current portion)	14,972	34,041	49,033	34,602	16,513
Stockholders' equity	52,037	59,365	63,886	38,374	20,034

(1) See Note 3 to the June 30, 1998 Consolidated Financial Statements for further discussion.

(2) See Note 4 to the June 30, 1998 Consolidated Financial Statements for further discussion.

(3) See Note 7 to the June 30, 1998 Consolidated Financial Statements for further discussion of the Company's 1998 effective tax rate.

(4) See Note 2 to the June 30, 1998 Consolidated Financial Statements for adoption of FAS 128.

## ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## OVERVIEW

The following discussion summarizes the significant factors affecting the consolidated operating results and financial condition of the Company for the three fiscal years ended June 30, 1998. This discussion should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and selected consolidated financial data included elsewhere herein.

Certain statements contained herein are forward-looking statements. Actual results could differ materially from those anticipated as a result of various factors, including cyclical and other industry downturns, the effect of currency devaluations and recessionary conditions in certain Asian markets, the effects of federal and state legislation on health care reform, including Medicare and Medicaid financing, the inability to realize the full benefit of recent capital expenditures or consolidation and rationalization activities, difficulties or delays in the introduction of new products or disruptions in selling, manufacturing and/or shipping efforts.

The results of operations for fiscal 1998 were affected by several one time, non-recurring items, which are discussed further below. On October 31, 1997, the Company sold the assets of its ventilation products division for a gain. The proceeds from this sale were used to significantly pay down debt and to provide additional liquidity. The Company also recorded several non-recurring items and other charges to operations in the second quarter of fiscal 1998. Such non-recurring items reflect changes in business conditions resulting from the sale of the ventilation products division and other changes in market conditions. In addition, reserves for inventories and bad debts were increased throughout the fiscal year. As a result, the Company has strengthened its balance sheet by reducing debt, reducing intangible assets, and increasing reserves. Subsequent to June 30, 1998, the Company has further refinanced its debt and announced the relocation of its Toledo operation to St. Louis.

The review of and comparability of year to year operating results is complicated by the sale of the ventilation products division on October 31, 1997. The fiscal 1998 results include ventilation products division operations for four months in the year ended June 30, 1998, while the fiscal 1997 results include ventilation products division operations for the full year ended June 30, 1997.

The specific transactions and events impacting 1998 operating results, which make meaningful comparisons to prior years more difficult, are summarized below:

#### SALE OF VENTILATION PRODUCTS DIVISION

On October 31, 1997, the Company sold the assets of Bear Medical Systems, Inc. ("Bear") and its subsidiary BiCore Monitoring Systems, Inc. ("BiCore"), collectively referred to as the ventilation products division, to ThermoElectron Corporation for \$36.6 million plus the assumption of certain liabilities. The net proceeds of \$29.5 million, after expenses including federal and state taxes, were utilized to repay a significant portion of the Company's term notes and to repay all of its subordinated debt, \$15.8 million of which had a coupon rate of 14.0% per annum.

The sale of these assets resulted in a gain before taxes for financial reporting purposes of \$12.8 million, which was recorded in the Company's results of operations in the second quarter of fiscal 1998. The gain on sale of the ventilation products division, as a discrete item, resulted in a tax provision of \$9.3 million. The relatively higher effective tax rate on this transaction reflected the fact that approximately \$12.7 million of goodwill associated with these businesses is not deductible for income tax purposes. The net income effect of the gain on sale was approximately \$3.5 million, or \$0.45 per share.

#### DEBT REDUCTION/REFINANCING

In August 1997, the Company refinanced its existing debt through a \$46 million credit facility with Foothill Capital Corporation. In conjunction with these new credit facilities, Allied placed an additional \$5.0 million in subordinated debt with several related parties to the Company. The Foothill Credit facility, which was amended in November 1997 to reflect the effects of the sale of the ventilation products division, has allowed the Company to improve its liquidity and reduce interest expense in comparison to prior years. See the following "Financial Condition, Liquidity and Capital Resources" section for further detail discussion of the Company's debt situation. See the following "Subsequent Events" section for discussion of further post-June 30, 1998 debt refinancing matters.

During fiscal 1998, the Company reduced its aggregate indebtedness from \$46.9 million at June 30, 1997 to \$18.4 million at June 30, 1998. As noted, a substantial portion of this reduction related to the application of proceeds from the sale of the ventilation products division on October 31, 1997.

Specifically, on November 3, 1997, the Company repaid two term notes totaling \$10.8 million, which had a coupon rate of 14.0% per annum, and significantly reduced the outstanding balance of its revolving line of credit, and on November 4, 1997 repaid \$5.0 million of 14.0% subordinated debt.

#### NON-RECURRING CHARGES

During the second quarter of fiscal 1998, the Company reevaluated the carrying value of its various businesses and recorded \$9.8 million of non-recurring charges to reflect the changes in business conditions resulting from the sale of the ventilation products division and due to other changes in market conditions discussed below, which culminated during the second quarter of fiscal 1998. The elements comprising the \$9.8 million of non-recurring charges, which are included in the results of operations for the year ended June 30, 1998, are as follows:

Goodwill writedowns, which were determined pursuant to the Company's impairment policy as described in Note 2 to the June 30, 1998 financial statements, totaled \$8.9 million for the four following businesses:

\$4.4 million associated with the partial goodwill writedown related to the B&F disposable products business. Continuing weakness in financial results of the business due to various operational issues, market condition changes in the home healthcare market including pressures on pricing due to reductions in Medicare reimbursements and overall weakness in financial results of the national home healthcare chains caused Allied to reevaluate and adjust the carrying value of this business.

\$2.4 million associated with the writedown of goodwill for Allied's headwall business which continues to experience weak financial results due to market conditions.

\$1.6 million associated with the writedown of Omni-Tech Medical, Inc. goodwill. This transportation ventilator business is directly related to the divested ventilation products division and is not anticipated to contribute to the ongoing operations of the Company.

\$0.5 million associated with the writedown of goodwill for the Design Principles Inc. backboard business. Increased costs have significantly eroded the margins of this business necessitating a re-evaluation of the carrying value of its goodwill.

In addition to the non-cash goodwill write-downs, other non-recurring items include:

\$0.5 million of consulting fees related to a cooperative purchasing study.

\$0.4 million for the writedown of leasehold improvements and a reserve for the remaining lease payments for B&F's Mt. Vernon, Ohio facility which was closed as part of the Company's rationalization initiatives. The tenant subletting this facility is operating under Chapter 11 reorganization protection.

The combined tax impact of these non-recurring charges resulted in a minimal \$0.4 million tax benefit, due to the non-deductibility for tax purposes of the \$8.9 million of goodwill writedowns. The non-recurring charges, as a discrete item, resulted in a net loss of approximately \$9.4 million or \$1.21 per share.

As a result of the writedown of the carrying value of goodwill for certain businesses described above, the Company expects to reduce its annual amortization charges by \$0.3 million or \$0.04 per share.



## SUBSEQUENT EVENTS

On August 10, 1998, the Company announced its intention to close its disposable products division in Toledo, Ohio, and relocate the B&F product line of home care products to its St. Louis manufacturing facility. The Company anticipates that the move will be completed in the second quarter of fiscal 1999 and that it will generate annual savings of nearly \$1 million. In connection with the shutdown of the facility, the Company will record a one-time, after tax charge of approximately \$0.6 million or \$.08 cents per share during the first quarter of fiscal 1999. A significant portion of the pre-tax costs of approximately \$1 million associated with the shutdown are expected to be paid prior to January 1, 1999. The Company continues to evaluate its business with an intent to streamline operations, improve productivity and reduce costs. Accordingly, the Company may implement other strategic rationalization programs in the future.

In August 1998, to further lower Allied's effective interest rate, the Company obtained a \$5.0 million mortgage loan on its St. Louis facility and used the proceeds to pay down its obligations under the Foothill Credit facility. That facility was also amended in September 1998 to eliminate the term loan feature and reduce the interest rate on the remaining revolving credit facility. See the following "Financial Condition, Liquidity, and Capital Resources" section for further detail discussion.

## FISCAL 1998 FOURTH QUARTER RESULTS OF OPERATIONS

During the fourth quarter of 1998, the Company continued to experience reduced sales. Net sales for the three months ended June 30, 1998 were \$19.5 million compared to sales of \$30.1 million for the three months ended June 30, 1997. Of the \$10.6 million decline in sales, \$8.5 million of the decline was attributable to sales associated with the disposal of the ventilation products division, while the base business sales declined by \$2.1 million or 10.1%. The net loss for the fourth quarter of 1998 declined to \$0.3 million or \$0.04 per share from \$3.5 million or \$0.45 per share in 1997. In 1997, a number of factors adversely impacted fourth quarter results. A nineteen day work stoppage at the Company's St. Louis, Missouri facility in June, 1997 resulted in a permanent loss in sales, margin declines, and plant inefficiencies. Also, in the fourth quarter of 1997, the Company increased certain reserves and recorded other charges to operations which totaled \$2.0 million. Included in these charges were adjustments to the carrying value of certain of the Company's inventories of \$1.0 million, an increase to the allowance for doubtful accounts of \$0.6 million, \$0.3 million for the settlement of a lawsuit related to a pre-acquisition matter at one of the Company's acquired subsidiaries, and \$0.1 million for a new product licensing agreement. Interest expense for the fourth quarter of 1998 was reduced by \$2.8 million compared to the fourth quarter of 1997 as a result of the August 1997 debt refinancing and the application of the proceeds from the sale of the ventilation products division to reduce outstanding debt. See also the following "Fiscal 1998 Compared to Fiscal 1997" section for a discussion of various other internal and external factors affecting operations.

Sales of respiratory care products for the fourth quarter were \$6.6 million, a decrease of \$8.7 million, compared to sales of \$16.3 million in the prior year period. \$8.5 million of this decline was attributable to the sale of the ventilation products division. Included herein are sales to the homecare market which declined from \$6.0 million during the fourth quarter of fiscal 1997 to \$4.3 million during fourth quarter of fiscal 1998, or 28.3% due to continuing pricing pressures and Company's unwillingness to take marginal business for aluminum cylinders. Sales of respiratory therapy equipment to the hospital market increased in the fourth quarter of fiscal 1998 compared to the fourth quarter of 1997 by \$0.5 million or 28.8%. This increase primarily reflected the effects of lower sales in the fourth quarter of 1997 due to the work stoppage in the St. Louis facility.

Sales of medical gas equipment for the fourth quarter of fiscal 1998 of \$10.0 million were 8.2% under sales of \$10.9 million in the prior year period. Sales of medical gas suction and regulation devices decreased from \$5.2 million in the prior year to \$5.0 million in the current fiscal year. Headwall sales, the smallest segment of medical gas equipment, increased 48.2% over the prior year sales on the strength of orders booked in prior periods. The largest decrease in medical gas sales for the quarter related to the sales of medical gas construction products. Medical gas construction sales in the fourth quarter of fiscal 1998 of \$3.4 million were \$1.3 million or 27.1% lower than in the prior year, primarily due to fewer large hospital construction projects. Sales of emergency medical products were relatively unchanged from the prior year.

Gross profit for the fourth quarter of fiscal 1998 was \$4.9 million, or 25.0% of sales, compared to \$8.1 million or 26.8% of net sales in the fourth quarter of fiscal 1997 due primarily to the divestiture of the higher margin ventilation products division and continued pricing pressures. See also the following "Fiscal 1998 compared to Fiscal 1997" section for further discussion.

Selling, General and Administrative ("SG&A") expenses were \$4.9 million in the fourth quarter of 1998, a decrease of \$4.3 million from the fourth quarter of 1997. SG&A decreased from 30.4% in the fourth quarter of fiscal 1997 to 25.2% of sales in the fourth quarter of fiscal 1998 primarily due to the sale of the ventilation products division. The fourth quarter of 1998 also benefited from various cost containment initiatives over the past year, including the elimination of several sales management, sales and marketing, and other administrative positions. The fiscal 1997 fourth quarter included an increase to the allowance for doubtful accounts, a lawsuit settlement charge, and a new product licensing fee which aggregated approximately \$1.0 million.

The loss from operations for the fourth quarter of fiscal 1998 was less than \$0.1 million compared to \$1.1 million in the prior year reflecting the factors described above.

Interest expense for the fourth quarter of fiscal 1998 was \$0.6 million, a decrease of \$2.8 million from the fourth quarter of fiscal 1997. In 1997, under the Company's previous credit facility, interest expense included fees paid to the commercial bank group to obtain waivers for covenant violations at March 31, 1997, fees paid for not obtaining a commitment to reduce the bank groups indebtedness by \$20.0 million by May 15, 1997, fees paid for professional services related to credit negotiations and related audits and the amortization of prepaid loan costs. On August 8, 1997, as previously discussed, the Company refinanced its existing bank debt through a new credit facility with Foothill Capital Corporation, and a \$5.0 million subordinated debt arrangement. The new financial agreements are discussed further below. In addition, interest expense was significantly reduced due to the reduction in debt, caused by the sale of the ventilation products division. At June 30, 1998, commercial debt is \$18.4 million, a decrease of \$28.5 million from the June 30, 1997 debt level of \$46.9 million.

The Company incurred a loss before income taxes of \$0.7 million in the fourth quarter of fiscal 1998 compared to a loss of \$4.5 million in the same period for the prior year. The Company recorded a tax benefit of \$0.3 million in the fourth quarter of fiscal 1998 compared to a tax benefit of \$1.0 million in the fourth quarter of fiscal 1997. Results of operations in the fourth quarter of fiscal 1998 were a net loss of \$0.3 million, or \$0.04 per share, compared to a net loss of \$3.5 million, or \$0.45 per share, in the fourth quarter of fiscal 1997.

## RESULTS OF OPERATIONS

Allied 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, 1998, 1997 and 1996.

(Dollars in thousands) Year ended June 30,	1998	
	Net Sales	% of Total Net Sales
Respiratory care products	\$ 40,105	41.6%
Medical gas equipment	45,033	46.7%
Emergency medical products	11,329	11.7%
Total	\$ 96,467	100.0%

(Dollars in thousands) Year ended June 30,	1997	
	Net Sales	% of Total Net Sales
Respiratory care products	\$ 63,935	54.1%
Medical gas equipment	42,566	36.1%
Emergency medical products	11,617	9.8%
Total	\$ 118,118	100.0%

(Dollars in thousands) Year ended June 30,	1996	
	Net Sales	% of Total Net Sales
Respiratory care products	\$ 63,889	53.2%
Medical gas equipment	43,084	35.9%
Emergency medical products	13,150	10.9%
Total	\$ 120,123	100.0%

The following table sets forth, for the fiscal periods indicated, the percentage of net sales represented by certain items reflected in the Company's consolidated statement of operations.

Year ended June 30,	1998	1997	1996
Net sales	100.0%	100.0%	100.0%
Cost of sales	71.6	69.7	67.1
Gross profit	28.4	30.3	32.9
Selling, general and administrative expenses	24.8	28.7	26.2
Gain on sale of business	-13.3	--	--
Non-recurring impairment losses	10.2	--	--
Income from operations	6.7	1.6	6.7
Interest expense	4.3	6.4	3.7
Other, net	0.2	0.2	0.3

Income (loss) before provision (benefit) for income taxes and extraordinary loss	2.2	-5.0	2.7
Provision (benefit) for income taxes	9.3	-1.2	1.2
	-----	-----	-----
Income (loss) before extraordinary loss	-7.1	-3.8	1.5
Extraordinary loss on early extinguishment of debt, net of income tax benefit	0.6	--	--
	-----	-----	-----
Net income (loss)	-7.7	-3.8	1.5
	=====	=====	=====

#### FISCAL 1998 COMPARED TO FISCAL 1997

Net sales for fiscal 1998 of \$96.5 million were \$21.6 million, or 18.3%, less than net sales of \$118.1 million in fiscal 1997. \$19.0 million of this decline relates to sales associated with the disposal of the ventilation products division and \$2.6 million relates to a decline in sales of core products. The decline in sales of core products reflected various internal and external factors.

A large part of this decrease was caused by the Company's insistence for better margins on sales of distributed products, such as aluminum cylinders. In addition, sales force disruption caused by the ventilation products division sale, a decrease in large hospital construction projects and inefficiencies at the Company's Toledo facility negatively impacted revenues. This facility will be closed during the second quarter of fiscal 1999.

Certain external issues first experienced in fiscal 1996 have continued to impact the Company's operations, both in fiscal 1997 and fiscal 1998. The emphasis of healthcare providers on cost containment has resulted in significant consolidation in the healthcare environment and pricing pressures in recent years. Homecare sales have been adversely affected by reductions in Medicare reimbursements. Asian currency valuations, and economic uncertainty in other areas, have decreased international orders. New orders, excluding the ventilation products division, decreased from \$92.6 million in fiscal 1997 to \$85.0 million in fiscal 1998, or 8.2%, for the reasons discussed above.

While the Company is unable to predict when these macro-economic issues will be resolved, management believes that over a long-term horizon, Allied is well positioned to capitalize on the need for its respiratory products and meet the demands for these products caused by an aging population, an increase in the occurrence of lung disease, advances in treatment of other respiratory illnesses in the home, hospital, and sub-acute care facilities and upgrading of medical treatment around the world.

Medical gas equipment sales of \$45.0 million in fiscal 1998 were \$2.4 million, or 5.8%, over prior year sales of \$42.6 million. Medical gas system construction sales, headwall sales, and medical gas suction and regulation device sales experienced increases of 0.7%, 48.0% and 2.2%, respectively, in fiscal 1998 compared to fiscal 1997. The increase in sales of these products in fiscal 1998 primarily related to shipment of orders from backlog which had accumulated prior to June 30, 1997.

Respiratory care products sales in fiscal 1998 of \$40.1 million were \$23.8 million, or 37.2%, under sales of \$63.9 million in the prior year. Of the decline, \$19.0 million was attributable to the disposal of the ventilation products division and \$4.8 million relates to the Company's remaining product lines. Sales to the home healthcare market declined by 20.7%, primarily in distributed products as discussed above. In addition, pricing pressures caused by the consolidation of home healthcare dealers and continued concern over potential reductions in Medicare and Medicaid reimbursement rates continued to impact sales of home healthcare products. The Company has continued to experience capacity constraints at the Toledo, Ohio facility, and as previously noted, has announced plans to move its production to the St. Louis, Missouri facility in the second quarter of fiscal 1999. This is expected to reduce manufacturing costs while improving available capacity, and customer service.

Emergency medical products sales in fiscal 1998 of \$11.3 million were \$0.3 million, or 2.5%, less than fiscal 1997 sales of \$11.6 million. Business in this market is driven by both replacement business, and the occurrence of natural disasters. Management expects sales for the near future to primarily reflect demand driven by the replacement segment of the business. Orders for emergency medical products in fiscal 1998 of \$12.6 million were \$0.6 million or 5.5% above orders of \$12.0 million in the prior year.

International sales, which are included in the product lines discussed above decreased \$10.5 million, or 30.4%, to \$24.0 million in fiscal 1998 compared to sales of \$34.5 million in fiscal 1997. International sales declined \$11.3 million due to the sale of the ventilation products division while international sales of the remaining business increased by \$0.8 million.

The Company continues to emphasize the importance of worldwide markets. Advances in medical protocol in various countries throughout the world combined with the Company's strong international dealer network have enabled the Company to respond to increased worldwide demand for medical products. International sales are affected by international economic conditions and the relative value of currencies. In 1998 the continued devaluation of Asian currency has reduced international orders.

Gross profit in fiscal 1998 was \$27.4 million, or 28.4% of net sales, compared to a gross profit of \$35.8 million, or 30.3% of net sales in fiscal 1997. The sale of the high margin ventilation products division adversely impacted gross profit and the gross margin in fiscal 1998 since these products were part of the Company's business for only four months of fiscal 1998 compared to the full twelve months in fiscal 1997. Continued pricing pressures brought on by the consolidations and cost containment initiatives of healthcare providers and the Company's planned reductions in inventories, which resulted in reduced manufacturing throughput and lower absorption of plant overhead, further served to reduce margins as a percent to net sales. Finally, the Company increased inventory reserves by over \$1.0 million in fiscal 1998. In the fourth quarter of fiscal 1997, the Company recorded certain adjustments, approximating \$1 million, to the carrying value of its inventories.

The Company anticipates continued pressures on margins due to the mix of domestic versus international sales and anticipates continued pricing pressures from its customer base.

Selling, General and Administrative ("SG&A") expenses for fiscal 1998 were \$23.9 million, a decrease of \$10.0 million over SG&A expenses of \$33.9 million in fiscal 1997. Fiscal 1998 SG&A expenses were lower than the prior year due to several non-recurring fiscal 1997 expenditures. In fiscal 1997, the Company made strategic investments in certain SG&A activities and recorded certain non-recurring SG&A expenses. SG&A spending included investments in advertising and marketing literature, investments in information technology, and continued investments in research and development. In addition, the Company completed the recruiting, training and consolidation of its respiratory products salesforce and incurred duplicate costs for sales efforts to the Durable Medical Equipment Dealers (DME) in the home health care market during the transition period of shifting to telemarketing from field sales representatives. As a percentage of net sales, fiscal 1998 SG&A expenses were 24.8% compared to 28.7% in fiscal 1997. This decrease was attributable to lower SG&A expenses in fiscal 1998, as discussed above.

As discussed previously in the preceding Overview section, financial results for fiscal 1998 were impacted by certain one-time, nonrecurring transactions and events which make meaningful comparisons to prior years more difficult. These specific transactions and events include the following items.

On October 31, 1997 the Company sold the assets of Bear Medical Systems, Inc. ("Bear") and its subsidiary BiCore Monitoring Systems, Inc. ("BiCore") to ThermoElectron Corporation for \$36.6 million plus the assumption of certain liabilities. The sale of these assets resulted in a gain before taxes for financial reporting purposes of \$12.8 million and a tax provision of \$9.3 million, due to non-deductibility of approximately \$12.7 million goodwill associated with these businesses. The net income effect on the gain on sale of business was approximately \$3.5 million or \$0.45 per share.

During the second quarter of fiscal 1998, the Company reevaluated the carrying value of its various businesses and recorded \$9.8 million of non-recurring charges to reflect the changes in business conditions resulting from the sale of the ventilation products division and due to other changes in market conditions, which culminated during the second quarter of fiscal 1998. The elements comprising the \$9.8 million of non-recurring charges consist of goodwill write-downs and other non-recurring items. See the preceding Overview section for further discussion. These non-recurring charges resulted in a minimal \$0.4 million tax benefit, due to the non-deductibility for tax purposes of the \$8.9 million of goodwill write-downs. The non-recurring charges, as a discrete item, resulted in a net loss of approximately \$9.4 million or \$1.21 per share.

Income from operations in fiscal 1998 of \$6.5 million was \$4.7 million, or 261%, above fiscal 1997 income from operations of \$1.8 million. As a percentage of net sales, income from operations increased to 6.7% from 1.6% in fiscal 1997, due to the factors discussed above.

Interest expense decreased \$3.5 million or 44.6%, to \$4.2 million in fiscal 1998 from \$7.6 million in fiscal 1997. In 1997, interest expense included fees paid to the Company's previous commercial bank group to obtain waivers for covenant violations, fees paid for not obtaining a commitment to reduce the bank groups indebtedness by \$20.0 million by May 15, 1997, fees paid for professional services related to credit negotiations and related audits, and the amortization of prepaid loan costs. On August 8, 1997, as previously discussed, the Company refinanced its existing bank debt through a new credit facility with Foothill Capital Corporation, and \$5.0 million subordinated debt arrangement. The new financial agreements are discussed further below. The Company did not incur fees similar to the prior year in fiscal 1998. In addition, interest expense was significantly reduced due to the reduction in debt, which primarily reflected application of the proceeds from the sale of the ventilation products division. At June 30, 1998, commercial debt is \$18.4 million, a decrease of \$28.5 million from the June 30, 1997 debt level of \$46.9 million.

The Company had income before taxes of \$2.2 million, compared to a loss before taxes of \$5.9 million in fiscal 1997. The Company recorded a provision for income taxes of \$9.0 million for fiscal 1998 for an effective tax rate of 418.9%, compared to a tax benefit of \$1.4 million in fiscal 1997 and an effective rate of 24.0%. As previously discussed, the gain on the sale of the ventilation products division resulted in a tax provision of \$9.3 million. In addition, the non-recurring charge of \$9.8 million was principally goodwill, and therefore non-deductible for income tax purposes.

Net loss in fiscal 1998 was \$7.4 million, or \$0.95 per diluted share, an increase of \$2.9 million from net loss of \$4.5 million or \$0.58 per diluted share in fiscal 1997. Net loss in fiscal 1998 included a \$0.5 million extraordinary loss on early extinguishment of debt.

Exclusive of the extraordinary items discussed above, the net loss for fiscal 1998 would have been \$2.5 million or \$0.32 per diluted share. Earnings per share amounts are diluted earnings per share, which are substantially the same as basic earnings per share. The weighted number of shares used in the calculation of the diluted per share loss was 7,805,021 in fiscal 1998 compared to 7,796,682 in fiscal 1997.

## FISCAL 1997 COMPARED TO FISCAL 1996

Net sales for fiscal 1997 of \$118.1 million were \$2.0 million, or 1.7%, less than net sales of \$120.1 million in fiscal 1996. Certain internal and external factors impacted the Company's sales during fiscal 1997. Included in the internal operating issues which impacted the Company were the nineteen day work stoppage in the St. Louis, Missouri facility in June 1997, disruptions to manufacturing, scheduling and shipping created by the computer conversion in October 1996, also in the St. Louis facility, capacity constraints at the Toledo, Ohio facility and changes in the field sales force. The work stoppage resulted in permanently lost sales, margin declines, and manufacturing disruptions during the work stoppage as well as during the pre- and post-work stoppage periods. In October 1996, the Company converted its St. Louis manufacturing and corporate office operations to a new, fully-integrated software system. The Toledo facility has been capacity constrained by outdated injection molding machinery and molds. During fiscal 1997 the Company installed six new injection mold machines and eleven molds, and the Company added to its direct assembly force in Toledo. In addition, the Company consolidated its respiratory field salesforce with its ventilation sales force and invested in their joint training. These initiatives created short term sales disruptions in addition to the Company's occurrence of recruiting, training and marketing costs in fiscal 1997.

Certain external issues first experienced in fiscal 1996 continued to impact the Company's fiscal 1997 operations. These matters were described in the preceding section "Fiscal 1998 Compared to Fiscal 1997."

Medical gas equipment sales of \$42.6 million in fiscal 1997 were \$0.5 million, or 1.2%, under prior year sales of \$43.1 million. Medical gas equipment sales in fiscal 1997 were adversely impacted by the previously noted June 1997 work stoppage and the effects of the computer conversion. However, strong market demand for medical gas equipment generated new orders for fiscal 1997 of \$45.8 million, which was \$4.4 million, or 10.6% over new orders in the prior fiscal year.

Respiratory care products sales in fiscal 1997 of \$63.9 million were unchanged from the prior year. Sales to the hospital market increased 11.1% as sales of ventilation products increased due to the strong world-wide acceptance of the Company's ventilators. Offsetting this increase in ventilation product sales was an 11.5% decline in sales of home health care products due to manufacturing constraints in the Company's Toledo, Ohio facility, combined with pricing pressures caused by the ongoing consolidation of home health care dealers.

Emergency medical products sales in fiscal 1997 of \$11.6 million were \$1.5 million, or 11.7%, under sales of \$13.1 million in the prior year. This sales decline was attributable to difficulties the Company had in the relocation of production of emergency products to the St. Louis, Missouri facility, the impact of the June 1997 work stoppage and the absence of a large stocking order that occurred in the prior year. The emergency medical products business has two elements. One is steady replacement sales and the other element is driven by events, such as a natural disaster or change in emergency protocol in a particular country. Management expects sales for the near future to primarily reflect demand driven by the replacement segment of the business.

The Company continued to increase its presence in worldwide markets during fiscal 1997. International sales, which are included in the product line sales discussed above, increased \$3.7 million, or 11.9%, to \$34.5 million in fiscal 1997 compared to sales of \$30.8 million in fiscal 1996. Advances in medical protocol in various countries throughout the world combined with the Company's strong international dealer network has enabled the Company to respond to the increased worldwide demand for respiratory products. In addition, the strong worldwide market acceptance of the Company's ventilators has fueled the growth of international sales. Note that the ventilation products division was sold on October 31, 1997.

Gross profit in fiscal 1997 was \$35.8 million, or 30.3% of net sales, compared to gross profit of \$39.6 million, or 32.9% of net sales in fiscal 1996. The impact of the nineteen day work stoppage and the computer conversion in the St. Louis, Missouri facility during fiscal 1997 reduced manufacturing output and margins. In addition, the increase in international sales, which have lower margins than domestic sales due to the large quantity, bid-based nature of these sales, combined with pricing pressures brought on by consolidations which occurred in the Company's customer base, particularly in the hospital and home health care markets, resulted in reduced margins. In fiscal 1997, as previously described, the Company recorded certain adjustments to the carrying value of its inventories in the fourth quarter of approximately \$1.0 million. In fiscal 1996, the Company charged a portion of fixed plant costs as period costs due to a decline in manufacturing throughput. This fiscal 1996 charge primarily related to the fourth quarter.

Selling, General and Administrative ("SG&A") expenses for fiscal 1997 were \$33.9 million, an increase of \$2.5 million over SG&A expenses of \$31.4 million in fiscal 1996. The Company made strategic investments in certain SG&A activities and recorded certain non-recurring SG&A expenses in fiscal 1997. SG&A spending included investments in advertising and marketing literature, investments in information technology, and continued investments in research and development. In addition, the Company completed the recruiting, training and consolidation of its respiratory products sales force. Fiscal 1996 SG&A expenses were affected by a research grant of \$0.3 million which did not repeat in fiscal 1997. SG&A expenses represent 28.7% of sales in fiscal 1997, versus 26.2% in fiscal 1996. The year over year increase was attributable to higher SG&A expenses in fiscal 1997, as discussed above, combined with lower sales during the year.

Income from operations in fiscal 1997 of \$1.8 million was \$6.3 million, or 77.3%, below fiscal 1996 income from operations of \$8.1 million. As a percentage of net sales, income from operations decreased to 1.6% in fiscal 1997 from 6.7% in fiscal 1996.

Interest expense increased \$3.1 million, or 70.0%, to \$7.6 million in fiscal 1997 from \$4.5 million in fiscal 1996. This increase in interest expense in fiscal 1997 consisted of approximately \$2.2 million of fees and other professional costs incurred in connection with debt amendments under its credit facilities, \$0.5 million related to increased amortization of prepaid loan costs, \$0.3 million related to increased interest costs for the capital expenditure projects previously discussed, and \$0.1 million, reflecting increases in effective interest rates which were partially offset by lower average debt levels. On August 8, 1997, as previously discussed, subsequent to fiscal year end, the Company entered into a \$46.0 million credit facility with Foothill Capital Corporation and obtained \$5.0 million in subordinated debt in a private placement arrangement.

The Company had a loss before income taxes of \$5.9 million, a decrease of \$9.2 million from the income before provision for taxes of \$3.3 million in fiscal 1996. The Company recorded a tax benefit of \$1.4 million in fiscal 1997 for an effective tax rate of 24.0%, compared to a provision for income taxes of \$1.4 million in fiscal 1996 and an effective tax rate of 44.6%. The fiscal 1997 effective tax rate was impacted by the loss from operations, the non-deductibility of certain goodwill amortization, and the expected lack of availability of the Company's foreign sales tax credit in fiscal 1997.

Net loss in fiscal 1997 was \$4.5 million, or \$0.58 per diluted share, a decrease of \$6.3 million from net income of \$1.8 million or earnings per diluted share of \$0.25 in fiscal 1996. The weighted average number of common shares outstanding used in calculation of per share loss or earnings was 7,796,682 in fiscal 1997 compared to 7,378,478 in fiscal 1996. The increase in the weighted average number of common shares reflected the effects of the October 1995 sale of 1,610,000 shares of common stock in a public offering.



## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Dollars in thousands	1998	1997	1996
Cash	\$ 1,195	\$ 988	\$ 1,489
Working Capital	\$21,308	\$18,743	\$38,030
Total Debt	\$18,415	\$46,932	\$52,882
Current Ratio	2.67:1	1.57:1	2.69:1

The Company's working capital was \$21.3 million at June 30, 1998 compared to \$18.7 million at June 30, 1997. Inventories, other current assets, and accounts payable all decreased as a result of the previously discussed sale of the ventilation products division. Proceeds from such sale were utilized to significantly reduce debt during the second quarter of fiscal 1998. Accounts receivable declined to \$14.2 million at June 30, 1998, down \$8.9 million from \$23.1 million at June 30, 1997. Of this decrease, \$7.2 million is attributable to the ventilation business while receivables attributable to the Company's core business declined \$1.7 million. Accounts receivable as measured in days sales outstanding ("DSO") decreased to 69 DSO from 71 DSO in this period. Inventories declined to \$18.3 million at June 30, 1998, or \$7.7 million, from \$26.0 million at June 30, 1997. Of this decline, \$3.0 million is related to the core business. The Company has focused on improving the mix of inventories and has been increasing stocking levels of high volume products while simultaneously reducing the stocking levels of low volume products. Inventories, as measured in days on hand ("DOH"), increased to 129 DOH at June 30, 1998 from 124 DOH at June 30, 1997, due to lower sales in the fourth quarter of fiscal year 1998. Accounts payable decreased to \$5.8 million at June 30, 1998, down \$8.2 million from June 30, 1997 balance of \$14.0 million. Of this decline, \$1.2 million of payables related to the ventilation products division. The Company experienced limited liquidity during fiscal 1997 due to a reduction in borrowing availability caused by principal payments made on its term loans combined with the high level of fees paid to the Company's previous commercial bank group. Consequently, payments to vendors and other obligations were extended. This situation was alleviated with the completion of debt refinancing on August 8, 1997. The Company is current on all its obligations. The current portion of long term debt at June 30, 1998 was \$3.4 million compared to \$12.9 million at June 30, 1997. The June 30, 1997 current portion of long term debt included \$4.0 million of term notes and \$5.0 million of subordinated debt which were due to mature on February 1, 1998, but were repaid on November 3, 1997 and November 4, 1997, respectively, with proceeds from the sale of the ventilation products division.

The net increase/(decrease) in cash for the fiscal years ended June 30, 1998, June 30, 1997, and June 30, 1996 was \$0.2 million, \$(0.5) million, and \$1.3 million respectively. Net cash provided by (used by) operations was \$(5.2) million, \$8.9 million, and \$2.5 million for the same periods. Cash used by operations for the fiscal year ended June 30, 1998 consisted of a net loss of \$7.4 million, which was offset by \$4.9 million in non-cash charges to operations for amortization and depreciation, a non-cash loss on refinancing charges of \$0.9 million and changes in working capital and deferred tax accounts of \$9.2 million. The Company reported a \$12.8 million gain on sale of the ventilation products division and also recorded non-recurring impairment charges, for which the non-cash portion is \$9.5 million, in the fiscal year ended June 30, 1998. The Company received pre-tax proceeds of \$35.4 million on the sale of the ventilation products division, reduced total debt by a net \$28.5 million, and made capital expenditures of \$0.6 million in the fiscal year ended June 30, 1998. Cash provided by operations for the comparable prior year period consisted of a net loss of \$4.5 million which was offset by the non-cash charges of \$5.6 million for depreciation and amortization, as well as cash generated by changes in working capital accounts and deferred tax accounts, of \$7.8 million. The cash provided by operations for the fiscal year ended June 30, 1997 was used for net debt reduction of \$8.1 million, dividends of \$0.5 million and debt issuance cost of \$0.7 million. The adverse results of operations during the latter half of fiscal 1996 and during fiscal 1997 impacted the Company's liquidity and the ability of the Company to continue historical levels of fixed payments. Accordingly, on August 21, 1996 the Company's Board of Directors voted to suspend quarterly dividends effective immediately subsequent to the payment of dividends for the fourth quarter of fiscal 1996. In addition, to improve the liquidity of the Company and to reduce interest expense, on August 8, 1997, the Company refinanced its existing debt.

At June 30, 1998 the Company had aggregate indebtedness of \$18.4 million, including \$3.4 million of short-term debt and \$15.0 million of long-term debt. At June 30, 1997, the Company had aggregate indebtedness of \$46.9 million, including \$12.9 million of short-term debt and \$34.0 million of long-term debt. Throughout fiscal 1996, the Company entered into a series of amendments and waiver negotiations with its previous bank syndicate. During fiscal 1997, the Company paid waiver fees totaling approximately \$2.2 million for the September 1996 amendment to its credit facilities, to obtain waivers for technical covenant violations at December 31, 1996 and March 31, 1997 and paid additional fees of \$0.4 million in the first quarter of fiscal 1998. The Company was unsuccessful in its attempts to negotiate a long-term agreement with its previous bank syndicate. Accordingly, on August 8, 1997 the Company refinanced its existing debt through a new \$46.0 million credit facility with Foothill Capital Corporation. The new credit facility, with a blended average interest rate of 10.2%, was comprised of a \$25.0 million three-year revolving line of credit, three-year term loans of \$10.0 million and \$7.0 million, respectively, and a \$4.0 million term loan maturing in February 1998. In conjunction with its new credit facilities, Allied placed an additional \$5.0 million in subordinated debt, with several related parties to the Company maturing in February 1998. In addition, the Company issued 112,500 warrants at an exercise price of \$7.025 per share, 62,500 of which were issued to subordinated debt holders with the balance issued to Foothill Capital Corporation. Such warrants are exercisable at the option of the holder. The proceeds from the August 8, 1997 refinancing were used to replace the Company's outstanding debt with the previous commercial bank syndicate, and to provide additional liquidity. On October 31, 1997 the Company completed the sale of its ventilation products division. On November 3, 1997 the Company repaid two term notes and a significant portion of its revolving credit facility to Foothill. On November 4, 1997 the Company repaid its \$5.0 million subordinated debt. Amendments to the Foothill credit facility were completed in the fiscal 1998 third quarter to reflect the impact of the significant reductions in the Company's outstanding debt and the sale of the ventilation products division. Available borrowings at June 30, 1998 under the Foothill credit facility were \$6.5 million.

On August 7, 1998, the Company obtained a \$5.0 million mortgage loan on its principal facility in St. Louis, Missouri with LaSalle National Bank. Under terms of this agreement the Company will make monthly principal and interest payments, with a balloon payment in 2003. Proceeds of the loan were used to reduce the obligation under the revolving credit agreement with Foothill Capital Corporation. The mortgage loan carries a fixed rate of interest of 7.75%, compared to a current rate of 9.0% under the revolving credit agreement.

On September 8, 1998, the Company's credit facilities with Foothill Capital Corporation were amended. The Company's existing term loan was eliminated and replaced with an amended revolving credit facility. As amended, the revolving credit facility remained at \$25.0 million. The interest rate on the facility has been reduced from the floating reference rate (8.5% at September 8, 1998) plus 0.50% to the floating reference rate plus 0.25%. The reference rate as defined in the credit agreement, is the variable rate of interest, per annum, most recently announced by Norwest Bank Minnesota, National Association, or any successor thereto, as its "base rate". This amendment also provides the Company with a rate of LIBOR +2.5%. Amounts outstanding under this revolving credit facility, which expires on August 8, 2000, totaled \$9.5 million at September 8, 1998. At September 8, 1998, \$4.5 million was available under the revolving facility for additional borrowings.

The rates noted above will drop by 0.25% at the end of fiscal 1999 and 2000 if the Company is profitable. In addition, the fees charged to the Company are also reduced.

In 1998, the Company limited its investment to tooling to improve production efficiencies and produce higher quality products. The Company concentrated efforts on maximizing utilization of the machines acquired in fiscal 1997. These machines included \$1.5 million for five computer controlled machining centers and \$1.1 million for six injection molding machines and eleven molds acquired, in large part through capital leases.

Capital expenditures, net of capital leases, were \$0.6 million, \$0.1 million and \$3.6 million in fiscal 1998, 1997 and 1996, respectively. The Company completed two separate plant consolidations in fiscal 1996. The Company's headwall construction manufacturing operation was consolidated into its Hospital Systems, Inc. operations in Oakland, California, and its disposable

medical products operation in Mt. Vernon, Ohio was closed and consolidated into its Toledo, Ohio facility operation. In addition, the Company acquired \$2.6 million of computer equipment and software under capital leases to improve information technology systems. The Company believes that cash flow from operations and available borrowings under its credit facilities will be sufficient to finance fixed payments and planned capital expenditures of approximately \$2.6 million in fiscal 1999.

As of June 30, 1998, the Company had a backlog of \$17.4 million compared to a backlog of \$23.9 million at June 30, 1997. The sale of the ventilation products division reduced the Company's backlog by \$3.7 million as compared to June 30, 1997. The Company's backlog, a significant portion of which is attributable to the Company's medical gas equipment products, consists of firm customer purchase orders which may be subject to cancellation by the customer. The Company's backlog increased in emergency medical products in the fiscal year ended June 30, 1998. The increase was more than offset by a decline in backlog for medical gas equipment products. Orders for medical gas construction products are subject to major swings from year to year depending on hospital construction. The Company booked more such orders in fiscal 1997 than in fiscal 1998.

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

#### SEASONALITY AND QUARTERLY RESULTS

In past fiscal years, the Company has experienced seasonal increases in net sales during its second and third fiscal quarter (October 1 through March 31) which, in turn, affected net income. Such seasonal variations were likely attributable to an increase in hospital equipment purchases at the beginning of each calendar year (which coincides with many hospitals' fiscal years) and an increase in the severity of influenza during winter months. As the Company has expanded its sales into the home health care, emergency medical and international markets, these seasonal variations have diminished, but have not disappeared.

The following table sets forth selected operating results for the eight quarters ended June 30, 1998. The information for each of these quarters is unaudited, but includes all normal recurring adjustments which the Company considers necessary for a fair presentation thereof. These operating results, however, are not necessarily indicative of results for any future period. Further, operating results may fluctuate as a result of the timing of orders, the Company's product and customer mix, the introduction of new products by the Company and its competitors, and overall trends in the health care industry and the economy. While these patterns have an impact on the Company's quarterly operations, the Company is unable to predict the extent of this impact in any particular period.

(Dollars In thousands,  
except per share data)  
Three months ended

	June 30, 1998	March 31, 1998	Dec. 31, 1997	Sept. 30, 1997	June 30, 1997	March 31, 1997	Dec. 31, 1996	Sept. 30, 1996
Net sales	\$ 19,476	\$ 22,785	\$ 24,033	\$ 30,173	\$ 30,129	\$ 30,466	\$ 28,389	\$ 29,134
Gross profit	4,878	6,507	6,743	9,229	8,063	9,725	8,725	9,240
Income (loss) from operations	(29)	1,100	3,455	1,977	(1,091)	1,582	491	862
Net income (loss)	(315)	241	(6,684)	(638)	(3,485)	(302)	(557)	(177)
Basic and diluted earnings (loss) per share	(0.04)	0.03	(0.86)	(0.08)	(0.45)	(0.04)	(0.07)	(0.02)

## ACCOUNTING PRONOUNCEMENTS

In June 1997 the Financial Accounting Standards Board issued Statement of Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (FAS 131), which is effective for the Company in fiscal 1999. FAS 131 requires that companies report certain information if specific requirements are met about the Company's operating segments including information about services, geographic areas of operation, and major customers. The Company is reviewing the applicability of FAS 131 on its future reporting requirements.

## YEAR 2000

The Company utilizes software and related computer technologies essential to its operations. The Company has established a plan, utilizing internal resources, to assess the potential impact of the year 2000 on the Company's systems and operations and to implement solutions to address this issue. In October 1996, the Company converted its corporate offices and its manufacturing operation to a new fully-integrated software system. The Company plans to install the most recent version of this software, which the vendor has certified as year 2000 compliant, in June, 1999. The Company expects that all critical systems will be year 2000 compliant by June 1999. The cost of upgrading to a year 2000 compliant version of the existing system is not expected to be significant. The Company is dependent on various third parties, to conduct its business operations. The Company does not anticipate that the failure of mission critical third parties to achieve year 2000 compliance would have a material effect on the Company's operations. However, there can be no assurance that the Company will not experience unanticipated costs and/or business interruptions due to year 2000 problems in its internal systems, or that such costs and/or interruptions will not have a material adverse effect on the Company's consolidated results of operations.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Allied Healthcare Products, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Allied Healthcare Products, Inc. and its subsidiaries at June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

St. Louis, Missouri  
August 7, 1998, except for Note 14 which is  
as of September 8, 1998

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended June 30,	1998	1997	1996
Net sales	\$ 96,466,860	\$118,117,518	\$120,122,502
Cost of sales	69,110,274	82,364,405	80,549,685
Gross profit	27,356,586	35,753,113	39,572,817
Selling, general and administrative expenses	23,888,131	33,909,510	31,449,306
Gain on sale of business	(12,812,927)	--	--
Non-recurring impairment losses	9,778,259	--	--
Income from operations	6,503,123	1,843,603	8,123,511
Other expenses:			
Interest expense	4,151,986	7,606,129	4,474,316
Other, net	198,329	186,291	349,445
	4,350,315	7,792,420	4,823,761
Income (loss) before provision (benefit) for income taxes and extraordinary loss	2,152,808	(5,948,817)	3,299,750
Provision (benefit) for income taxes	9,018,488	(1,427,716)	1,473,156
Income (loss) before extraordinary loss	(6,865,680)	(4,521,101)	1,826,594
Extraordinary loss on early extinguishment of debt, net of income tax benefit of \$373,191	530,632	--	--
Net income (loss)	\$ (7,396,312)	\$ (4,521,101)	\$ 1,826,594
Basic and diluted earnings (loss) per share:			
Earnings (loss) before extraordinary loss	\$ (0.88)	\$ (0.58)	\$ 0.25
Extraordinary loss	\$ (0.07)	--	--
Earnings (loss) per share	\$ (0.95)	\$ (0.58)	\$ 0.25

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

June 30,	1998	1997
-----		
ASSETS		
Current assets:		
Cash	\$ 1,194,813	\$ 988,436
Accounts receivable, net of allowance for doubtful accounts of \$1,035,833 and \$1,225,326, respectively	14,227,314	23,093,037
Inventories	18,341,340	26,052,991
Other current assets	273,832	1,544,811
	-----	-----
Total current assets	34,037,299	51,679,275
	-----	-----
Property, plant and equipment, net	17,525,906	20,848,870
Goodwill, net	28,026,064	50,763,511
Deferred tax asset-noncurrent, net	--	1,665,069
Other assets, net	590,933	1,386,291
	-----	-----
Total assets	\$ 80,180,202	\$126,343,016
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,807,349	\$ 14,048,235
Current portion of long-term debt	3,442,797	12,890,772
Other accrued liabilities	3,479,215	5,997,670
	-----	-----
Total current liabilities	12,729,361	32,936,677
	-----	-----
Long-term debt	14,971,775	34,041,300
Deferred tax liability-noncurrent, net	441,589	--
Commitments and contingencies (Notes 5 and 12)		
Stockholders' equity:		
Preferred stock; \$.01 par value; 1,500,000 shares authorized; no shares issued and outstanding		
Series A preferred stock; \$.01 par value; 200,000 shares authorized; no shares issued and outstanding		
Common stock; \$.01 par value; 30,000,000 shares authorized; 7,806,682 and 7,796,682 shares issued and outstanding at June 30, 1998 and 1997, respectively	101,102	101,002
Additional paid-in capital	47,014,621	46,945,971
Retained earnings	25,653,182	33,049,494
Common stock in treasury, at cost	(20,731,428)	(20,731,428)
	-----	-----
Total stockholders' equity	52,037,477	59,365,039
	-----	-----
Total liabilities and stockholders' equity	\$ 80,180,202	\$126,343,016
	=====	=====

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Treasury Stock
	-----	-----	-----	-----	-----
Balance, June 30, 1995	\$ -	\$ 84,890	\$21,206,090	\$37,814,360	\$(20,731,428)
Issuance of common stock	--	16,112	25,739,881	--	--
Dividends declared (\$ .28 per common share)	--	--	--	(2,070,359)	--
Net income for the year ended June 30, 1996	--	--	--	1,826,594	--
	-----	-----	-----	-----	-----
Balance, June 30, 1996	--	101,002	46,945,971	37,570,595	(20,731,428)
Net loss for the year ended June 30, 1997	--	--	--	(4,521,101)	--
	-----	-----	-----	-----	-----
Balance, June 30, 1997	--	101,002	46,945,971	33,049,494	(20,731,428)
Issuance of common stock	--	100	68,650	--	--
Net loss for the year ended June 30, 1998	--	--	--	(7,396,312)	--
	-----	-----	-----	-----	-----
Balance, June 30, 1998	\$ -	\$101,102	\$47,014,621	\$25,653,182	\$(20,731,428)
	=====	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,	1998	1997	1996
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (7,396,312)	\$ (4,521,101)	\$ 1,826,594
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, excluding the effects of acquisitions:			
Depreciation and amortization	4,881,890	5,572,188	3,954,989
Gain on sale of Bear Medical	(12,812,927)	--	--
Loss on refinancing of long-term debt	903,823	--	--
Noncash portion of non-recurring impairment losses	9,496,452	--	--
Decrease in accounts receivable, net	2,887,344	2,871,621	1,702,297
Decrease (increase) in inventories	2,412,551	1,993,499	(4,156,653)
Decrease (increase) in income taxes receivable	--	2,285,224	(2,285,224)
Decrease in other current assets	696,056	1,168,686	2,276,486
Increase (decrease) in accounts payable	(6,671,539)	943,936	3,191,348
Increase (decrease) in other accrued liabilities	(1,688,283)	1,027,393	(4,325,109)
Increase (decrease) in deferred income taxes - noncurrent	2,106,658	(2,451,982)	315,892
Net cash provided by (used in) operating activities	(5,184,287)	8,889,464	2,500,620
<b>Cash flows from investing activities:</b>			
Capital expenditures, net	(644,080)	(58,610)	(3,649,284)
Acquisition of Omni-Tech - Net of cash acquired	--	--	(1,557,000)
Proceeds on sale of Bear Medical - Net of disposal costs	35,362,286	--	--
Net cash provided by (used in) investing activities	34,718,206	(58,610)	(5,206,284)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt	26,000,000	5,000,000	16,600,000
Payment of long-term debt	(37,267,757)	(4,662,785)	(63,192,220)
Borrowings under revolving credit agreement	128,862,400	27,365,170	56,100,000
Payments under revolving credit agreement	(146,033,153)	(35,810,605)	(28,100,000)
Proceeds from issuance of common stock	68,750	--	25,755,993
Debt issuance costs	(957,782)	(677,563)	(1,186,351)
Dividends paid on common stock	--	(545,768)	(1,957,577)
Net cash provided by (used in) financing activities	(29,327,542)	(9,331,551)	4,019,845
Net increase (decrease) in cash and equivalents	206,377	(500,697)	1,314,181
Cash and equivalents at beginning of period	988,436	1,489,133	174,952
Cash and equivalents at end of period	\$ 1,194,813	\$ 988,436	\$ 1,489,133
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the period for:			
Interest	\$ 5,256,981	\$ 6,614,365	\$ 4,142,070
Income taxes	\$ 5,380,817	\$ 138,339	\$ 2,587,091
Supplemental schedule of noncash investing and financing activities:			
Equipment acquired through capital leases	--	\$ 2,157,967	\$ 2,452,565

See accompanying Notes to Consolidated Financial Statements



ALLIED HEALTHCARE PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Allied Healthcare Products, Inc. (the Company or Allied) is a manufacturer of respiratory products used in the health care industry in a wide range of hospital and alternate site settings, including post-acute care facilities, home health care and trauma care. The Company's product lines include respiratory care products, medical gas equipment and emergency medical products. See Note 3 regarding sale of the Company's ventilation products division on October 31, 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated.

REVENUE RECOGNITION

Revenue from the sale of the Company's products is recognized upon shipment to the customer. Costs and related expenses to manufacture the Company's products are recorded as cost of sales when the related revenue is recognized.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. Book cash overdrafts on the Company's disbursement accounts totaling \$2,012,427 and \$3,867,477 at June 30, 1998 and 1997, respectively, are included in accounts payable.

CONCENTRATIONS OF CREDIT RISK

At June 30, 1998 and 1997, the Company's trade receivables are comprised as follows:

	1998	1997
	-----	-----
Medical equipment distributors	71%	74%
Construction contractors	25%	16%
Health care institutions	4%	10%

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and historically such losses have been within management's expectations. At June 30, 1998 the Company believes that it has no significant concentration of credit risk.

## INVENTORIES

Inventories are stated at the lower of cost, determined using the last-in, first-out (LIFO) method, or market. If the first-in, first-out (FIFO) method (which approximates replacement cost) had been used in determining cost, inventories would have been \$2,066,220 and \$511,626 higher at June 30, 1998 and 1997, respectively. Inventories include the cost of materials, direct labor and manufacturing overhead.

Inventory amounts are net of a reserve for obsolete and excess inventory of \$2,189,000 and \$1,689,000 at June 30, 1998 and 1997, respectively.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost and is depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 36 years. Properties held under capital leases are recorded at the present value of the non-cancelable lease payments over the term of the lease and are amortized over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for repairs, maintenance and renewals are charged to income as incurred. Expenditures which improve an asset or extend its estimated useful life are capitalized. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

## GOODWILL

The excess of the purchase price over the fair value of net assets acquired in business combinations is capitalized and amortized on a straight-line basis over the estimated period benefited, not to exceed 40 years. The amortization period for all acquisitions to date ranges from 20 to 40 years. Amortization expense for the years ended June 30, 1998, 1997 and 1996 was \$1,077,959, \$1,473,164, and \$1,446,756 respectively. Accumulated amortization at June 30, 1998 and 1997 was \$5,499,276 and \$5,347,843 respectively. The carrying value of goodwill is assessed for recoverability by management based on an analysis of future expected cash flows from the underlying operations of the Company. See Note 4 regarding goodwill impairment and related non-recurring charges recorded in the second quarter of the year ended June 30, 1998. Management believes that there has been no further impairment at June 30, 1998 to the remaining carrying value of goodwill.

## OTHER ASSETS

Other assets are primarily comprised of debt issuance costs. Such costs are being amortized on a straight-line basis over the life of the related obligations.

## INCOME TAXES

The Company files a consolidated federal income tax return which includes its wholly-owned subsidiaries. The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under FAS 109, 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.

## RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income in the year incurred and are included in selling, general and administrative expenses. Research and development expense for the years ended June 30, 1998, 1997 and 1996 was \$1,688,071, \$3,684,702 and \$3,255,067, respectively.

## EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share are based on weighted averaged number of shares of common stock and common stock equivalents outstanding during the year. The number of basic and diluted shares outstanding for the years ended June 30, 1998, 1997 and 1996 was 7,805,021, 7,796,682 and 7,378,478 shares, respectively. Options under the Company's employee's and director's stock option plans are not included as common stock equivalents for earnings per share purposes since they did not have material dilutive effect.

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128), which requires public entities to present both basic and diluted earnings per share amounts on the face of their financial statements, replacing the former calculations of primary and fully diluted earnings per share. The Company adopted FAS 128 effective with its fiscal 1998 second quarter. All prior period earnings per share amounts have been restated. The adoption of FAS 128 did not have a material effect on current or previously reported earnings per common share.

## EMPLOYEE STOCK-BASED COMPENSATION

The Company accounts for employee stock options and variable stock awards in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, the Company applies the intrinsic value method of accounting. For employee stock options accounted for using the intrinsic value method, no compensation expense is recognized because the options are granted with an exercise price equal to the market value of the stock on the date of grant. For variable stock awards accounted for using the intrinsic value method, compensation cost is estimated and recorded each period from the date of grant to the measurement date based on the market value of the stock at the end of each period.

During fiscal 1996, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123), became effective for the Company. FAS 123 prescribes the recognition of compensation expense based on the fair value of options or stock awards determined on the date of grant. However, FAS 123 allows companies to continue to apply the valuation methods set forth in APB 25. For companies that continue to apply the valuation methods set forth in APB 25, FAS 123 mandates certain pro forma disclosures as if the fair value method had been utilized. See Note 9 for additional discussion.

## 3. SALE OF BEAR VENTILATION PRODUCTS DIVISION

On October 31, 1997, the Company sold the assets of Bear Medical Systems, Inc. (Bear) and its subsidiary BiCore Monitoring Systems, Inc. (BiCore) to Thermo-Electron Corporation for \$36.6 million, plus the assumption of certain liabilities. The net proceeds of \$29.5 million, after expenses, including federal and state taxes paid, were utilized to repay a significant portion of its term notes and to repay all of its subordinated debt. The sale of the Bear ventilation products division resulted in a gain before taxes for financial reporting purposes of \$12.8 million. This gain, as a discrete item, resulted in a tax provision of \$9.3 million. The relatively higher effective tax rate on this transaction resulted because approximately \$12.7 million of goodwill associated with these businesses was not deductible for income tax purposes.

Had the divestiture occurred on July 1, 1997, consolidated pro forma net sales, net loss and loss per share for the year ended June 30, 1998 would have been \$86.0 million, \$(12.1) million and \$(1.55), respectively.

The unaudited pro forma information is based on assumptions deemed appropriate by Allied Healthcare Products, Inc. and is not intended to reflect what the Company's net sales, net loss, or loss per share would have been had the sale occurred on July 1, 1997 or to project the Company's results of operations for the future.

#### 4. GOODWILL IMPAIRMENT

In the second quarter of fiscal 1998, the Company reevaluated the carrying value of its various businesses and recorded \$9.8 million of non-recurring charges to reflect the changes in business conditions resulting from the sale of the ventilation product division and due to other changes in market conditions discussed below, which culminated during the second quarter of fiscal 1998.

Goodwill writedowns, which were determined pursuant to the Company's impairment policy as described in Note 2, approximating \$8.9 million, were comprised of the following:

\$4.4 million associated with the partial goodwill writedown related to the B&F disposable products business. Continuing weakness in financial results of the business due to various continuing operational issues, market condition changes in the home healthcare market including pressures on pricing, and overall weakness in financial results of the national home healthcare chains caused Allied to reevaluate and adjust the carrying value of this business.

\$2.4 million associated with the writedown of goodwill for Allied's headwall business which continues to experience weakness in financial results due to market conditions.

\$1.6 million associated with the writedown of Omni-Tech Medical, Inc. goodwill. This transportation ventilator business is directly related to the divested Bear ventilation products division and is not anticipated to contribute to the ongoing operations of the Company.

\$0.5 million associated with the write-down of goodwill for the Design Principles Inc. backboard business. Increased costs have significantly eroded the margins of this business necessitating a reevaluation of the carrying value of its goodwill.

Management believes that there has been no further impairment at June 30, 1998 to the remaining carrying value of goodwill.

In addition to the non-cash goodwill write-downs, the other non-recurring items include:

\$0.5 million of consulting fees related to a cooperative purchasing study.

\$0.4 million for the writedown of leasehold improvements and a reserve for the remaining lease payments for B&F's Mt. Vernon, Ohio facility which was closed as part of the Company's rationalization initiatives. The tenant subletting this facility is operating under Chapter 11 reorganization protection.

5. FINANCING

Long-term debt consisted of the following at June 30, 1998 and 1997:

UNSUBORDINATED DEBT

Notes payable to bank or other financial lending institution, secured by virtually all assets of the Company

Term Loan - principal due in varying monthly maturities ranging from \$150,000 to \$1,541,667 with remaining balances due August 8, 2000	\$ 5,800,000	
Revolving credit facility - aggregate revolving commitment of 25,000,000; principal due at Maturity on August 8, 2000	9,383,812	
Term Loan Payable to Bank - Paid in 1998		\$ 5,000,000
Term Loan Payable to Bank - Paid in 1998		9,750,000
Revolving credit facility - Paid in 1998		26,554,565
Acquisition Term Loan to Bank - Paid in 1998		1,344,000
Other	45,840	62,690
	-----	-----
	15,229,652	42,711,255
	-----	-----

SUBORDINATED DEBT

Industrial Development Revenue Bonds - principal due in annual installments of \$250,000 through March 1, 2000; \$255,000 at maturity on March 1, 2001; interest payable monthly at variable rate (4.6% at June 30, 1998)	755,000	955,000
Capital lease obligations	2,429,920	3,265,817
	-----	-----
	3,184,920	4,220,817
	-----	-----
	18,414,572	46,932,072
Less-Current portion of long-term debt, including \$478,382 and 676,357 of capital lease obligations at June 30, 1998 and June 30, 1997 respectively.	(3,442,797)	(12,890,772)
	-----	-----
	\$14,971,775	\$ 34,041,300
	=====	=====

On August 8, 1997, the Company refinanced its existing credit facility with a financial institution. The new credit agreement provided for borrowings of \$25 million under a revolving credit facility and \$21 million under three term loan facilities, including \$4 million due in February 1998. In conjunction with the new Credit Agreement, Allied placed an additional \$5.0 million in subordinated debt due in February 1998 with certain shareholders of the Company. The Company used the funds provided by the new credit agreements to extinguish amounts outstanding under the revolving credit facility and term loans with its existing commercial bank.

In connection with the sale of the Bear ventilation products division in October 1997, the Company repaid two term notes including \$4 million due in February 1998, a portion of the third term note, a significant portion of its revolving credit facility and the subordinated note with certain shareholders in the amount of \$5.0 million.

The revolving credit facility provides for borrowings of up to the lesser of \$25,000,000 or the borrowing base, less any outstanding letter of credit obligations. The borrowing base is defined by the Credit Agreement as (a) 85% of eligible domestic receivables plus (b) 85% of eligible foreign receivables not to exceed \$8,000,000 plus (c) 45% of eligible inventories not to exceed \$10,000,000. Such amounts are reduced by various reserves as defined in the Credit Agreement. The revolving credit facility bears interest at the floating Reference Rate (8.5% at June 30, 1998) plus 0.50% and is payable monthly. The Reference Rate, as defined in the Credit Agreement, is the variable rate of interest, per annum, most recently announced by Norwest Bank Minnesota, National Association, or any successor thereto, as its "base rate". The Credit Agreement requires an underutilization fee of 0.25% per annum, payable monthly, on any unused portion of the revolving credit facility. Amounts outstanding under this revolving credit facility, which expires on August 8, 2000, totaled \$9,383,812 at June 30, 1998. At June 30, 1998, \$6.5 million was available under the revolving credit facility for additional borrowings.

The Credit Agreement provided term loan facilities in the amounts of \$10,000,000 (Term Loan A), \$7,000,000 (Term Loan B), and \$4,000,000 (Term Loan C), respectively. Term Loan A was partially paid down with proceeds from the aforementioned sale of Bear and is due in varying monthly maturities ranging from \$150,000 to \$1,541,667, commencing October 1, 1997 with final payment due on August 8, 2000. As discussed above, term loans B and C were fully repaid in connection with the sale of the Bear ventilation products division.

The Credit Agreement also provides for the issuance of letters of credit on behalf of the Company in amounts up to \$3,000,000 in the aggregate. The Company is required to pay a fee of 1.0% per annum on the outstanding balance.

The above described agreements contain restrictions and requirements, including limitations on capital expenditures, new indebtedness, and dividend payments, and the achievement of certain earning levels and the maintenance of minimum net worth, among others, for which the Company was in compliance at June 30, 1998.

Aggregate maturities of long-term debt, excluding capital leases, for each of the fiscal years subsequent to June 30, 1998 are as follows:

	TERM A	REVOLVING CREDIT FACILITY	INDUSTRIAL DEVELOPMENT REVENUE BONDS	OTHER	TOTAL
1999 \$	2,700,000	-	\$250,000	\$13,021	\$ 2,963,021
2000	3,000,000	-	250,000	16,575	3,266,575
2001	100,000	\$ 9,383,812	255,000	16,244	9,755,056
	\$ 5,800,000	\$ 9,383,812	\$755,000	\$45,840	\$15,984,652

Debt issuance costs approximating \$700,000 were incurred in the August 1997 refinancing and are being deferred and amortized over the term of the new Credit Agreement. Unamortized costs incurred in conjunction with the original credit facilities with the Company's previous bank syndicate totaled \$980,000. These costs, net of applicable income tax benefits of \$392,000, were written off during the first quarter of fiscal 1998 and were accounted for as an extraordinary loss.

Subsequent to June 30, 1998, the Company obtained mortgage financing on its St. Louis facility and further amended its credit facilities. See Note 14 for further detail discussion.

6. LEASE COMMITMENTS

The Company leases certain of its electronic data processing equipment under non-cancelable lease agreements. These agreements extend for a period of up to 60 months and contain purchase or renewal options on a month-to-month basis. The leases are reflected in the consolidated financial statements as capitalized leases in accordance with the requirements of Statement of Financial Accounting Standards No. 13 (FAS 13), "Accounting for Leases". In addition, the Company leases certain manufacturing facilities under noncancelable operating leases. These leases are reflected in the consolidated financial statements as operating leases in accordance with FAS 13.

Minimum lease payments under long-term capital leases and the operating leases at June 30, 1998 are as follows:

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
1999	\$ 832,567	\$ 114,120
2000	762,533	69,120
2001	762,533	57,600
2002	803,432	
	-----	
Total minimum lease payments	\$3,161,065	\$ 240,840 =====
Less amount representing interest	(731,145)	
	-----	
Present value of net minimum lease payments, including current portion of \$478,382	\$2,429,920	=====

Rental expense incurred on the operating leases in fiscal 1998, 1997 and 1996 totaled \$381,024, \$686,168, and \$881,318, respectively.

7. INCOME TAXES

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

	1998	1997	1996
	-----	-----	-----
Current Payable:			
Federal	\$4,249,382		\$ 40,240
State	1,957,403		-
	-----		-----
Total Current	6,206,785		40,240
	-----		-----
Deferred:			
Federal	2,451,228	\$(1,214,731)	1,271,979
State	360,475	(212,985)	214,937
	-----	-----	-----
Total Deferred	2,811,703	(1,427,716)	1,432,916
	-----	-----	-----
	\$9,018,488	\$(1,427,716)	\$1,473,156
	=====	=====	=====

Income taxes were 418.9% (24.0)% and 44.6% of pre-tax earnings (losses) in 1998, 1997 and 1996, respectively. A reconciliation of income taxes, with the amounts computed at the statutory federal rate follows:

	1998	1997	1996
Computed tax at federal statutory rate	\$ 731,955	\$(2,022,597)	\$1,121,915
State income taxes, net of federal tax benefit	1,611,155	(160,989)	169,770
Non deductible goodwill	7,925,827	491,854	482,876
Other, net	(1,250,449)	264,016	(301,405)
Total	<u>\$ 9,018,488</u>	<u>\$(1,427,716)</u>	<u>\$1,473,156</u>

	At June 30, 1998		At June 30, 1997	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Current:				
Bad Debts	\$ 403,975		\$ 479,175	
Accrued Liabilities	103,369		635,160	
Inventory		\$ 876,444		\$ 698,390
Other				80,000
	<u>507,344</u>	<u>876,444</u>	<u>1,114,335</u>	<u>778,390</u>
Non Current:				
Depreciation		65,685		319,066
Other property basis		399,611		451,918
Intangible assets	363,331		438,678	
Net operating loss carryforward			2,703,228	
Other	--	14,233	--	383,133
	<u>363,331</u>	<u>479,529</u>	<u>3,141,906</u>	<u>1,154,117</u>
Valuation allowance	(325,391)	--	(322,720)	--
Total deferred taxes	<u>\$ 545,284</u>	<u>\$ 1,355,973</u>	<u>\$ 3,933,521</u>	<u>\$ 1,932,507</u>

At June 30, 1997, the Company had approximately \$2,703,228 of net operating loss carryforwards available to offset future regular taxable income. Such carryforwards and the net operating losses generated through October 31, 1997 were fully utilized to offset the gain on the sale of the ventilation products division.

#### 8. RETIREMENT PLAN

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



During the fiscal years ended June 30, 1998, 1997 and 1996, the Company made contributions of \$464,227, \$601,338 and \$535,017, respectively.

#### 9. SHAREHOLDERS EQUITY

On October 4, 1995, the Company completed the sale of 1,610,000 shares of its common stock in a public offering which yielded net proceeds to the Company of \$25.7 million. The proceeds were used to reduce debt and to provide financing for future growth.

The Company has established a 1991 Employee Non-Qualified Stock Option Plan as well as a 1994 Employee Stock Option Plan (Employee Plans). The Employee Plans provide for the granting of options to the Company's executive officers and key employees to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 800,000 shares of common stock may be granted under the Employee Plans. Options currently outstanding entitle the holders to purchase common stock at prices ranging between \$6.75 and \$16.13, subject to adjustment. Options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of the date granted, except certain options granted under the 1994 Employee Stock Option Plan which become exercisable when the fair market value of common stock exceeds required levels. The right to exercise the options expires in ten years, from the date of grant, or earlier if an option holder ceases to be employed by the Company.

In addition, the Company has established a 1991 Directors Non-Qualified Stock Option Plan and a 1995 Directors Non-Qualified Stock Option Plan (Directors Plans). The Directors Plan provides for the granting of options to the Company's Directors who are not employees of the Company to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 250,000 shares of common stock may be granted under the Directors Plans. Options currently outstanding entitle the holders to purchase common stock at prices ranging between \$7.00 and \$18.25, subject to adjustment. Options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of the date granted, except for certain options granted under the 1995 Directors Non-Qualified Stock Option Plan which become exercisable with respect to all of the shares covered thereby six months after the grant date. The right to exercise the options expires in ten years from the date of grant, or earlier if an option holder ceases to be a Director of the Company.

A summary of stock option transactions in 1998, 1997 and 1996, respectively, pursuant to the Employee Plans and the Directors Plans follows:

#### Summary of Stock Options

	Average Price	Shares Subject To Option
June 30, 1995	\$ 13.36	388,000
Options Granted	17.58	63,500
Options Exercised	8.00	(1,174)
Options Canceled	15.96	(36,726)
June 30, 1996	\$ 13.79	413,600
Exercisable at June 30, 1996		118,875
June 30, 1996	\$ 13.79	413,600
Options Granted	6.90	358,000
Options Exercised	-0-	-0-
Options Canceled	11.47	(177,100)
June 30, 1997	\$ 9.22	594,500

Exercisable at June 30, 1997		163,700
		=====
June 30, 1997	9.22	594,500
Options Granted	7.63	173,500
Options Exercised	6.88	(10,000)
Options Canceled	11.23	(132,550)
June 30, 1998	\$ 8.39	625,450
Exercisable at June 30, 1998		160,138
		=====

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," requires companies to measure employee stock compensation plans based on the fair value method of accounting. However, the Statement allows the alternative of continued use of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," with pro-forma disclosure of net income and earnings per share determined as if the fair value based method had been applied in measuring compensation cost. The Company adopted the new standard in the fiscal year ending June 30, 1997, and elected the continued use of APB Opinion No. 25. Pro forma disclosures have not been provided, as the effect on fiscal year 1998, 1997 and 1996 net earnings was immaterial.

In conjunction with the refinancing, 62,500 warrants were issued to the holders of the subordinated notes payable and 50,000 warrants were issued to the commercial lender providing the revolving credit facilities and the term loan facilities. Each warrant entitles the holder to purchase one share of common stock at \$7.025 per share through August 7, 2002.

#### 10. EXPORT SALES

Export sales for the years ended June 30, 1998, 1997 and 1996 are comprised as follows (in thousands):

	1998	1997	1996
	-----	-----	-----
Europe	\$ 5,700	\$ 9,300	\$ 7,500
Canada	1,900	2,600	2,300
Latin America	5,900	6,300	5,600
Middle East	1,600	3,200	2,900
Far East	6,000	9,400	9,000
Other	2,900	3,700	3,500
	-----	-----	-----
	\$24,000	\$34,500	\$30,800
	=====	=====	=====

#### 11. SUPPLEMENTAL BALANCE SHEET INFORMATION

	June 30,	
	-----	-----
	1998	1997
	-----	-----
INVENTORIES		
Work in Progress	\$ 2,424,041	\$ 2,726,585
Component parts	14,820,526	18,679,482
Finished goods	1,096,773	4,646,924
	-----	-----
	\$ 18,341,340	\$ 26,052,991
	=====	=====
PROPERTY, PLANT AND EQUIPMENT		
Machinery and equipment	\$ 13,836,067	\$ 14,880,513
Buildings	13,442,979	13,508,251
Land and land improvements	989,516	989,516
Property held under capital leases	5,220,926	5,382,529
	-----	-----
Total property, plant and equipment at cost	\$ 33,489,488	\$ 34,760,809

Less accumulated depreciation and amortization, including \$2,551,105 and \$1,610,867 respectively, related to property held under capital leases	(15,963,582)	(13,911,939)
	-----	-----
	\$ 17,525,906	\$ 20,848,870
	=====	=====
OTHER ACCRUED LIABILITIES		
Accrued compensation expense	\$ 1,295,354	\$ 2,215,548
Acquisition reserve	948,639	
Accrued interest expense	219,015	1,324,010
Accrued income tax	942,036	376,910
Other	1,022,810	1,132,563
	-----	-----
	\$ 3,479,215	\$ 5,997,670
	=====	=====

12. COMMITMENTS AND CONTINGENCIES

From time to time, the Company becomes party to various claims and legal actions arising during the ordinary course of business. Management believes that the Company's costs and any potential judgments resulting from such claims and actions would be covered by the Company's product liability insurance, except for deductible limits and self-insured retention. The Company intends to defend such claims and actions in cooperation with its insurers. It is management's opinion that, in any event, their outcome would not have a material effect on the Company's financial position, cash flows or results of operations.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for fiscal 1998 and 1997 appears below (all amounts in thousands except per share data):

	Net Sales	
	1998	1997
	-----	-----
First Quarter	\$30,173	\$ 29,134
Second Quarter	24,033	28,389
Third Quarter	22,785	30,466
Fourth Quarter	19,476	30,129
	-----	-----
Total Year	\$96,467	\$118,118
	=====	=====
	Gross Profit	
	1998	1997
	-----	-----
First Quarter	\$ 9,229	\$ 9,240
Second Quarter	6,743	8,725
Third Quarter	6,507	9,725

Fourth Quarter	4,878	8,063
	-----	-----
Total Year	\$27,357	\$ 35,753
	=====	=====
	Net Income (Loss)	
	-----	-----
	1998	1997
	-----	-----
First Quarter	(638)	\$ (177)
Second Quarter	(6,684)	(557)
Third Quarter	241	(302)
Fourth Quarter	(315)	(3,485)
	-----	-----
Total Year	\$(7,396)	\$ (4,521)
	=====	=====
	Earnings (Loss) Per Share	
	-----	-----
	1998	1997
	-----	-----
First Quarter	\$ (.08)	\$ (.02)
Second Quarter	(.86)	(.07)
Third Quarter	.03	(.04)
Fourth Quarter	(.04)	(.45)
	-----	-----
Total Year	\$ (.95)	\$ (.58)
	=====	=====

#### 14. SUBSEQUENT EVENTS

On August 5, 1998 the Company's board of directors voted to close its disposable products division (DPD) located in Toledo, Ohio and relocate production of the B&F line of home care products to its manufacturing facility in St. Louis, Missouri. The move is expected to be completed during the second quarter of fiscal 1999 and is expected to generate annual savings of nearly \$1.0 million. In connection with the shutdown of the facility, Allied will record a one-time, after tax charge of approximately \$0.6 million or \$.08 per share during the first quarter fiscal 1999. Pre-tax costs of approximately \$1.0 million are expected to be paid by January 1, 1999.

On August 7, 1998, the Company borrowed approximately \$5.0 million from a financial institution. The borrowing was secured by a first security interest in the Company's St. Louis facility. The loan requires monthly principal and interest payments of \$60,005, with a final payment of all principal and interest remaining unpaid due at maturity on August 1, 2003. Interest is fixed at 7.75% per annum. Proceeds from the borrowing were used to pay down existing debt, which bore a higher interest rate. The loan agreement includes certain debt covenants which the Company must comply with over the term of the loan.

On September 8, 1998, the Company's credit facilities with Foothill Capital Corporation were amended. The Company's existing term loan was eliminated and replaced with an amended revolving credit facility. As amended, the revolving credit facility remains at \$25.0 million. The interest rate on the facility has been reduced from the floating reference rate (8.5% at September 8, 1998) plus 0.50% to the floating reference rate plus 0.25%. The reference rate as defined

in the credit agreement, is the variable rate of interest, per annum, most recently announced by Norwest Bank Minnesota, National Association, or any successor thereto, as its "base rate". Amounts outstanding under this revolving credit facility, which expires on August 8, 2000, totaled \$9.5 million at September 8, 1998. At September 8, 1998, \$4.5 million was available under the revolving facility for additional borrowings.

This amendment also provides the Company with a rate of LIBOR +2.5%. This rate will drop by 0.25% at the end of fiscal 1999 and 2000 if the Company is profitable. In addition, the fees charged to the Company are also reduced.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

A definitive proxy statement is expected to be filed with the Securities and Exchange Commission on or about October 9, 1998. The information required by this item is set forth under the caption "Election of Directors" on pages 2 through 4, under the caption "Executive Officers" on page 8 and under the caption Section 16(a) Beneficial Ownership Reporting Compliance" on page 18 of the definitive proxy statement, which information is incorporated herein by reference thereto.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the caption "Executive Compensation" on pages 9 through 15 of the definitive proxy statement, which information is incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on pages 5 through 7 of the definitive proxy statement, which information is incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

1. FINANCIAL STATEMENTS

The following consolidated financial statements of the Company and its subsidiaries are included in response to Item 8:

Consolidated Statement of Operations for the years ended  
June 30, 1998, 1997 and 1996

Consolidated Balance Sheet at June 30, 1998 and 1997

Consolidated Statement of Changes in Stockholders' Equity  
for the years ended June 30, 1998, 1997 and 1996

Consolidated Statement of Cash Flows for the years ended June 30,  
1998, 1997 and 1996

2. FINANCIAL STATEMENT SCHEDULES

Report of Independent Accountants on Financial Statement Schedule

Valuation and Qualifying Accounts and Reserves for the Years  
Ended June 30, 1998, 1997 and 1996

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

3. EXHIBITS

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

4. REPORTS ON FORM 8-K

Form 8-K dated as of October 7, 1997 (announcing that the Company had entered into a definitive agreement with Thermo-Electron Corporation regarding the sale of substantially all of the assets of the Company's ventilation products division).

Form 8-K dated as of October 31, 1997 (reporting the disposition of substantially all of the assets of the Company's ventilation products division).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIED HEALTHCARE PRODUCTS, INC.

By:

/s/ Uma Nandan Aggarwal

-----  
Uma Nandan Aggarwal  
President and Chief Executive Officer

Dated : September 24, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on September 24, 1998.

SIGNATURES TITLE

\*

-----  
Dennis W. Sheehan Chairman of the Board

/s/ Uma N. Aggarwal

-----  
Uma N. Aggarwal President, Chief Executive Officer and Director  
(principal Executive Officer)

\*

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David A. Gee Director

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Robert E. Lefton Director

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William A. Peck Director

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John D. Weil Director

\*

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James B. Hickey, Jr. Director

\* By: /s/ Uma Nandan Aggarwal

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Uma Nandan Aggarwal  
Attorney-in-Fact

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Uma N. Aggarwal as his true and lawful attorney-in fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.



REPORT OF INDEPENDENT ACCOUNTANTS ON  
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Allied Healthcare Products, Inc.

Our audits of the consolidated financial statements referred to in our report dated August 7, 1998, except for Note 14 which is as of September 8, 1998, appearing in the 1998 Annual Report to Shareholders of Allied Healthcare Products, Inc. on Form 10-K (which report and consolidated financial statements are included herein) also included an audit of the Financial Statement Schedule listed in item 14(2) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

St. Louis, Missouri  
August 7, 1998, except for Note 14,  
which is as of September 8, 1998

ALLIED HEALTHCARE PRODUCTS, INC.  
 RULE 12-09 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS - DESCRIBE	DEDUCTIONS - DESCRIBE	BALANCE AT END OF PERIOD
FOR THE YEAR ENDED JUNE 30, 1998					
Reserve For Doubtful Accounts	\$ (1,225,326)	\$ (264,165)		\$ 453,658 (1)	\$ (1,035,833)
Inventory Allowance For Obsolescence and Excess Quantities	\$ (1,689,000)	(1,112,000)		\$ 612,000 (2)	\$ (2,189,000)
FOR THE YEAR ENDED JUNE 30, 1997					
Reserve For Doubtful Accounts	\$ (422,517)	\$ (1,058,999)		\$ 256,190 (3)	\$ (1,225,326)
Inventory Allowance For Obsolescence and Excess Quantities	\$ (1,812,542)	\$ (154,357)		\$ 277,899 (4)	\$ (1,689,000)
FOR THE YEAR ENDED JUNE 30, 1996					
Reserve For Doubtful Accounts	\$ (590,459)	\$ (107,871)		\$ 275,813 (5)	\$ (422,517)
Inventory Allowance For Obsolescence and Excess Quantities	\$ (4,349,467)	\$ 83,700		\$2,453,225 (6)	\$ (1,812,542)

- (1) Decrease due to bad debt write-offs, bad debt recoveries and changes in estimate. Additional decrease of \$129,814 due to the sale of Bear Medical Systems, Inc.
- (2) Decrease of \$612,000 due to the sale of Bear Medical Systems, Inc.
- (3) Decrease due to bad debt write-offs, bad debt recoveries and changes in estimate.
- (4) Decrease due to inventory disposed of and changes in estimate.
- (5) Decrease due to bad debt write-offs, bad debt recoveries and changes in estimate. Offsetting increase of \$80,000 due to the acquisition of Omni-Tech Medical, Inc.
- (6) Decrease due to inventory disposed of and changes in estimate. Offsetting increase of \$105,470 due to the acquisition of Omni-Tech Medical, Inc.

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3(1) to the Company's Registration Statement on Form S-1, as amended, Registration No. 33-40128, filed with the Commission on May 8, 1991 (the "Registration Statement") and incorporated herein by reference)
3.2	By-Laws of the Registrant (filed as Exhibit 3(2) to the Registration Statement and incorporated herein by reference)
4.1	Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Allied Healthcare Products, Inc. dated August 21, 1996 (filed with the Commission as Exhibit 4(1) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1997 (the "1997 Form 10-K") and incorporated herein by reference)
10.1	NCG Trademark License Agreement, dated April 16, 1982, between Liquid Air Corporation and Allied Healthcare Products, Inc. (filed as Exhibit 10(24) to the Registration Statement and incorporated herein by reference)
10.2	Allied Healthcare Products, Inc. 1991 Employee Non-Qualified Stock Option Plan (filed as Exhibit 10(26) to the Registration Statement and incorporated herein by reference)
10.3	Employee Stock Purchase Plan
10.4	Allied Healthcare Products, Inc. 1994 Employee Stock Option Plan (filed with the Commission as Exhibit 10(39) to the 1994 Form 10-K and incorporated herein by reference)
10.5	Allied Healthcare Products, Inc. 1995 Directors Non-Qualified Stock Option Plan (filed with the Commission as Exhibit 10(25) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (the "1995 Form 10-K" and incorporated herein by reference)
10.6	Lease dated as of November 4, 1993 between Essup Part and B&F Medical Products, Inc. (filed with the Commission as Exhibit 10(43) to the 1994 Form 10-K and incorporated herein by reference)
10.7	Consulting and Severance Agreement dated as of September 1, 1996 between Allied Healthcare Products, Inc. and David V. LaRusso (filed with the Commission as Exhibit 10(31) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996 (the "1996 Form 10-K") and incorporated herein by reference)
10.8	Allied Healthcare Products, Inc. Amended 1994 Employee Stock Option Plan (filed with the Commission as Exhibit 10(28) to the 1996 Form 10-K and incorporated herein by reference)
10.9	Employment Agreement dated November 19, 1996 by and between Allied Healthcare Products, Inc. and Uma N. Aggarwal (filed as Exhibit 10(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)
10.10	Option Agreement dated November 19, 1996 by and between Allied Healthcare Products, Inc. and Uma N. Aggarwal (filed as Exhibit 10(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)

EXHIBIT  
NO.

DESCRIPTION

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- 10.11 Option Agreement dated November 19, 1996 between Allied Healthcare Products, Inc. and Uma N. Aggarwal (filed as Exhibit 10(3) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)
- 10.12 Letter Agreement dated December 16, 1997 between Allied Healthcare Products, Inc. and Barry F. Baker (filed as Exhibit 10(4) to the Company's Quarterly Report on Form 10-Q for the Quarter ended December 31, 1996 and incorporated herein by reference)
- 10.13 Letter Agreement dated December 16, 1997 between Allied Healthcare Products, Inc. and Gabriel S. Kohn (filed as Exhibit 10(5) to the Company's Quarterly Report on Form 10-Q for The quarter ended December 31, 1996 and incorporated herein by reference.)
- 10.14 Letter Agreement dated December 16, 1997 between Allied Healthcare Products, Inc. and David A. Grabowski (filed as Exhibit 10(6) to the Company's Quarterly Report for the quarter ended December 31, 1996 and incorporated herein by reference)
- 10.15 Loan and Security Agreement, dated as of August 7, 1997 by and among Allied Healthcare Products, Inc., B&F Medical Products, Inc., Bear Medical Systems, Inc., Hospital Systems, Inc., Life Support Products, Inc., and BiCore Monitoring Systems, Inc., as Borrowers, and Foothill Capital Corporation (filed with the Commission as Exhibit 10(31) to the 1997 Form 10-K and incorporated herein by reference)
- 10.16 Warrant dated August 7, 1997 issued by Allied Healthcare Products, Inc. in favor of Woodbourne Partners, L.P. (filed with the Commission as Exhibit 10(36) to the 1997 Form 10-K and incorporated herein by reference)
- 10.17 Warrant dated August 7, 1997 issued by Allied Healthcare Products, Inc. in favor of Donald E. Nickelson (filed with the Commission as Exhibit 10(37) to the 1997 Form 10-K and Incorporated herein by reference)
- 10.18 Warrant dated August 7, 1997 issued by Allied Healthcare Products, Inc. in favor of Dennis W. Sheehan (filed with the Commission as Exhibit 10(38) to the 1997 form 10-K and incorporated herein by reference)
- 10.19 Agreement effective as of June 1, 1997 between Allied Healthcare Products, Inc. and District No. 9 International Association of Machinists and Aerospace Workers (filed with the Commission as Exhibit 10(39) to the 1997 Form 10-K and incorporated herein by reference)
- 10.20 Agreement dated June 10, 1998 between Hospital Systems, Inc. and Local Union No. 2131 of the International Brotherhood of Electrical Workers covering the period from May 1, 1998 to April 30, 2001
- 10.21 Full-Time Employment Policy Agreement dated July 3, 1997 between B&F Medical Products, Inc. and B&F Employee Committee (filed with the Commission as Exhibit 10(41) to the 1997 Form 10-K and incorporated herein by reference)
- 10.22 Asset Purchase Agreement by and between BM Acquisition Corp., ThermoElectron Corporation, Bear Medical Systems, Inc. BiCore Monitoring Systems, Inc., Allied Healthcare Products AG, Bear Medical Systems Foreign Sales Corporation and Allied Healthcare Products, Inc. (filed with the Commission as Exhibit 2.1 to the Form 8-K filed on November 14, 1997 and Incorporated herein by reference)

EXHIBIT  
NO.

DESCRIPTION

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- 10.23 Amendment Number One to Loan and Security Agreement dated as of March 3, 1998 among Allied Healthcare Products, Inc., B&F Medical Products, Inc., Hospital Systems, Inc. and Life Support Products, Inc. as Borrowers, and Foothill Capital Corporation (filed with the Commission as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter Ended March 31, 1998 and incorporated herein by reference)
- 10.24 Loan and Security Agreement, dated as of August 7, 1998 by and between Allied Healthcare Products, Inc. and LaSalle National Bank.
- 10.25 Amendment Number Two to Loan and Security Agreement dated as of September 10, 1998 among Allied Healthcare Products, Inc., B&F Medical Products, Inc., Hospital Systems, Inc. and Life Support Products, Inc. as Borrowers, and Foothill Capital Corporation.
- 13 Annual Report to Stockholders
- 21 Subsidiaries of the Registrant
- 23 Consent of PricewaterhouseCoopers, LLP
- 24 Powers of Attorney
- 27 Financial Data Schedule

ALLIED HEALTHCARE PRODUCTS, INC.  
EMPLOYEE STOCK PURCHASE PLAN  
ADOPTED AUGUST 5, 1992

ARTICLE I. PURPOSE  
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Section 1.1. The Allied Healthcare Products, Inc. Employee Stock Purchase Plan (hereinafter referred to as the "Plan") is intended to provide a method whereby employees of Allied Healthcare Products, Inc. (hereinafter referred to as the "Company") will have an opportunity to acquire a proprietary interest in the Company through the purchase of shares of the Common Stock of the Company.

ARTICLE II. DEFINITIONS  
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Section 2.1. Unless otherwise required by the context, the following definitions shall be controlling:

a. "Board of Directors" means the Board of Directors of Allied Healthcare Products, Inc., a Delaware corporation.

b. "Committee" means the Compensation Committee of Company.

c. "Custodian" means the Custodian designated by the Board of Directors as provided in Section 10.1.

d. "Employee" means a person who is and continues to be employed by a Participating Corporation for not less than thirty-five (35) hours per week, provided, however, that a person on an authorized leave of absence from the Participating Corporation, paid or non-paid, shall not cease to be an Employee nor be deemed to have terminated employment for purposes of the Plan. In computing hours of employment per week for the purpose of determining whether a person is an employee, there shall be included each hour for which a person is directly paid or entitled to payment by the Participating Corporation for the performance of duties and each hour for which a person is paid or entitled to payment by the Participating Corporation on account of a period of time during which no duties are performed, such as vacation, holiday or illness.

e. "Participant" means an eligible Employee who has indicated his acceptances of the provisions of the Plan and authorized an allotment out of his Regular Compensation in accordance with Section 4.1, and whose participation in the Plan has actually commenced.

f. "Participating Corporation" means the Company or any subsidiary of Company and, when required by the context, refers to the particular corporation, whether the Company or a subsidiary, by which a Participant is employed.

g. "Permanent and Total Disability" means inability to engage in a substantial, gainful activity in the employee of a Participating Corporation by reason of any medically determinable physical or mental impairment which can be expected to result in death or which is expected to last for a continuous period of not less than twelve (12) full months. The Committee's determination of Permanent and Total Disability shall be conclusive-

h. "Plan" means the Allied Healthcare Productions, Inc. Employee Stock Purchase Plan, as adopted August , 1992, and as amended from time to time.

i. "Regular Compensation" means the total compensation or remuneration received by or credited to a person, whether on a weekly or semi-monthly basis, for services as an Employee from a Participating Corporation, except any director's fees, living or other allowances, expenses paid or reimbursed, bonuses and contributions by the Participating Corporation to any retirement plan or any other benefit plan of the Participating Corporation now in effect or later established-

j. "Subsidiary" means a corporation, fifty (50%) percent or more of the voting stock of which is owned by the Company, directly or indirectly, whose participation in the Plan has been approved by the Board of Directors.

Section 2.2. Whenever the singular or plural number, or masculine, feminine or neuter gender is used herein, it shall equally include the others.

ARTICLE III. ELIGIBILITY  
-----

Section 3.1. Each Employee, other than those Employees described in Sections 3.7 or 10.3 below, shall be eligible to participate in the Plan

beginning on the January 1 or July 1 coincident with or immediately following the date on which he completes one (1) year of continuous service with the Participating Corporation. For purposes of computing the period during which an Employee has been employed continuously, the period of any military leave of absence or other federal public service creating a right to re-employment under federal law, or any other authorized leave of absence, including sick, maternity, or disability leaves of absence, will be included, but any other absence from the service of a Participating Corporation will be deemed to have interrupted the continuity of his employment.

Section 3.2. The transfer of Employee from one Participating Corporation  
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to another will not be deemed to have interrupted the continuity of his  
employment so long as there has been no intervening employment by Employee,  
other than with a Participating Corporation. Computation of the period during  
which an Employee has been employed continuously will include the aggregate of  
the periods during which he has been employed by any Participating Corporation.

Section 3.3. The continuous employment of an Employee whose employment has  
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been interrupted will be computed from his latest return to the service of a  
Participating Corporation following such interruption.

Section 3.4. A determination by the Committee that a person is not an  
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Employee or is ineligible to participate in the Plan shall be conclusive.

Section 3.5. An eligible Employee who elects to commence participation in  
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the Plan beginning on any January 1 or July 1 shall make an allotment from his  
Regular Compensation in the manner provided in Section 4.1 at least thirty (30)  
days prior to such beginning date.



Section 3.6. Participation in the Plan is voluntary.  
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Section 3.7. No Employee who is an officer, director or 10% or more  
-----  
shareholder in the Company or a Participating Company, shall be eligible to  
participate in this Plan.

ARTICLE IV. PARTICIPANT ALLOTMENTS  
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Section 4.1. Each Employee who elects to participate in the Plan shall  
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make an allotment from his Regular Compensation, such allotment shall be either:

a. In whole percents of not less than 2% nor more than 10% of the  
Employee's then current Regular Compensation; or

b. A fixed dollar amount of the Employee's then current Regular  
Compensation, provided, however, that such allotment shall not exceed Ten  
Thousand Dollars (\$10,000.00) for any Participant in any calendar year.

Section 4.2. If at any time during the calendar year the allotment for any  
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Participant shall reach Ten Thousand Dollars (\$10,000.00), the Participant's  
allotment will automatically be suspended for the remainder of that calendar  
year. The allotment will automatically be reinstated on the following January 1.

Section 4.3. Allotments will be effected by payroll deductions by the  
-----  
Participating Corporation. The amount of each such deduction shall be paid  
promptly to the Custodian by the Participating Corporation.

Section 4.4. The Participant's allotment, whether designated by a  
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percentage or a fixed dollar amount of the Participant's Regular Compensation,  
will continue in effect, notwithstanding any change in the Participant's Regular  
Compensation, until the Participant changes the allotment percentage or fixed  
dollar amount, subject to a maximum annual allotment of Ten Thousand Dollars  
(\$10,000.00) for any calendar year. A Participant may change his allotment  
percentage or amount twice in any single calendar year effective as of January 1  
and July 1 of each year by giving the Company written notice not less than  
thirty (30) days prior to the effective date of such change on a form prescribed  
by the Committee. No change of a Participant's allotment may be made to take  
effect retroactively.

ARTICLE V. CONTRIBUTIONS BY PARTICIPATING CORPORATION  
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Section 5.1. The Participating Corporation may, but shall not be required,  
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to contribute to the Plan on a monthly basis an amount as determined from time  
to time by the Company's Board of Director (the "Contribution").

Section 5.2. Any Contribution made by a Participating Corporation shall be  
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paid over promptly to the Custodian by the Participating Corporation.

ARTICLE VI. INVESTMENT AND ALLOCATION  
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Section 6.1. The Custodian will maintain for each Participant an account  
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to record the Participant's interest resulting from allotments, Contributions,  
and investments and the income earned thereon. The Custodian also will maintain  
a separate unallocated cash account in the Custodian's name to record the amount  
of cash held by the Custodian which at any time is not credited to the  
Participants' accounts, and such other accounts as may be deemed necessary to  
record accurately any transactions undertaken pursuant to the terms of the Plan.

Section 6.2. No interest will be paid to any Participant on the funds held  
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in his account.

Section 6.3. All monies paid over to the Custodian, less any amounts  
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needed to provide cash in lieu of fractional shares, uninvested allotments and Contributions paid to terminating Participants under Section 7.3, and subject to the provisions of Section 6.6, shall be invested in whole shares of the Common Stock of the Company (the "Common Stock") as of the first trading day for National Association of Securities Dealers Automated Quotation System ("NASDAQ") National Market System ("NMS") market makers on or after the tenth (10) calendar day of the month in which the Custodian receives the funds, but under no circumstances more than thirty (30) days after allotment (the "Investment Date").

Section 6.4. The Company shall, at its sole option, direct that the Common  
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Stock be purchased from time to time from the Company, in the market and/or in private transactions. The price of the shares purchased from the Company will be the closing trade price for Common Stock on the applicable Investment Date as reported on the NASDAQ NMS or such other system as may supersede it. No shares will be sold by the Company under the Plan at a price less than their par value.

Section 6.5. If Company, at its option, directs the Custodian to purchase  
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part or all of the shares of the Common Stock in the market or in private transactions instead of from the Company, the price of the shares purchased shall be the actual purchase price, exclusive of brokerage commissions and expenses. Any remaining monies will be retained by the Custodian and added to the funds available on the Investment Date.

Section 6.6. If at any time the Committee determines that it is  
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impracticable or inadvisable for the Custodian to invest in Common Stock all or  
any part of any funds in the Custodian's custody, the Committee may, in its  
discretion, direct the Custodian to hold all or any part of the funds without  
interest for a period not in excess of thirty (30) days after allotment.

Section 6.7. All shares acquired by the Custodian shall be held by and  
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registered in the name of the Custodian or its nominee. The Custodian shall  
credit the shares purchased by it on each Investment Date among the accounts of  
Participants, as whole or fractional shares (such fractional shares to be  
determined to the fourth decimal place) or both, in the proportions which the  
allotment by and Contribution for each Participant prior to the purchase of the  
Common Stock therewith bore to the sum of the allotments by and Contributions  
for all Participants.

Section 6.8. Cash dividends received by the Custodian for shares held by  
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it for the accounts of the Participants shall be reinvested automatically on the  
next Investment Date in additional shares of Common Stock in the same manner as  
Participant allotments and Contributions are used to purchase shares, and these  
additional shares shall be credited to the accounts of the Participants in the  
proportions that the shares credited to the account of each Participant on the  
dividend payment date bore to the sum of the shares in the accounts of all  
Participants. Stock dividends and shares received as a result of stock splits on  
shares held by the Custodian shall be credited to Participant's accounts in  
similar fashion.

Section 6.9. The maximum aggregate number of shares which shall be  
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purchased under this Plan shall not exceed One Thousand Five Hundred (1,500)  
Shares.

Section 6.10. If there is any change in the shares of Company by reason of

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stock dividends, split-ups or consolidations of shares, recapitalizations, mergers, consolidations, reorganizations, combinations or exchange of shares, the number and class of shares available for purchase pursuant to the Plan shall be appropriately adjusted by the Committee, provided, however, that if the Company shall issue additional capital stock of any class for a consideration, no such adjustment shall be made to the number and class of shares available for purchase pursuant to the Plan.

ARTICLE VII. TERMINATION AND WITHDRAWAL  
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Section 7.1. A Participant's death, retirement, Permanent and Total

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Disability, or other termination of employment shall operate as a termination of the Participant's right to further allotment and shall constitute a withdrawal by the Participant from the Plan, such termination and withdrawal being effective as of the end of the last pay period of the Participant.

Section 7.2. A Participant may voluntarily withdraw from the Plan and

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terminate his allotment by submitting a request for withdrawal on a form prescribed by the Committee. The submission of a request for withdrawal will operate as a termination of deductions of Participant allotments and of Contributions, if any, effective on the next date on which the Participant is paid following at least five (5) work days from the receipt of said request by the Participating Corporation. A Participant who withdraws from the Plan may not re-enter the Plan until the January 1 or July 1 immediately following six (6) full months from the date on which his withdrawal became effective.

Section 7.3. Settlement of a Participant's account will be made within

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forty-five (45) days after the effective date of withdrawal from the Plan as provided in Sections 7.1 and 7.2; and within forty-five (45) days after the termination of the Plan. Upon such settlement, the Participant or his personal

representative shall receive a certificate for the whole shares of stock which are credited to the Participant's account and an amount in cash equal to any uninvested allotments by and Contributions for the Participant's account. The Participant or his personal representative shall also receive, upon such settlement, cash in lieu of any fractional shares credited to the Participant's account, based upon the closing trade price for the Common Stock on the first Investment Date following the effective date of withdrawal at such prices reported on the NASDAQ NMS or such other system as may supersede it, and such fractional share shall be added to the shares to be credited among the accounts of the Participants on that Investment Date as provided in Section 6.7.

ARTICLE VIII. ANNUAL STOCK WITHDRAWAL OPTION  
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Section 8.1. Each year a Participant may elect, on a form to be provided  
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by the Committee each January for that purpose, to withdraw all of the whole shares accumulated in his account as of January 15 of that year.

Section 8.2. The Participant's election to exercise said withdrawal option  
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must be delivered in the proper form on or before February 15 and will not constitute a termination of his participation and/or withdrawal from the Plan.

ARTICLE IX. CUSTODY, REGISTRATION AND VOTING OF STOCK  
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Section 9.1. All shares of Common Stock acquired by the Custodian will be  
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held in the possession of the Custodian and registered in the name of the Custodian, or its nominee, until delivered pursuant to the provisions of the Plan. The Company will provide each Participant with a copy of the Company's Notices of Annual Meetings of the Shareholders, proxy statements, annual reports and forms relating to the voting of shares credited to each

Participant's account. Each Participant, by use of such forms, may then direct the Custodian to vote the shares credited to his account. In the absence of such direction, the shares will not be voted.

ARTICLE X. ADMINISTRATION  
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Section 10.1. The Board of Directors have appointed Boatmen's Trust  
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Company as Custodian under the Plan. The Board of Directors may from time to time and in its sole discretion designate a successor custodian or successor custodians.

Section 10.2. The Custodian will perform such duties on behalf of the  
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Participants as are specifically set forth in this Plan or any subsequent modification or amendment hereto, subject to the terms and conditions also set forth herein. Notwithstanding any other provisions contained herein, in the event conflicting demands are made upon the Custodian arising from or relating to the Plan, the Custodian has the absolute right at its discretion to file a suit in interpleader and obtain an order from any court of competent jurisdiction requiring all persons making any adverse claims to interplead and litigate in such court their several claims and rights. In the event such suit is brought, the Company agrees to pay the Custodian all costs, expenses and reasonable attorney's fees which it may expend or incur in such interpleader suit, the amount thereof to be fixed and a judgment thereof to be rendered by the court in such suit. Upon filing such suit and tendering all contested funds and/or shares held to the court, the Custodian will be fully released and discharged from all further obligations to perform any and all duties or obligations imposed upon it by the Plan with respect to such funds and/or shares. The Custodian will not be liable for any error or judgment or for any thing that it may in good faith do or refrain from doing in connection herewith; nor will any liability be incurred by the Custodian in the event it acts upon any document which it reasonably believes to be genuine and to be signed by the proper party or parties.

Section 10.3. The Plan shall be administered by the Committee. The

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Committee will perform on behalf of the Company such duties as are assigned to it by the terms of the Plan. The Committee will have all powers necessary to carry out the provisions of the Plan (except such powers as are reserved by the Plan to the Board of Directors) whether or not such powers are specifically enumerated herein. No member of the Committee shall be eligible to purchase stock under the Plan.

Section 10.4. The Committee may from time to time prescribe regulations

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for the administration of the Plan consistent with its provisions. Interpretation and construction by the Committee of any provisions of the Plan and any other action, determination or decision whatsoever taken by the Committee shall be final, conclusive and binding on all parties.

Section 10.5. The Custodian shall render regular quarterly reports to each

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Participant, showing for the period of each report the allotments, Contributions, dividends, if any, and the number of shares and fractional shares credited to each Participant's account and the purchase prices for such shares.

Section 10.6. All notices, reports and statements given, made, delivered

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or transmitted to a Participant will be deemed duly given, made, delivered, or transmitted when mailed with postage prepaid and addressed to the Participant at the address last appearing on the books of the Custodian. A Participant may change his address from time to time by written notice in form acceptable to the Committee.

Section 10.7. Written directions, notices and other communications from

-----  
Participants to the Company (including a Participating Corporation) or the Committee must be mailed by first



class mail to Allied Healthcare Products, Inc., 1720 Sublette Avenue, St. Louis, Missouri 63110, Attention: Vice President, Human Resources, or to such other locations as may be specified by notice to the Participants. Any written directions, notices or other communications will be deemed to have been given when received at such location.

Section 10.8. The Custodian or the Committee need not recognize the agency

of, or representation by, any person for or of a Participant unless it receives to its satisfaction documentary evidence of such agency or representative relationship and; thereafter, from time to time, as the Custodian or the Committee may request, additional documentary evidence showing the continuance of such agency or representation. Until such time as the Custodian or the Committee receives documentary evidence satisfactory to it of the cessation or modification of any agency or representation, it will be entitled to rely up the continuance of such agency or representation and to deal with the agent or representative as if he or it were the Participant.

Section 10.9. The Plan shall be governed by and construed in accordance

with the laws of the State of Missouri.

Section 10.10. The records of the Custodian, the Committee and the Company

shall be conclusive with respect to all matters involved in the administration of the Plan.

Section 10.11. Neither the Company, the Committee, the Board of Directors,

the Boards of Directors of the Participating Corporations, nor the Custodian shall have any responsibility or liability, other than liabilities arising out of any applicable Securities Acts for any interpretation or construction of the Plan or any act or thing done or left undone, including, without limiting the generality of the foregoing, any action taken with respect to price, time, quantity, or other conditions and circumstances of the purchase or sale of shares under the terms of the Plan.

ARTICLE XI. MODIFICATION AND TERMINATION  
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Section 11.1. The Committee may terminate the Plan at any time or may at  
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any time or from time to time modify it in whole or in part. The Committee may  
at any time or from time to time suspend operation of the plan for a period not  
in excess of six (6) months.

Section 11.2. Any such termination, modification, or suspension will be  
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effective as to the Company and all Participants at such date as the Committee  
may determine, and all Participants shall be promptly notified thereof. Under no  
circumstances shall a modification affect or diminish the account for any  
Participant as of the effective date of such modification.

ARTICLE XII. EXPENSES AND TAXES  
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Section 12.1. All costs and expenses incurred in administering the  
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Plan, including the expenses of the Committee, the fees and expenses of the  
Custodian, the fees of counsel, and other administrative expenses, shall be paid  
by the Company. No part of such cost shall be charged against any Participant's  
accounts.

Section 12.2. The Participating Corporation shall withhold from each  
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Participant's gross salary such amount as is necessary for purposes of state and  
federal income and other taxes due from a Participant as a result of  
Contributions to his account by the Participating Corporation.

ARTICLE XIII. NON-ASSIGNABILITY  
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Section 13.1. No right or interest of any Participant in this Plan shall  
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be assignable or transferrable in whole or in part including, but without  
limitation, by way of execution, levy, garnishment, attachment, pledge, or in  
any other manner except by way of devolution by death or the Participant's  
mental incompetency. Each Participant's account shall be registered in his name  
alone.

ARTICLE XIV. EMPLOYMENT NON-CONTRACTUAL  
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Section 14.1. The Company may terminate the employment of any Participant  
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as fully and with the same effect as if this Plan were not in operation.

ARTICLE XV. EFFECTIVE DATE  
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Section 15.1. The Plan shall be effective as of September 1, 1992;  
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however, effectiveness of the Plan may be withheld with respect to Employees  
residing in any state or states if, in the Judgment of the Committee, compliance  
with the laws of such state or states would involve disproportionate  
inconvenience and expense to the Company.

Section 15.2. The Company may deny or impose conditions on the  
-----  
participation in the Plan by any class or classes of Employees to the extent it  
deems it advisable in order to facilitate compliance with applicable laws and  
regulations.



AGREEMENT

Between

HOSPITAL SYSTEMS, INC.

And

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS  
LOCAL 2131

[LOGO OF INTERNATIONAL BROTHERHOOD  
OF ELECTRICAL WORKERS]

[LOGO OF HOSPITAL  
SYSTEMS, INC.]

May 1, 1998

to

April 30, 2001

INDEX

FUNERAL LEAVE	8
GRIEVANCE PROCEDURE	10
HEALTH AND WELFARE	8
HOLIDAYS	6
HOURS OF WORK AND OVERTIME	4
JURY DUTY	8
LEAVE OF ABSENCE	9
LIFE INSURANCE	9
MANAGEMENT	
NO DISCRIMINATION	12
NO STRIKE - NO LOCKOUT	11
PENSION	8
SAFETY	9
SAVINGS CLAUSE	12
SCHEDULE "B"	17
SCHEDULE "A"	14
SENIORITY	3
SHIFTS	5
SIDE LETTER	19
TERM OF AGREEMENT	12
TERMINATION	10
TRAVEL	10
UNION RECOGNITION AND "SECURITY"	1
VACATIONS	6
WAGES	5

THIS AGREEMENT between tile HOSPITAL SYSTEMS, INC., whose names are affixed to the final sheet of this Agreement, hereinafter called the "Employer", and LOCAL UNION NO. 2131 of the ' INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, hereinafter called the "Union".

WITNESSETH

WHEREAS, a majority of the employees of the Employer in the collective bargaining unit to be covered by the terms of this Agreement have designated the Union as the collective bargaining agent, the Employer herewith recognizes the Union as the sole and exclusive collective bargaining representative for all employees in the unit in all matters pertaining to wages, hours and working conditions, and

WHEREAS, the parties hereto desire to establish a standard of conditions and procedure under which employees shall work for the Employer during the term of this Agreement and desire to regulate the mutual employment relations between the parties for the purpose of securing harmonious cooperation and settling of all disputes by peaceful means that may arise in the employee/Employer relationship.

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained, the parties agree as follows:

SECTION 1. MANAGEMENT

The parties hereto have a mutual interest in securing efficient business operation and desire to cooperate to that end. It is the duty and right of the Employer to manage the business and direct the working forces, subject to the conditions herein set forth. This includes, but is not limited to, the right to hire, reassign, promote, demote, layoff and discharge, but each employee covered by this Agreement shall possess the right of appeal through the grievance procedure as provided by the terms of this Agreement.

SECTION 2. UNION RECOGNITION AND SECURITY

The Employer recognizes the Union as the sole and exclusive bargaining agency for all employees in the unit consisting of classifications as defined in Schedule "A", attached hereto and made a part of this Agreement. All employees shall become members of this bargaining unit upon completion of their probation and remain members of the union, as a condition of their employment, during the life of this Agreement, and the Union shall notify the Employer promptly in writing of the failure of any such employee to become or remain a member of the Union; provided, however, that the Union shall not request the Employer to discriminate against any employee for non-membership in the Union, if such membership is not available to the employee on the same terms and conditions generally applicable to other members, or if membership is denied or terminated for reasons other than the failure of the employee to tender the periodic dues or initiation fee uniformly required by the Union as a condition of acquiring or maintaining membership.

For the duration of this Agreement, the Employer shall deduct from the first pay period of each month, Union dues and remit same to the Local Union within ten (10) days, upon receipt of a Dues Authorization Card signed by the employee. Initiation fees shall be deducted within the first two (2) paychecks after completion of the probationary period and upon receipt of an authorization card signed by the employee. This authorization shall continue until revoked by the employee giving written notice to the Employer, by registered mail postmarked or

received by the Employer either (a) during the period from the first June 24th to the first July 1st, both inclusive, after the effective date of this authorization, or (b) during the same period of each year thereafter, or (c) after the termination of the Agreement between the Employer and the Union.

Through tile representation of the Union, employees shall have the right to a hearing on any differences of opinion as to the competency of any employee to fill a new position or vacancy of promotion or demotion, or discipline administered, or layoffs, or discharges or of discrimination. Such hearings shall follow the established grievance procedure.

In the matter of suspension, demotion or discharge, if after hearing witnesses the charges are not sustained, the employee may have his record cleared of such charges and in case of loss of wages, may receive reimbursement of such loss. No discipline by temporary suspension shall be administered to any employee which shall permanently impair his seniority rights. The shop steward shall be notified in writing of any of the above action.

The Employer agrees that he will not sublet, assign or transfer any work in connection with electrical work to any other person, firm or corporation if such subletting, assigning or transfer will cause the loss of work opportunities to employees in the individual Employer's establishment covered by this Agreement. Any such subletting, assigning or transfer shall be allowable after a mutual determination has been made by the representatives of the parties that such action is not in conflict with the preceding sentence.

The business of the representatives of the Union, pertaining to this Agreement, is with the office of the Employer but he shall be permitted to enter the plant at any time the plant is operating after obtaining clearance from management, which shall not be unreasonably denied. It is understood that upon entering the plant, the representative of the Union will not interfere with the normal operations of the business.

The Employer will recognize shop stewards, selected in accord with the Union rules and regulations, as representatives of the employees in the respective groups or departments for which they are chosen. There shall be one shop steward for each twenty-five (25) members or fraction thereof in any one building. The Union will notify the Employer as to the identity of stewards and steward groups. Stewards shall be free to conduct their Union duties at any time within their regularly scheduled working hours and for one (1) hour before and after such working hours, within the Employer's grounds. They shall not leave their working station on Union business without the expressed permission of the section supervisor, which shall not be unreasonably denied.

The Employer and employees agree that duly chosen stewards shall not be restricted by seniority during their term of office and that they shall be given opportunity for employment at any time that three (3) or more employees are working.

The Employer understands that the choice of, and removal from office, of stewards is a function of the Union. The Union will notify the Employer within forty-eight (48) hours of any change in steward status.

Union meetings shall not be held on the Employer's property or the Employer's time without the Employer's permission.

The Union shall hold the Employer harmless for any and all claims, demands, suits or other action that may arise out of this Section.

SECTION 3. SENIORITY

A.- New hires shall have a probationary period of sixty-five (65) worked days. During such probationary period, the employee may be discharged for any reason without recourse to the grievance procedure.

B. Seniority shall commence upon completion of the probationary period and shall be defined as total length of service with the Employer, credited from the date of hire.

With regard to layoffs and recalls, the principle of seniority shall govern and it is understood that no employee who has rendered long and faithful service shall be laid off as long as any work, which he can reasonably be expected to perform satisfactorily, is being performed by a person junior in seniority.

Additionally, shall preference will be by seniority insofar as the needs of the Employer will permit.

Overtime Monday through Friday will be by job continuation. Overtime on Saturdays, Sundays and Holidays will be by seniority provided the employee can properly perform file work required.

Promotions within the unit or to the first stage beyond the unit shall be based upon seniority, ability and qualifications. Ability and qualifications being sufficient, seniority shall prevail.

C. Job Posting When the Employer elects to fill on a permanent basis a vacancy in a classification above Line Assembler then notice of such vacancy shall be posted for a period of three (3) working days.

Employees desiring a promotion who meet the qualifications and have signed the posting shall be given consideration in accordance with the seniority provisions of this Agreement.

Employees who are promoted shall undergo an evaluation period of up to thirty (30) worked days. should the employee fail to perform to the satisfaction of the Employer during this evaluation period then the employee will be returned to his former classification.

The foregoing shall not apply to the classification of Leadman.

D. Seniority shall be broken for:

1. Discharge for cause.
2. Resignation - A three (3) day unreported absence from work shall be considered a resignation.
3. Illness, accident or layoff in excess of six (6) consecutive months.
4. Failure to return to work from a leave of absence or vacation.
5. Failure to return to work when recalled within four (4) days of the mailing of a registered letter of a notice to report to work to the last known address.



E. Any employee of the Employer covered by this Agreement who is injured while on duty shall continue to accumulate seniority during his absence due to such injury and shall be reinstated upon recovery to his former position with full seniority rights, provided he is physically and mentally qualified to do the work, and provided that his job has not been abolished in the meantime or filled by an employee with greater seniority. If, by reason of the circumstances noted above, such employee cannot be reinstated to his old job, he will be returned to such job as is available and for which he is qualified by reason of fitness and ability, giving full consideration to his seniority, and if the new job is a lower-paid job, he shall be paid the highest rate of pay for that job classification. It is understood that when such a man returns to work, the regular rules of seniority will prevail for those men below him on the seniority list unless otherwise mutually agreed between the Union and the Employer.

#### SECTION 4. HOURS OF WORK AND OVERTIME

A. A maximum of ten (10) hours between 6:00 a.m. and 5:00 p.m. shall constitute a work day, and maximum of five (5) such days, namely Monday to Friday inclusive, shall be a work week. An employee may clock in up to six (6) minutes late three (3) times per month without pay and without disciplinary action.

Nothing in this Agreement shall prohibit the Employer from establishing staggered starting times for an employee or group of employees.

B. Overtime shall be paid as follows:

1. One and one-half (1 1/2) times the straight time hourly rate for all work in excess of ten (10) hours in a work day.
2. Double (2) time the straight time hourly rate for all work in excess of twelve (12) hours in a work
3. One and one-half (1 1/2) times the straight time hourly rate for the first eight (8) hours on Saturday.
4. Double (2) time the straight time hourly rate for all work in excess of eight (8) on Saturday.
5. Double (2) time the straight time hourly rate for all work performed on Sundays and Holidays.

C. Employees shall not be required to take time off for the purpose of off-setting overtime worked.

D. Regular employees shall be guaranteed four (4) hours' work or four (4) hours' pay in lieu thereof for each day they report to work. Regular employees shall be guaranteed four (4) hours' work or four (4) hours' pay in lieu thereof if required by the Employer to report to work on Saturdays, Sundays or Holidays or if business conditions warrant less hours for all employees.

The above guaranteed hours shall be waived in case of fire, flood or similar causes beyond the Employer's control.

E. The employees shall be granted a ten (10) minute break mid-morning and a ten (10) minute break at midafternoon.

F. The Employer will provide three (3) minutes at the end of the shift for personnel to clean themselves up.

G. It is agreed that where an employee is required to work at a point other than his assigned reporting place, he shall proceed to the location of the job and return from such job to the reporting place on the Employer's time.

H. Hours worked shall include time actually at work or on duty, including the time required by management to stand by prepared to go to Work at a specific place.

#### SECTION 5. SHIFTS

A. The Employer may establish additional work shifts other than the shift provided for in Section 4. But no shift shall be established for a period of less than one (1) week, and not less than three (3) men shall be employed on each shift. Otherwise, the time so worked, outside of the hours scheduled in Section 4, shall be considered and paid as overtime. Employees shall be notified not less than three (3) work days prior to any change in their work schedule.

B. No shift shall be scheduled to work more than ten (10) hours in any twenty-four (24) hour period or longer than forty (40) hours in any one (1) week. Regular starting and stopping times shall be posted for each shift established and all time worked outside of the posed hours shall be paid for as overtime.

Where three (3) shifts are worked, each shift shall consist of eight (8) hours (including an unpaid thirty (30) minute lunch period), the first or day shift to start at 8:00 a.m. The second shift shall start immediately after the first shift terminates, and the third shift shall start immediately after the second shift terminates.

Fifty cents (\$.50) per hour additional over the day shift shall be paid on the second shift and seventy-five cents (\$.75) per hour additional over the day shift shall be paid on the third shift.

The shift which commences Friday at 12 Midnight and ends Saturday at 8:00 a.m. will be considered as a normal third shift and shall therefore be paid for at the rate of seventy-five cents (\$.75) per hour additional over the day shift rate, according to the classification involved.

#### SECTION 6. WAGES

A. The wage rate to be paid under the terms of this Agreement to employees in each occupational classification are those appearing in Schedule "A", attached hereto and made a part hereof.

B. Wages shall be paid weekly on the Employer's time. Not more than three (3) days' pay shall be withheld. Wages shall be computed from shop check-in to shop check-out or its equivalent. Employees being laid off shall receive their wages at time of layoff.

C. Effective May 1, 1997, an additional \$0.30 will be added to ail rates and progressions.

SECTION 7. HOLIDAYS

A. Employees covered by this Agreement shall receive with pay at the rate of straight time the following holidays when not worked:

New Year's Day	Day after Thanksgiving
Washington's B'day	Last Scheduled Work Day
Memorial Day Before	Christmas
Fourth of July	Christmas Day
Labor Day	Day Before New Year's Day
Thanksgiving Day	2 Float Holidays (*) with 72 hours' advance notice to Employer

\*However, no more than ten percent (10%) of the employees will take their floating holidays off at any one time. The granting of such requests will be by seniority.

Holidays are paid on the basis of an eight (8) hour day

With regard to the above mentioned float holidays, at the option of the Employer, one (1) float holiday may be observed as a paid holiday for all eligible employees on a date fixed by the Employer, such date to be posted by the Employer no later than May 1st of each year.

B. Holidays falling on Saturday shall be observed the preceding Friday. Holidays falling on Sunday shall be observed on the following Monday.

C. To be eligible for holiday pay, an employee must have completed his probationary period with the Employer and must have worked the scheduled work day before and the scheduled work day after such holiday unless absent because of qualified illness or otherwise excused. For employees hired after May 1, 1979, they must have been employed six months in order to be eligible for the two (2) floating holidays.

D. All work performed on any one of the paid holidays shall be paid for at two (2) times the regular rate of pay in addition to the holiday pay which an employee would have received had he not worked.

SECTION 8. VACATIONS

A.) Prior to March 15th of each calendar year, or as soon as possible thereafter, Departmental heads will consult with all employees entitled to vacation and from such consultation, the employer shall establish the working schedule for the vacation period.

The Employer in determining vacation schedules will respect the seniority and wishes of the employee as to the time of vacation insofar as the needs of the employer will permit.

B1.) The Employer will grant to each employee that was hired prior to May 1, 1997 one (1) week's vacation with pay after one (1) year's service; Two week's vacation with pay after two (2) year's service and three (3) weeks of vacation after four (4) years of service with the following progressions after the fourth (4) year of service:

SIX (6) YEARS OF SERVICE	3 WEEKS & 1 DAY
SEVEN (7) YEARS OF SERVICE	3 WEEKS & 2 DAYS
EIGHT (8) YEARS OF SERVICE'	3 WEEKS & 3 DAYS
NINE (9) YEARS OF SERVICE	3 WEEKS & 4 DAYS
TEN (10) YEARS OF SERVICE	4 WEEKS

B2.) The employer will grant to each employee that was hired after May 1, 1997 one (1) week's vacation with pay after one (I) year's service; two week's vacation with pay after three (3) year's service; three week's vacation with pay after five (5) year's service and four (4) week's vacation with pay after ten (I0) year's service.

C.) Pay for tile vacation period shall be paid in advance and at the time tile employee starts his vacation. The vacation pay shall be computed on the existing hourly rate at the time of the employee's vacation. Vacation pay shall be based -----  
on an eight (8) hour day.  
- - - - -

D.) Thirteen hundred fifty (1350) working hours in the employ of the Employer at the conclusion of a twelve (12) month period shall constitute a year's service and qualify the employee for full vacation pay. If less than thirteen hundred fifty (1350) hours are worked, Section "H" below shall apply.

E.) Vacations must be taken within twelve (12) months next following the date upon which the employee becomes eligible thereto, but shall not be cumulative.

F.) The Employer shall notify each employee by posted announcement ninety (90) days prior to a proposed plant shutdown for vacation.

G.) Where on of the paid holidays (as provided elsewhere in this Agreement) occurs within an employee's vacation period, the employee shall receive holiday pay as provided for in addition to that employee's vacation pay.

H.) Where an employee, eligible for vacation, is laid off because of a curtailment of work or quits, he hail be paid pro rata for that fraction of thirteen hundred fifty (1350) hours, which has accumulated to his credit. Two hundred forty (240) hours shall be the required minimum for a pro rata basis. Such proration shall be based on full years of service at the time of layoff or quit. (paragraph "B" above) Proration of vacation shall not apply unless the employee has completed the first year of service with the Employer.

I.) Vacation shall not take place during the first six months of employment. Accrual shall double during the second six months of the first year of employment.

SECTION 9. JURY DUTY

Upon completion of six (6) months continuous service when an employee is called for jury duty, said employee shall be reimbursed for the difference paid to the employee for serving on jury duty and the amount shall be equal to the basic scheduled work hours for the period involved times the employee's hourly rate. Such pay to be limited to fifteen (15) days each contract year. Days not used in one contract year shall be available in the next contract year to a maximum of forty-five (45) days.

SECTION 10. FUNERAL LEAVE

A. Upon completion of the probationary period an employee shall be entitled to three (3) days with pay for purposes of attending the funeral for the immediate family, with the last day being the day of the funeral. The immediate family is spouse, parents and/or legal guardians, sister, brother, children, grandparents, mother-in-law, and father-in-law.

Two (2) additional days, the two (2) days after the funeral, without pay will be granted for a funeral outside the State.

B. Should there be no funeral or the employee is unable to attend because of the distance or the cost of travel, then the employee shall be entitled to one (1) day of Bereavement Leave with pay.

C. The Employer may require reasonable proof of death and/or relation.

SECTION 11. PENSION

A. The IRA Pension Plan instituted effective May 1, 1975 shall be continued for the duration of this Agreement. The Employer contribution effective April 30 1991 will be twenty-five (\$0.25) per hour.

In addition to the above and effective May 1, 1997, the Employer will match up to thirty cents (\$0.30) per hour contribution made by an individual employee to the IRA account provided that such other contribution is made through payroll deduction.

B. At the employers option, the pensions will be transferred to a 401(k) plan.

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There will be no loss of funds to the employee, nor reduction in payments.  
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SECTION 12. HEALTH AND WELFARE

Upon completion of tile probationary period or in accordance with the Plan, whichever is greater, the Employer shall provide and pay for the Kaiser "L" Health and Welfare Program or its equivalent for the employees.

The above Kaiser "L" Health and Welfare Program will be provided to dependents and spouses at the Employer's expense provided the employee has been employed for one (1) year.

Dental coverage for all employees shall be at 80/20 percent of cost.

The dental coverage will be provided to both dependents and/or spouses at the Employer's expense provided the employee has been employed for one (1) year.

Any increase in the premium over the rates in effect as of April 30, 1991 for Kaiser "L" and the Dental Plan shall be borne by the Employer. However, employees shall be required to contribute Twenty Dollars (\$20.00) per month on a payroll deduction basis effective May 1, 1991. Effective May 1, 1993, the employees' contribution shall be increased to Twenty-five Dollars (\$25.00) per month. Effective May 1, 1998, the employees' contribution shall be increased to

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Thirty Dollars (\$30.00). On April 30, 1999, the employee contribution will be  
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re-negotiated  
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#### SECTION 13. LIFE INSURANCE

Upon completion of the probationary period the Employer shall provide a life insurance policy, including AD&D, in the amount of \$10,000.00 on the life of each employee, who shall designate the beneficiary.

#### SECTION 14. LEAVE OF ABSENCE

A. Upon completion of the probationary period employees shall be eligible to request leave of absence as may be provided for in this Section 14.

B. The employee may request one (1) day per quarter of unpaid time off for personal use. During the four (4) quarters per contract year, one (1) of the four (4) days shall be granted provided the employee gives the Employer twenty-four (24) hours advance notice prior to taking time off. No more than ten percent (10%) of the employees will take their day off at any one time. Three (3) of the four (4) days shall be by mutual agreement between the Employer and the employee. The granting of such requests will be by seniority.

C. In cases where the employee has a prolonged illness or injury, a leave of absence of up to six (6) months will be granted. Requests for a leave of absence for other than the foregoing may be granted by the Employer.

Employees off work for over thirty (30) days due to a leave of absence or extended illness or injury shall not suffer a loss of seniority except as may be provided elsewhere; however, employees shall not accrue any benefits during such period.

D. In all cases where leaves of absence are granted by the Employer, the Union shall be notified in writing of the effective date and the termination date of the leave. Any Union member who does not return or overstays the leave will be considered to have quit his employment, and if rehired, shall be considered a new employee. Timely extensions may be requested by the employee.

#### SECTION 15. SAFETY

A. It is hereby agreed that the Employer, the Union and the employees recognize the importance of maintaining safety provisions for the protection of the health, life and limb of all employees. Adequate safety and protective devices shall be supplied to workmen by the Employer on all hazardous work in accordance with the safety rules of the Industrial Accident Commission, and the Employer shall make every effort to improve conditions when called to his attention. Employees shall wear and use safety devices specified by the Employer. The Employer agrees that such safety equipment shall be maintained in good shape and in accessible positions. The Union

shop steward and tile Leadman shall help the Employer enforce safety and cleanliness about the shop at all times.

The Employer shall hold the Union harmless for any and all claims, demands, suits or other action that may arise out of this Section.

B. Adequate facilities shall be provided by the Employer for hanging employees' clothing and also adequate washstands and toilets, Precautions to secure the health and safety of employees shall, as far as practical, be at all times taken by the Employer, including a supply of "First-aid Cabinets" at convenient locations in the plant.

C. The Employer will furnish all such necessary tools and equipment to employees as may be required or necessary to perform the work in accord with the Employer's specifications. Suitable rain protective equipment is to be furnished by the Employer to the employees required to work out of doors in inclement weather. When tools and equipment are issued and signed for, the employees will be held responsible for their return in good condition, reasonable wear and-tear excepted.

#### SECTION 16. TRAVEL

Where men are sent on jobs away from the shop or other regular place of employment where they are regularly employed, they shall receive first-class board and lodging and traveling time at straight time to and from such job. If employees travel on overtime days or are required to work overtime, they shall be paid travel at rates specified in this Agreement. Not more than eight (8) hours' pay for travel time in any one (1) day of twenty-four (24) hours shall be paid. The Employer shall provide covered transportation to such employee or pay the regular fare both ways for employees while traveling.

#### SECTION 17. TERMINATION

The Employer shall give each employee three (3) days' notice on a layoff for any reason, or three (3) days' pay in lieu thereof, except in an emergency which is beyond the control of the Employer.

#### SECTION 18. GRIEVANCE PROCEDURE

A. Should differences arise between the Employer and the Union as to the meaning and application or the observance and performance by either party of any provisions of this Agreement, or as to whether the wage or working conditions of any individual employee or group of employees in the unit is not in accordance with the wage rate or conditions that should apply to him or them as noted in this Agreement, the following shall be the procedure for the adjustment and settlement thereof:

Step 1. The employee and/or the shop steward shall endeavor to adjust such dispute or grievance with the Employer's representative who has initial responsibility for the matter at hand.

Step 2. If it is not settled, it shall be presented in writing to the management representative within seventy-two (72) hours of the occurrence. The management representative shall respond in writing within seventy-two (72) hours of receipt of the grievance.

Step 3. If it is not thus settled, then within seven (7) days the Business Representative and/or the shop steward and/or the employee shall meet with the management representative and/or labor relations representative and endeavor to adjust such dispute or grievance. An International Representative of the IBEW may be present at this Step in the Grievance Procedure only to assist the Local Union.

Step 4. If such meeting is unable to resolve tile issue, then the grieving party may request a Board of Adjustment provided such request is presented within seven (7) days of such meeting. The Board of Adjustment shall consist of two (2) representatives selected by the Union and two (2) representatives selected by the Employer. The Board shall proceed to hear the matter in question within fourteen (14) days, each party being permitted to produce such evidence as may be relevant.

The Board shall have no power to add to, subtract from, or modify any of the terms and conditions of this Agreement. A decision by a majority of the Board shall be final and binding upon the parties.

Step 5. If the Board is unable to resolve the issue, then the grieving party may request arbitration, provided such request is presented in writing within seven (7) days of the meeting of the Board. If the parties are unable to agree upon a neutral arbitrator, then the Federal Mediation and Conciliation Service shall be requested to submit a panel of seven (7) arbitrators. Each side shall have the option to reject one (1) complete panel. The parties shall alternately strike from said list one (1) name after determining the first strike by lot, and the remaining named arbitrator shall promptly conduct a hearing on the grievance.

B. The neutral arbitrator shall have no power to add to, subtract from, or modify any of the terms and conditions of this Agreement. The decision of the neutral arbitrator shall be final and binding upon the parties.

C. The Union and the Employer shall equally share the expense of the arbitration. However, each party shall bear its own expense of representation and witnesses. This latter provision shall also apply to Step 4 in the grievance procedure.

D. Should the time limits above be passed by either party, the grievance shall be forfeited to the other. However, the above time limits may be extended by mutual agreement.

#### SECTION 19. NO STRIKE - NO LOCKOUT

The Union agrees not to engage in any strikes, slowdowns or Stoppages of work during the term of this Agreement.

Any action by the employees leaving jobs for their own protection in cases of legally declared strike by some other union directly working on the job, if such strike is sanctioned and approved by the labor body or council having jurisdiction, shall not constitute a violation of this Agreement.

The Employer agrees not to engage in any lockout during the term of this Agreement.



SECTION 20. NO DISCRIMINATION

It is the continuing policy of the Union and the Employer that the provisions of this Agreement shall be applied to all employees without respect to age, sex, race, religion, color, national origin or marital status.

SECTION 21. SAVINGS CLAUSE

Any provision of this Agreement adjudged to be unlawful by a court of competent jurisdiction shall be treated for all purposes as null and void, but all other provisions of this Agreement shall continue to be in full force and effect except as provided herein.

SECTION 22. TERM OF AGREEMENT

A. This Agreement shall take effect as of May 1, 1998 and shall remain in effect until April 30, 2001. It shall continue in effect from year to year thereafter from May 1st to April 30th of each year, unless changed or terminated in the way later provided herein.

Either party desiring to change or terminate this Agreement must notify the other in writing at least sixty (60) days prior to the anniversary date of the present contract. When notice for changes is given, the nature of the changes desired must be specified in the notice and until a satisfactory conclusion is reached in the matter of such changes, the original provisions shall remain in full force and effect. The negotiation of any proposed amendments by either party shall begin within fifteen (15) days after receipt of the written proposed amendments.

B. This Agreement shall be subject to amendment at any time by mutual consent of the parties hereto. Such amendment shall be reduced to writing, stating the effective date of the amendment, to be executed in the same manner as this Agreement, and be approved by the International Office of the Union. -

BY: /s/ ROGER LANGLOIS

BY: /s/ DAVID MILLER

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ROGER LANGLOIS  
BUSINESS MANAGER,  
IBEW, LOCAL 2131

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DAVID MILLER  
PRESIDENT

BY: /s/ VINH PHUN

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VINH PHUN  
COMMITTEEPERSON

DATE June 10, 1998

SCHEDULE "A"

PROGRESSIONS - CLASSIFICATIONS - WAGES

The provisions called for in this Schedule "A" shall become part of the Agreement made May 1, 1997 between Hospital Systems, Inc. and Local 213 I, International Brotherhood of Electrical Workers.

Nothing in this Schedule shall serve to reduce any current wage rates of individual employees.

A. PROGRESSIONS

1. Employees hired after May 1, 1997 shall progress from starting rate of \$7.50 per hour [or market rate] and shall progress to the top rate in five 18 month steps with a step at the first nine (9) months. To compute the raise from each full step the difference between the employee's current rate and the top rate shall be divided by the number of steps left in the progression.

2. The following are tile progression steps for employees hired before May 1, 1997:

- Step 1 - First 13 calendar weeks of employment
- Step 2 - Second 13 calendar weeks of employment
- Step 3 - Third 13 calendar weeks of employment
- Step 4 - Fourth 13 calendar weeks of employment
- Step 5 - Fifth 13 calendar weeks of employment
- Step 6 - Sixth 13 calendar weeks of employment
- Step 7 - Seventh 13 calendar weeks of employment
- Step 8 - Thereafter

3. An employee with less than thirty-nine (39) weeks comparable experience in the last two (2) years shall start at Step I.

4. An employee with over thirty-nine (39) weeks comparable experience in the last two (2) years shall start at Step 4.

5. For the purpose of this Section only, a calendar week starts the first Wednesday an employee works within a given job classification.

6. Previous Company experience may be credited in full.

B. CLASSIFICATIONS AND WAGES

The following are job classifications and minimum wage rates:

1. LINE ASSEMBLERS

	1 MAY98	1 MAY99
STEP 1	\$ 9.37	9.65
STEP 2	\$ 9.56	9.85
STEP 3	\$10.03	10.33
STEP 4	\$10.21	10.51
STEP 5	\$10.77	11.10
STEP 6	\$11.08	11.42
STEP 7	\$11.72	12.07
STEP 8	\$12.07	12.43

2. SPECIAL PRODUCTION WORKERS

	1 MAY98	1 MAY99
STEP 1	\$ 9.62	9.91
STEP 2	\$ 9.81	10.10
STEP 3	\$10.27	10.58
STEP 4	\$10.45	10.77
STEP 5	\$11.01	11.34
STEP 6	\$11.34	11.68
STEP 7	\$12.00	12.36
STEP 8	\$12.33	12.70

3. TRUCK DRIVER/YARDMAN

	1 MAY98	1 MAY99
STEP 1	\$ 9.62	9.91
STEP 2	\$ 9.81	10.10
STEP 3	\$10.27	10.58
STEP 4	\$10.45	10.77
STEP 5	\$11.01	11.34
STEP 6	\$11.34	11.68
STEP 7	\$12.00	12.36
STEP 8	\$12.33	12.70

4. RECEIVING AND INVENTORY CLERK

	1 MAY98	1 MAY99
STEP 1	\$ 9.37	9.65
STEP 2	\$ 9.56	9.85
STEP 3	\$10.03	10.33
STEP 4	\$10.21	10.51
STEP 5	\$10.77	11.10
STEP 6	\$11.08	11.42
STEP 7	\$11.72	12.07
STEP 8	\$12.07	12.43

5. GENERAL LABORER

	1 MAY98	1 MAY99
STEP 1	\$6.09	6.27
STEP 2	\$6.24	6.43
STEP 3	\$6.41	6.60
STEP 4	\$6.56	6.76
STEP 5	\$6.72	6.92
STEP 6	\$6.88	7.09
STEP 7	\$7.03	7.25
STEP 8	\$7.19	7.41

6. SMALL PARTS ASSEMBLY / ENGRAVING

	1 MAY98	1 MAY99
STEP 1	\$ 9.37	9.65
STEP 2	\$ 9.56	9.85
STEP 3	\$10.03	10.33
STEP 4	\$10.21	10.51
STEP 5	\$10.77	11.10
STEP 6	\$11.08	11.42
STEP 7	\$11.72	12.07
STEP 8	\$12.07	12.43

7. MILLING MACHINE, PUNCH PRESS & MANIFOLD

Employees assigned to operate the Milling Machine, Punch Press or Manifold shall receive twenty-five cents (\$.25) per hour above their regular hourly rate for all hours worked while operating the Milling Machine, Punch Press or Manifold. Shop coats will be provided for these operators.

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7. LEADMAN

There may be a Leadman in each classification and the wages shall be sixty-two cents (\$.62) per hour over Step 8 in the classification directed.

SCHEDULE "B"

JOB DESCRIPTIONS

A. LINE ASSEMBLERS

Duties shall consist of the assembling of all products manufactured by tile Company such as critical care units, isolated power units, mobile units, nurses stations, etc. Typical parts to be assembled are frames, back pans, convenience mounting straps, end caps, receptacles, outlets, switches, transformers, circuit breakers and supports, nurse call and code one equipment, elapsed time indicators, line isolation monitors, dimmers, timers, sub-face plates, fascias, plastic laminated panels and wiring therefore. Sub-assemblies shall be air grills, panel frames, door assemblies, ground jacks, group plugs, grounding jack assemblies, circuit break assemblies, mobile unit assemblies, etc. Included in the assembly work will be the measuring and cutting of aluminum extrusions, plastic laminated panels, plastic trims and steel supports. Packaging, shipping and receiving. The above is not all inclusive, but lists typical duties to be performed and all like assignments shall be performed by Line Assemblers.

B. SPECIAL PRODUCTION WORKERS

Duties shall consist of operating punch press, drill press, welding equipment, brazing equipment and other heavy duty power operated equipment. The assemblies to be handled are gas failure alarms, remote hazard indicators, ground fault indicators, nurses station sub-assemblies and connections, manifolding or medical gas outlets, and welding of aluminum sub-assemblies. The above is not all inclusive, but lists typical duties to be performed and all like assignments shall be performed by Special Production Workers.

Special Production Workers may be assigned duties in the Line Assemblers category and shall perform these duties without any reduction in pay. Line Assemblers may be requested to perform duties in the Special Production Workers category and shall be paid at the Special Production Workers' scale while performing those duties only.

C. TRUCK DRIVER/YARDMAN

Duties shall consist of driving a truck, or any other type of vehicle covered by a Class 3 California Drivers License, for the purpose of delivery and pick-up of materials, stocking and withdrawing such materials, and - daily yard and shop cleanup and other related duties assigned by the Production Manager.

D. RECEIVING & INVENTORY CLERK

Duties shall consist of performing any one or more of the following duties: receiving and checking incoming shipments of materials, stacking materials and issuing materials to the factory, keeping of stock in order, operating power and/or hand lift trucks and driving the company truck for local pickup and delivery of material.

Receiving duties consists of verifying correctness of shipments against bills of lading, invoices or other records; checking for shortages and rejecting damaged goods; routing merchandise and materials to proper departments; and maintaining necessary records and files.

The above is not all inclusive, but lists typical duties performed by the Receiving and Inventory Clerk

E. GENERAL LABORER

Duties shall consists of performing any one or more of the following duties; removing turnings and oil from machines, wash and degrease parts, handle material, cleaning, keeps in an orderly condition factory working areas, washrooms, offices and yard. Duties may include sweeping, mopping, polishing, window washing and other housekeeping duties that may be assigned. The above is not all inclusive, but lists typical duties to be performed by the General Laborer.

F. LEADMAN

Duties are to supervise and instruct, lead and guide; allocate work as directed by tile management's representative: as well as perform necessary production work in all job descriptions; enforce safety rules, check working conditions and quality control.

G. SMALL PARTS ASSEMBLY / ENGRAVING

Duties shall consist of assembling small sub-assemblies [such as brackets, switches plugs etc], electronic soldering and assembly [such as clocks, remote indicators, controllers etc] and engraving. The above is not all inclusive, but lists typical duties to be performed and all like assignments shall be performed by the category.

All classifications shall be full or part-time as required.

SIDE LETTER

Between

HOSPITAL SYSTEMS, INC.

and

ELECTRICAL WORKERS UNION, LOCAL 2131

It is agreed and understood by the parties that the following shall only apply to employees who have completed the probationary period as of April 30, 1991.:

After four (4) continuous years of service, all employee shall be entitled to ten cents (\$.10) above the rate specified in #1, #2 or #3 in Schedule "A".

After eight (8) continuous years of service, all employee shall be entitled to ten cents (\$.10) above his rate.

After ten (10) continuous years of service, all employee shall be entitled to an additional ten cents (\$.10) above his rate.

IBEW, LOCAL 2131 HOSPITAL SYSTEMS, INC.

BY: /s/ ROGER LANGLOIS

BY: /s/ DAVID MILLER

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ROGER LANGLOIS  
BUSINESS MANAGER,  
IBEW, LOCAL 2131

-----  
DAVID MILLER  
PRESIDENT

BY: /s/ VINH PHUN

-----  
VINH PHUN  
COMMITTEEPERSON

BY: /s/ OSCAR RONQUILLO

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OSCAR RONQUILLO  
COMMITTEEPERSON

DATE June 10, 1998





PROMISSORY NOTE

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August 7, 1998  
St. Louis, Missouri

U.S.\$5,000,000.00

FOR VALUE RECEIVED, the undersigned, Allied Healthcare Products, Inc., a Delaware corporation with its chief executive office located at 1720 Sublette Avenue, St. Louis, Missouri 63110, promises to pay to the order of LaSalle National Bank ("Bank"), at 135 S. LaSalle St., Chicago, IL 60603, or to such other place as Bank or the holder hereof shall designate in writing, in lawful money of the United States of America, in immediately available funds, the principal sum of FIVE MILLION AND NO/100 DOLLARS (\$5,000,000.00) together with interest at a per annum rate equal to Seven and 75/100 percent (7.75%) ("Fixed Rate"), payable in Fifty-Nine (59) consecutive monthly principal and interest payments of Sixty Thousand Five Dollars and no/100 (\$60,005.00) each, commencing on September 1, 1998 with subsequent payments due on the 1st day of each month thereafter and a final payment of all principal and interest then remaining unpaid due at maturity on August 1, 2003. Interest shall be payable on any amounts not paid as provided above at a rate per annum equal to two percent (2.0%) in excess of the Fixed Rate. Said interest rate shall be computed on the basis of a year of 360 days and the actual days elapsed.

All payments hereunder shall be made in immediately available funds by 1:00 p.m. St. Louis, Missouri time on the day when due. If any payment of principal or interest on this Note shall become due on a Saturday, Sunday or any day on which the Bank is legally closed to business, such payment shall be made on the next succeeding business day and such extension of time shall be included in computing interest in connection with such payment.

For purposes of this Note, the following terms shall have the meanings ascribed as follows:

"Affiliate": means, as applied to any Person, any other Person who directly or indirectly controls, is controlled by, is under common control with or is a director or officer of such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to vote 5 % or more of the securities having ordinary voting power for the election of directors or the direct or indirect power to direct the management and policies of a Person.

"Benefit Plan": means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which the undersigned or any Subsidiary, or any ERISA Affiliate has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"Change of Control": shall be deemed to have occurred at such time as a "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 20% of the total voting power of all classes of stock then outstanding of the undersigned entitled to vote in the election of directors.

"Deed of Trust": the Deed of Trust, Assignment of Rents and Security Agreement of even date herewith made by and between the undersigned, the Bank and the Trustee therein named.

"ERISA": means the Employee Retirement Income Security Act of 1974, 29 U.S.C. 1000 et seq., amendments thereto, successor statutes, and regulations or guidance promulgated thereunder.

"ERISA Affiliate": means (a) any corporation subject to ERISA whose employees are treated as employed by the same employer as the employees of the undersigned or any of its Subsidiaries under IRC Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of the undersigned or any of its Subsidiaries under IRC Section 414(c), (c) solely for the purposes of Section 302 of ERISA and Section 412 of the IRC, any organization subject to ERISA that is a member of an affiliated service group of which the undersigned is a member under IRC Section 414(m), or (d) solely for the purpose of Section 302 of ERISA and Section 412 of the IRC, any party subject to ERISA that is a party to an arrangement with the undersigned or any of its Subsidiaries and whose employees are aggregated with the employees of the undersigned or any of its Subsidiaries under IRC Section 414(o).

"Foothill": Foothill Capital Corporation.

"Foothill Credit Facility": the Loan or Security Agreement dated August 7, 1997, by and between the undersigned certain of its Subsidiaries and Foothill, as amended by Amendment Number One to Loan and Security Agreement, and Amendment Number Two to Loan and Security Agreement.

"Indebtedness": means (a) all obligations of a Person for borrowed money, (b) all obligations of a Person evidenced by bonds, debentures, notes, or other similar instruments and all reimbursements or other obligations of a Person in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations of a Person under capital leases, (d) all obligations or liabilities of others secured by a Lien on any property or asset of a Person, irrespective of whether such obligation or liability is assumed, and (e) any obligation of a Person guaranteeing or intended to guarantee (whether guaranteed, endorsed, co-made, discounted, or sold with recourse to such Person) any indebtedness, lease, dividend, letter of credit, or other obligation of any other Person.

"IRC": means the Internal Revenue Code of 1986, as amended, and the

regulations thereunder.

"Lien": means any interest in property securing an obligation owed to, or a claim by, any Person other than the owner of the Property, whether such interest shall be based on the common law, statute, or contract, whether such interest shall be recorded or perfected, and whether such interest shall be contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances, including the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, security agreement, adverse claim or charge, conditional sale or trust receipt, or from a lease, consignment or bailment for security purposes.

"Loan Documents": this Note, the Deed of Trust and any other instrument, document, agreement or guaranty delivered heretofore or hereafter in connection with any of the indebtedness evidenced by this Note, all as from time to time amended, modified, renewed, increased or extended.

"Material Adverse Change": means (a) a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of the undersigned, (b) the material impairment of the undersigned's ability to perform its obligations under the Loan Documents to which it is a party or of Bank to enforce the Obligations or realize upon the Properties, (c) a material adverse effect on the value of the Properties or the amount that Bank would be likely to receive (after giving consideration to delays in payment and costs of enforcement) in the liquidation of such Properties, or (d) a material impairment of the priority of Bank's Liens with respect to the Properties.

"Multiemployer Plan": means a "multiemployer plan" (as defined in Section 4001 (a)(3) of ERISA) to which the undersigned, or any of its Subsidiaries, or any ERISA Affiliate has contributed, or was obligated to contribute, within the past six years.

"Obligations": any and all amounts, indebtedness, covenants, promises, liabilities, duties owing, now existing or hereafter arising, due, payable or owing by the undersigned to the Bank under any of the Loan Documents.

"Permitted Liens" means (a) Liens held by Bank and Foothill, Co) Liens for unpaid taxes that either (i) are not yet due and payable or (ii) are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1 to the Foothill Credit Agreement and Schedule A attached hereto, except as released pursuant to that certain Full Deed of Release dated 10/20/98 by Foothill Capital Corporation, (d) the interests of lessors under operating leases and purchase money Liens of lessors under capital leases to the extent that the acquisition or lease of the underlying asset is permitted hereunder and so long as the Lien only attaches to the asset purchased or acquired and only secures the purchase price of the asset, (e) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business of the undersigned or any of its Subsidiaries and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet due and payable, (ii) are the subject of Permitted Protests, or (iii) removed by payment or bonded within 20 Business Days of the undersigned or any of its Subsidiaries obtaining notice thereof, (f) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, (g) Liens or deposits to secure performance bids, tenders, or leases (to the extent permitted under the Loan Documents, incurred in the ordinary course of business of the undersigned or any of its Subsidiaries and not in connection with the borrowing of money, (h) Liens arising by reason of security for surety or appeal bonds in the ordinary course of business of the undersigned or any of its Subsidiaries, (i) Liens of or resulting from any judgment or award that would not have a Material Adverse Effect upon the undersigned and as to which the time for the appeal or petition for rehearing of which has not yet expired, or in respect of which the undersigned or any of its Subsidiaries is in good faith prosecuting an appeal or proceeding for a review, and in respect of which a stay of execution pending such appeal or proceeding for review has been secured, (j) Liens described in Exhibit B to the Deed of Trust and with respect to real property other than that

described in the Deed of Trust, easements, rights of way, zoning and similar covenants and restrictions, and similar encumbrances that customarily exist on properties of Persons engaged in similar activities and similarly situated and that in any event do not materially interfere with or impair the use or operation thereof.

"Permitted Protest": means the right of the undersigned or any of its Subsidiaries to protest any Lien (other than any such Lien that secures the Obligations), tax (other than payroll taxes or taxes that are

the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the books of the undersigned or any of its Subsidiaries in an amount that is reasonably satisfactory to Bank, (b) any such protest is instituted and diligently prosecuted by the undersigned or any of its Subsidiaries in good faith, and (c) Bank is satisfied that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Liens of Bank.

"Person" an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

"Properties" any and all title, rights, interests, assets or properties, including without limitation, contract rights, accounts, tangible and intangible personal property, inventories, goods, facilities, machinery and equipment and real property.

"Subsidiary": as to any Person, a corporation, partnership or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Note shall refer to a Subsidiary or Subsidiaries of the undersigned.

"Tangible Net Worth" means, as of any date of determination, the difference of (a) a Person's total stockholder's equity, minus (b) the sum of:

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(i) all intangible assets of such Person, and (ii) all amounts due to such Person from affiliates.

"Undersigned": includes each maker and each endorser, and each jointly and severally, agrees to all the provisions hereof.

The undersigned hereby represents and warrants to the Bank that (a) it is a corporation existing and in good standing under the laws of the State of Delaware, (b) it as well as its Subsidiaries are duly qualified, in good standing and authorized to do business in each jurisdiction where failure to do so would have a material adverse affect upon the undersigned or any of its Subsidiaries, (c) that the borrowings hereunder, the execution and delivery of the Loan Documents by the undersigned and the performance by the undersigned of its respective obligations under the Loan Documents are within the undersigned's corporate and all other powers, have been authorized by all necessary respective corporate and all other action, have received all necessary approvals and do not and will not contravene or conflict with any provision of law or of the charter or by-laws of the undersigned or of any agreement binding upon the undersigned, and (d) that there has been no material adverse change in the business, properties, assets, operations or prospects of the undersigned or any Subsidiaries since the date of the last financial statements provided on behalf of the undersigned to the Bank.

The undersigned agrees to deliver to Bank: (a) as soon as available, but within 20 days after the end of each month, accounts receivable aging for the undersigned and each of its Subsidiaries; (b) as soon as available, but in any event within 45 days after the end of the undersigned's fiscal quarter an internally

prepared balance sheet, income statement, and statement of cash flow covering the undersigned and its Subsidiaries' operations during such period; and (c) as soon as available, but in any event within 90 days after the end of the undersigned's fiscal years, financial statements of the undersigned and its Subsidiaries for each such fiscal year, audited by the Borrower's current independent certified public accountants and certified, without any qualifications, by such accountants to have been prepared in accordance with GAAP, together with a certificate of such accountants addressed to Bank stating that such accountants do not have knowledge of the existence of any default or Event of Default hereunder. Such audited financial statements shall include a balance sheet, income statement, and statement of cash flow and, if prepared, an accountants' letter to management. In addition to the financial statement referred to above, the undersigned agrees to deliver financial statements prepared on a consolidating basis. The undersigned also shall deliver to Bank its Form 10-Q Quarterly Reports, Form 10-K Annual Reports, and Form 8-K Current Reports, and any other filings made by the undersigned with the Securities and Exchange Commission, if any, as soon as the same are filed, or any other information that is provided by the undersigned to its shareholders, and any other report reasonably requested by Bank relating to the undersigned's financial condition.

The undersigned further covenants and agrees that it will not nor will it permit any Subsidiary to, without Bank's prior written approval which may be given in Bank's sole discretion, do any of the following:

(a) Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(i) indebtedness evidenced by the Foothill Credit Facility, together with Indebtedness to issuers of letters of credit that are the subject of letter of credit guarantees therein described;

(ii) indebtedness set forth in the latest financial statements of the undersigned submitted to Bank on or prior to this date;

(iii) indebtedness secured by Permitted Liens; and

(iv) refinancings, renewals, or extensions of Indebtedness permitted under clauses (i) and (ii) above (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, refundings, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to Bank as those applicable to the refinanced Indebtedness.

(b) Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of its properly or assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens.

(c) Enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, assign, lease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its property or assets.

(d) Sell, lease, assign, transfer, or otherwise dispose of any the undersigned's or any of its Subsidiaries' properties or assets other than sales of inventory to buyers in the ordinary course of the undersigned's or any of its Subsidiaries' business as currently conducted.

(e) Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except by endorsement of instruments or items or payment for deposit.

Make any change in the principal nature of the undersigned's or any of its Subsidiaries'

(g) Cause, permit, or suffer, directly or indirectly, any Change of Control.

(h) Make any distribution or declare or pay an dividends (in cash or other property, other than capital stock) on, or purchase, acquire, redeem, or retire any of the undersigned's or any of its Subsidiaries capital stock, of any class, whether now or hereafter outstanding other than dividends of Subsidiaries to the undersigned.

(i) Directly or indirectly make, acquire, or incur any liabilities (including contingent obligations) for or in accordance with (i) the acquisition of the securities (whether debt or equity) of, or other interests in, a Person, (ii) loans, advances, capital contributions, or transfers of property to a Person, or (iii) the acquisition of all or substantially all of the properties or assets of a Person.

(j) Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of the undersigned or any of its Subsidiaries except for transactions that are in the ordinary course of the undersigned's or any of its Subsidiaries business, upon fair and reasonable terms, that are fully disclosed to Bank, and that are no less favorable to the undersigned or any of its Subsidiaries than would be obtained in an arm's length transaction with a non-Affiliate.

(k) Suspend or go out of a substantial portion of its business.

(l) Use the proceeds of the indebtedness evidenced by this Note for any purpose other than payment of Foothill and for general corporate purposes.

(m) Directly or indirectly:

(i) engage, or permit any Subsidiary to engage, in any prohibited transaction which is reasonably likely to result in a civil penalty or excise tax described in Sections 406 of ERISA or 4975 of the IRC for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the Department of Labor;

(ii) permit to exist with respect to any Benefit Plan any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the IRC), whether or not waived;

(iii) fail, or permit any Subsidiary to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(iv) terminate, or permit any Subsidiary to terminate, any Benefit Plan where such event would result in any liability of the undersigned, any of its Subsidiaries or any ERISA Affiliate under Title IV of ERISA;

(v) fail, or permit any Subsidiary to fail, to make any required contribution or payment to any Multiemployer Plan;

(vi) fail, or permit any Subsidiary to fail, to pay any required installment or any other payment required under Section 412 of the IRC on or before the due date for such installment or other payment;

(vii) withdraw, or permit any Subsidiary to withdraw, from any Multiemployer Plan where such withdrawal is reasonably likely to result in any liability of any such entity under Title IV of ERISA;

which, individually or in the aggregate, results in or reasonably would be expected to result in a claim against or liability of the undersigned, any of its Subsidiaries or any ERISA Affiliate in excess of \$500,000.

(n) Permit the undersigned's Tangible Net Worth to be, at any time, less than \$21,000,000.

(o) The undersigned and any of its Subsidiaries shall not, in the aggregate, make capital expenditures in any fiscal year in excess of \$3,000,000.

The undersigned shall be responsible, by prompt payment or reimbursement, for all costs, fees and expenses (including, without limitation, reasonable attorneys' fees) in any way related to, or in connection with, the Loan Documents, incurred by the Bank, including, without limitation, the preparation, negotiation, extension, modification and enforcement of the Loan Documents.

This Note may be prepaid in whole or in part by the undersigned at any time and from time to time upon at least 5 days written notice to the Bank. If the Fixed Rate at the time of prepayment is higher than the Base Rate, then a make-whole amount shall be due and payable at the time of prepayment equal to the difference between the Base Rate and the Fixed Rate, multiplied by the number of years (or pro-rations of same) remaining on this Note, multiplied by the amount of principal being prepaid. In the event the Fixed Rate at the time of prepayment is equal to or less than the Base Rate, then there shall be no prepayment premium due. "Base Rate" shall mean a per annum rate of interest equal to the "ask yield" as published in the Wall Street Journal on the date the Bank has received the prepayment notice in the Treasury Bonds, Notes & Bills "Govt. Bonds & Notes" subsection for such securities that have a maturity in the same month in which this Note is scheduled to mature plus 250 basis points. The undersigned shall



be required to pay the make-whole amount in the event this Note is prepaid out of collateral proceeds or otherwise following the occurrence of an Event of Default.

The proceeds of the loan evidenced of this Note shall not be used directly or indirectly for the purpose of purchasing or carrying, or for the purpose of extending credit to others for the purpose of purchasing or carrying, any "margin stock" as that term is defined in Regulation U of the Board of Governors of the Federal Reserve System.

The Obligations are secured by and entitled to the benefits in all respects of the Loan Documents.

Any one of the following occurrences shall constitute an "Event of Default" under this Note:

(a) The undersigned shall fail to make any payment of principal, interest, make-whole amount or other amounts payable under this Note, any of the other Loan Documents or any other obligations of the undersigned to the Bank when and as due, or shall fail to comply with, perform or observe any agreement, provision or undertaking contained in the Loan Documents or in any other obligation of the undersigned to the Bank, or if any representation, warranty or information made or provided by or on behalf of the undersigned in connection herewith or in connection with the loan evidenced hereby is false or misleading in any material respect as of the date made;

(b) There shall occur any default or event of default, or any event which might become such with notice or the passage of time or both, or any similar event, or any event which requires the prepayment of borrowed money or the acceleration of the maturity thereof, under the terms of the Foothill Credit Facility or any other evidence of indebtedness or other material agreement issued or assumed or entered into by the undersigned or any of its Subsidiaries or under the terms of any indenture, agreement or instrument under which any such evidence of indebtedness or other agreement is issued, assumed, secured or guaranteed, and such event shall continue beyond any applicable period of grace;

(c) Any suit, action or other proceeding (judicial or administrative) shall be commenced against the undersigned or any of its Subsidiaries with respect to any assets of the undersigned, or any of its Subsidiaries, a final judgment shall be entered in any such suit, action or proceeding, which proceeding or judgment shall have or threaten to have a material and adverse effect on the future operations of the undersigned or any or any of its Subsidiaries;

(d) The undersigned or any of its Subsidiaries shall file a petition or answer or consent to a petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other applicable federal, state or foreign bankruptcy law or other similar law, or the undersigned or any of its Subsidiaries shall consent to the institution of proceedings thereunder or the filing of any such petition or to the appointment or taking possession of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official of the undersigned or any of its Subsidiaries;

(e) There shall be entered a decree or order by a court constituting an order for relief in respect of the undersigned or any of its Subsidiaries under Title 11 of the United States Code, as now constituted or hereafter amended, or any other applicable federal, state or foreign bankruptcy law or other similar law, or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official of the undersigned or any of its Subsidiaries or of any substantial part of their respective

properties, or ordering the winding-up of or liquidation of the affairs of the undersigned or any of its Subsidiaries and any such decree or order shall continue unstayed and in effect for a period of thirty consecutive days;

(f) The undersigned or any of its Subsidiaries shall become insolvent or shall fail or be unable to pay their debts as they mature, or shall admit in writing their inability to pay their debts as they mature, or shall make a general assignment for the benefit of their creditors, call a meeting of its creditors or shall enter into any composition or similar agreement, or shall suspend the transaction of all or a substantial portion of their usual business;

(g) Any default or Event of Default shall exist or continue under any Loan Document or any such Loan Document shall not be, or shall cease to be, enforceable in accordance with its terms or be contested by any obligor thereunder.

Upon the occurrence of any Event of Default hereunder: (i) the entire unpaid principal balance of, any unpaid interest then accrued on make whole amount, any other amounts owing under or evidenced by this Note and all other obligations, whether contingent or otherwise, of the undersigned to the Bank shall immediately become due and payable at the option of the Bank hereof, and without presentment, notice, demand or protest of any kind all of which are hereby expressly waived by the undersigned; and (ii) the Bank hereof shall have and may exercise any and all rights and remedies available under the Loan Documents or at law or in equity. No delay or omission on the part of the Bank in exercising any power or right under this Note shall impair such right or power or be construed to be a waiver of any Event of Default or any acquiescence therein, nor shall any single or partial exercise of any power or right hereunder preclude other or further exercise thereof, or the exercise of any other power or right.

The Bank is authorized to charge any account of the undersigned maintained with the Bank for any amounts due or payable hereunder and in addition to all rights of set off available to Bank at law, the undersigned hereby grants to the Bank a continuing security interest in such accounts, and in any deposits, monies, securities or other property of the undersigned delivered to, or left in the possession of, the Bank or the Bank's nominee or bailee.

The remedies of the Bank, as provided herein, shall be cumulative and concurrent, and may be pursued singularly, successively or together, at the sole discretion of the holder hereof, and may be exercised as often as occasion therefor shall arise. No act or omission or commission of the Bank, including specifically any failure to exercise any right, remedy or recourse, shall be deemed to be a waiver or release of the same, such waiver or release to be effected only through a written document executed by the holder and then only to the extent specifically recited therein. A waiver or release with reference to any one event shall not be construed as continuing, as a bar to, or as a waiver or release of, any subsequent right, remedy or recourse as to a subsequent event.

In the event one or more Events of Default shall occur, the undersigned promises to pay all costs of collection of every kind, including but not limited to all reasonable attorneys' fees, court costs, and expenses of every kind incurred by the holder hereof in connection with such collection or the protection or enforcement of any or all of the security for this Note including representation of the Bank in proceedings under the Bankruptcy Code or other insolvency proceedings and whether or not any lawsuit is ever filed with respect thereto.

The undersigned hereby waives presentment, protest, demand, notice of dishonor or default and consents to any and all renewals, extensions, and/or the release of any party directly or indirectly liable for the payment hereof, all without notice to and without affecting the liability of any of the undersigned.

This Note shall be governed by and construed in accordance with the internal laws of the State of Missouri. This Note shall bind the undersigned and shall inure to the benefit of the Bank, any holder hereof, and all of the respective parties' successors and assigns.

THE UNDERSIGNED HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY (WHICH BANK ALSO WAIVES) IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OF THE LOAN DOCUMENTS, COLLATERAL, OR BANK'S CONDUCT IN RESPECT OF ANY OF THE FOREGOING.

THE UNDERSIGNED HEREBY IRREVOCABLY AGREES THAT, SUBJECT TO THE BANK'S SOLE AND ABSOLUTE ELECTION, ALL SUITS, ACTIONS OR OTHER PROCEEDINGS WITH RESPECT TO, ARISING OUT OF OR IN CONNECTION WITH THIS NOTE AND THE LOAN DOCUMENTS SHALL BE SUBJECT TO LITIGATION IN STATE OR FEDERAL COURTS HAVING SITUS WITH THE CITY OR COUNTY OF ST. LOUIS, MISSOURI, AND HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO TRANSFER OR CHANGE THE VENUE OF ANY SUIT, ACTION OR OTHER PROCEEDINGS BROUGHT BY THE BANK IN ACCORDANCE WITH THIS PARAGRAPH.

The following notice is given pursuant to section 432.045 of the Missouri Revised Statutes; nothing contained in such notice shall be otherwise deemed to limit or modify the terms of this agreement: ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FOREBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT YOU (THE UNDERSIGNED) AND US (THE BANK) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed and delivered by its duly authorized representative as of the date first above written.

ALLIED HEALTHCARE PRODUCTS, INC.

Uma Nandan Aggarwal  
Chief Executive Officer and President

ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCH TO JULY 1, 1998'  
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DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Siemens Credit Corporation	UCC- I (UCC-3 continuation filed 6/7/96)	Missouri Secretary of State	7/26/91	2026295
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Commerce Bank N.A.	UCC-1 (UCC-3 amendment filed 8/22/95)	Missouri Secretary of State	5/19/95	2543180
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Commerce Bank N.A.	UCC-1	Missouri Secretary of State	5/12/95	2543342
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Commerce Bank N.A.	UCC-1	Missouri Secretary of State	9/26/95	2586252
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Commerce Bank N.A.	UCC-1 (UCC-3 amendment filed 5/2/96)	Missouri Secretary of State	10/06/95	2589474
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Commerce Bank N.A.	UCC- I (UCC-3 amendment filed 4/5/96 and 6/12/96)	Missouri Secretary of State	12/13/95	2611788

DEBTOR: COLIATERAL

Allied Healthcare Products, Inc.  
1720 Sublette  
St. Louis, MO 63110  
Equipment (telecommunications) lease no. 06200042

Allied Healthcare Products, Inc.  
1720 Sublette  
St. Louis, MO 63110  
Equipment (computer) lease no. 138575 (Schedule 1)

Allied Healthcare Products, Inc. Equipment (UrWa(a RDBMS, DataFlo)

1720 Sublette  
St. Louis, MO 63110

Allied Healthcare Products, Inc. Equipment (computer accessories) lease  
1720 Sublette no. 138575 (Schedule 1A)  
St. Louis, MO 63110

Allied Healthcare Products, Inc. Equipment (computer) lease no. 138575  
1720 Sublette (Schedule 3)  
St. Louis, MO 63110 Equipment location. Tech Resource Group

Allied Healthcare Products, Inc. Equipment (computer, printer, adaptor,  
1720 Sublette monitors) lease no. 138575 (Schedule 5)  
St. Louis, MO 63110

ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCHTO JULY1,1998'  
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DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, hic. Assignee:	UCC-1 (UCC-3 amendment filed 3/7/96) Commerce Bank N. A.	Missouri Secretary of State	12/26/95	2616340
Allied Healthcare Products, hic. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee:	UCC- I (UCC-3 amendment Commerce Bank N. A.	Missouri Secretary of State filed 8/21/96)	03/06/96	264W 19
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	Missouri Secretary of State	3/20/96	2644715
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Maclihier Company	UCC-1	Missouri Secretary of State	3/20/96	2644716
Allied Hpltllicare Products, Inc. 1720 Subleue St. Louis, MO 63110	Master Lease Div. of Tokai Financial Services, Inc.	UCC- I	Missouri Secretary of State	04/30/96	2658450
Allied Healthcare Products, Inc. 1720 Subleue St. Louis, MO 63110	Computer Sales International. Inc. Assignee:	UCC-1 (UCC-3 amendment Southwest Bank of St. Louis	Missouri Secretary of State filed 12/20/96)	05/02/96	2659466
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	Missouri Secretary of State	06/13/96	2676176

DEBTOR: COLIATERAL

Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer accessories) lease no. 138575 (Schedule 6)
Allied Healthcare Products, hic. 1720 Sublette St. Louis, MO 63110	Equipment (conipuier and accessores) lease no. 138575 (Schedule 7)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Milling Center & SMW Spacesaver)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Milling Center & SMW Spacesaver)
Allied Hpltllicare Products, Inc. 1720 Subleue St. Louis, MO 63110	Equipment (mailing system) lease no. 24182826
Allied Healthcare Products, Inc. 1720 Subleue St. Louis, MO 63110	Equipment (computer) lease no. 138575 (Schedule 9) Equipment locafion: Riverside, CA
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (TurnJaig/Milling Center and accessories)

ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCHTO JULY1,1998'  
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DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	Missouri Secretary of State	06/13/96	2676177
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Master Lease Div. of Tokai Financial Services, Inc.	UCC-1	Missouri Secretary of State	06/14/96	2676510
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Southwest Bank of St. Louis	UCC-1	Missouri Secretary of State	07/17/96	2686913
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	Missouri Secretary of State	08/26/96	2700114
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, hic. Assignee: Commerce Bank, N.A.	UCC-1	Missouri Secretary of State	12/12/96	2734483
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	computer Sales international, Inc.	UCC-1	Missouri Secretary of State	12/12/96	2734484
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Mellon US Leasing, a Div. of Mellon Leasing ICorp.	UCC-1	Missouri Secretary of State	01/06/97	2742092

DEBTOR:

COLIATERAL

Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Turning Center and accessories)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Tracer mailing) lease no. 24182826
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer accessories) lease no. 138575 (Schedule 10)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Milling Center and accessories)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer software) lease no. 138575 (Schedule 12)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Equipment (computer accessories lease no. 138575 1 (Schedule 11)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Equipment (Mazak Turning & Milling Center) lease no. 127372

ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCHTO JULY1,1998'

DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Mellon us Leasing, a Div. of Mellon Leasing Corp.	UCC-1	Missouri Secretary of Slate	01/10/97-	2744213
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Foothill Capital Corporation	UCC- I	Missouri Secretary of Stale	08/06/97	2817984
Allied Heahlicare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Foothill Capital Corporation	UCC-1	Missouri Secretary of State	08/13/97	2820513
Allied Healthcare Products, hic. 1720 Sublette St. Louis, Mo 63110	Computer Sales International, Inc.	UCC-1	Missouri Secretary of Slate	02/04/98	2875778
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Siemens Credit Corp.	UCC-1	Missouri Secretary of State	06/19/98	2928450

DEBTOR:	COLIATERAL
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Equipment (injection Moldi-ng and Water Tower) lease no. 127405
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Accounts, equipment, general intangibles, inventory and real property collateral
Allied Heahlicare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Property located in St. Louis City and improvements thereon
Allied Healthcare Products, hic. 1720 Sublette St. Louis, Mo 63110	Equipment (computer and printers) lease no. 138575 (Schedule 13)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, Mo 63110	Equipment lease 620-0000016-004

ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCHTO JULY2,1998'  
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DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Comerce Bank N.A.	UCC-1 (UCC-3 amendment filed 8/10/95)	St. Louis City	5/18/95	3360
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Comerce Bank N.A.	UCC-1	St. Louis City	5/22/95	3419
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Comerce Bank N.A.	UCC-1	St. Louis City	9/26/95	6162
Allied Healthcare Products, Inc. 1720 Stibldte St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Comerce Bank N.A.	UCC-1 (UCC-3 amendment filed S/ 1 /96)	St. Louis City	10/06/95	6453
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Comerce Bank N.A.	UCC-1 (UCC-3 amendment filed 4/4/96 and 6/11/96)	St. Louis City	12/13/95	7835
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Comerca BaA N.A.	UCC-1 (UCC-3 amendment filed 3/7/96)	St. Louis City	12/28/95	8133

DEBTOR:	COLIATERAL
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer) lease no. 138575 (Schedule 1)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Unidata RDBMS, Dat&Flo)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer accessories) lease no. 138575 (Schedule IA)
Allied Healthcare Products, Inc. 1720 Stibldte St. Louis, MO 63110	Equipment (computer) lease no. 138575 (Schedule 3) Equipment location: Tech Resource Group
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer, printer, adaptor, monitors) lease no. 138575 (Schedule 5)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer accessories) lease no. 138575 (Schedule 6)



ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCHTO JULY2,1998'  
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DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Commerce Bank N.A.	UCC-1 (UCC-3 amendment filed 8/20/96)	St. Louis City	03/06/96	1389
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	St. Louis City	3/19/96	1750
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	St. Louis City	3/19/96	1751
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Master Lease Div. of TokAi Financial Services, Inc.	UCC-1	St. Louis City	04/29/96	2688
Allied Healthcare Products, Inc. 1720 Spblette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Southwest Bank of St. Louis	UCC-1 (UCC-3 amendment filed 12/20/96)	St. Louis City	05/02/96	2742
Allied He4dthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	St. Louis city	06/12/96	3787
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	St. Louis City	06/12/96	3788
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Master Lease Div. of Tokai Financial Services, Inc.	UCC-1	St. Louis City	06/17/96	3902

DEBTOR: COLIATERAL

Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer and accessores) lease no. 138575 (Schedule 7)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Milling Center and SMW Spacesaver)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Milling Center & SMW Spacesavar)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (mailing system) lease no. 24182826
Allied Healthcare Products, Inc. 1720 Spblette St. Louis, MO 63110	Equipment (computer) lease no. 138575 (Schedule 9) Equipment location: Riverside, CA
Allied He4dthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Turning Center and accessories)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Turning/Milag Center and accessories)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Tracer mailing) lease no. 24182926

ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCHTO JULY2,1998'  
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DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Southwest Bank of St. Louis	UCC-1	St. Louis City	07/17/96	4597
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Municipal Tool & Machinery Company	UCC-1	St. Louis City	08/26/96	5523
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. Assignee: Commerce Bank, N.A.	UCC-1	St. Louis City	12/12/96	8103
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc. f	UCC-1	St. Louis City	12/12/96	8104
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Mellon US Leasing, a Div. of Mellon Leasing Corp.	UCC-1	St. Louis City	01/13/97	288
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Mellon US Leasing, a Div. of Mellon Leasing Corp.	UCC-1	St. Louis City	01/14/97	334
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Foothill Capital Corporation	UCC-1	St. Louis City	08/06/97	5378
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Foothill Capital Corporation	UCC-1	St. Louis City	08/12/97	5550

DEBTOR: COLIATERAL

Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer accessories) lease no. 138575 (Schedule 10)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Milling Center and accessories)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer accessories) lease no. 138575 (Schedule 11)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer software) lease no. 138575 (Schedule 12)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (injection Molding and Water Tower) lease no. 127405
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (Mazak Turning & Milling Center) lease no. 127372
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Accounts, equipment, general intangibles, inventory and real property collateral
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Property located in St. Louis City and improvements thereon

ALLIED HEALTHCARE PRODUCTS, JNC.  
MISSOURI SECRETARY OF STATE:  
UCC-11 SEARCHTO JULY2,1998'  
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DEBTOR:	SECURED PARTY:	FORM OF UCC	FILING LOCATION	FILING DATE	FINANCIAL STATEMENT
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Computer Sales International, Inc.	UCC-1	St. Louis City	02/04/98	843
Allied Healthcare Products, Inc. 1720 Sublette St. Louis. MO 63110	Siemens Credit Corp.	UCC-1	St. Louis City	06124/98	4336

DEBTOR:	COLIATERAL
Allied Healthcare Products, Inc. 1720 Sublette St. Louis, MO 63110	Equipment (computer and printers) lease no. 138575 (Schedule 13)
Allied Healthcare Products, Inc. 1720 Sublette St. Louis. MO 63110	Equipment lease 620-0000016-004

DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT SECURES FUTURE  
ADVANCES AND FUTURE OBLIGATIONS  
AND SHALL BE GOVERNED BY SECTION 443.055 R.S.MO.  
THE TOTAL PRINCIPAL AMOUNT OF THE FUTURE ADVANCES  
AND FUTURE OBLIGATIONS WHICH MAY BE SECURED  
HEREBY IS FIVE MILLION AND NO/100 DOLLARS  
(\$5,000,000.00)

THIS DEED OF TRUST, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT (this "Deed of Trust"), is made and entered into as of the 7th day of August, 1998, by and among Allied Healthcare Products, Inc., a Delaware corporation having its chief executive office at 1720 Sublette Avenue, St. Louis, Missouri 63110 (the "Grantor"), Joseph F. Hipskind, Jr., One Metropolitan Square, Suite 2600, St. Louis, Missouri 63102, as Trustee (the "Trustee"), and LASALLE NATIONAL BANK, One Metropolitan Square, Suite 2140, St. Louis, Missouri 63102 as beneficiary (the "Grantee").

WITNESETH:

That for good and valuable consideration, and to secure the payment and performance of the obligations of Grantor pursuant to:

I. The repayment of all amounts due, including but not limited to principal, interest, make-whole amounts, fees and expenses, from time to time (whether at stated maturity, by acceleration or otherwise), including future advances, under the following documents:

(a) each of the following:

(i) the Promissory Note of Grantor, payable to the order of Grantee, of even date herewith, in the original principal amount of \$5,000,000.00 (the "Note");

(ii) any and all other agreements and obligations of Grantor from time to time in favor of Grantee;

(b) all additional security agreements, mortgages, deeds of trust, assignments or other security instruments which are executed and delivered of evidence, govern or secure obligations of Grantor under the documents described in clause (a) above;

(1) The observance and performance by Grantor of each and every term, covenant, condition and agreement required by this Deed of Trust to be observed and performed by Grantor; and

(2) Any and all extensions, renewals, amendments, replacements, restatements, re financings, refundings or other modifications (including but not limited to modifications to interest rates or other payment terms) of any of the foregoing; and

(3) advances made by Grantee for the reasonable protection of the Grantors interest in the Property including, but not limited to, amounts for taxes, insurance, repair, maintenance and preservation of the Property, completion of improvements on the Property and expenses of collection, sale, and foreclosure hereunder and that the same will have priority over any intervening or subsequent liens to the extent allowed by law.

The foregoing are herein referred to as the "Obligations".

Grant. Grantor does GRANT, BARGAIN, SELL, REMISE, CONVEY, CONFIRM, RELEASE

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AND ASSIGN unto Trustee, his successors and assigns, in trust, with power of sale and right-of-way and possession, the real estate described in Exhibit A, attached hereto and made a part hereof (hereinafter described is referred to herein as the "Premises");

TOGETHER with (1) all buildings, improvements and structures at any time, now or hereafter, erected, situated or placed thereon; (2) all rights, privileges, easements, hereditaments, appendages and appurtenances thereunto belonging or in anywise appertaining; (3) all right, title, interest and estate of Grantor in and to streets, roads, ways, sidewalks, curbs, alleys, and areas adjoining said real estate and portions thereof, and whether vacated by law or ordinance (conditionally or otherwise); (4) all leases, subleases, rents, lettings and licenses of, and all contracts, bonds and agreements affecting the Premises or any part thereof now or hereafter arising or entered into, and all amendments, modifications, supplements, additions, extensions and renewals thereof, and all right, title and interest of Grantor thereunder, including cash and securities deposited thereunder, the right to receive and collect rents, security deposits, income, proceeds, earnings, royalties, revenues, issues and profits payable thereunder and the rights to enforce, whether at law or in equity or by any other means, all provisions and options thereof or thereunder; (5) all fixtures, fixed assets and personalty now owned or hereafter acquired by Grantor and now or at any time hereafter annexed, affixed or attached to said real estate and/or said buildings, improvements, or structures thereon and all other personal property now owned or hereafter acquired by Grantor and used or intended to be used in the possession, occupation or enjoyment thereof and specifically but not by way of limitation the following owned by Grantor, all apparatus, appliances, machinery, equipment and articles used to supply or provide or in connection with heat, gas, air conditioning, plumbing, water, lighting, power, elevator, sewerage, cleaning, refrigeration, cooling, ventilation and sprinkler systems, all water heaters, furnishings, carpeting and

padding, rugs, lighting fixtures, shades and awnings, screens, drapes and drapery equipment, fire prevention and extinguishing apparatus, security and access control apparatus, all window cleaning apparatus, and all replacements, additions and substitutions thereof or thereto; (6) all construction materials owned by Grantor and placed thereon; (7) all existing and hereafter created or acquired books, records, reports, surveys, plans, specifications, files, tests, plats, engineering reports, government permits, escrow deposits, tenant security deposits, soil reports and documents of any kind or nature relating to the real estate or the development or operation thereof; (8) all of Grantor's contract rights under and all receivables now or hereafter owing to Grantor under all existing and future leases or renting of space in any buildings now or hereafter on said real estate; (9) all of Grantor's rights under any existing and future loan commitments to provide financing for all or any part of said real estate; (10) all of Grantor's rights under any existing and future sales contracts affecting all or any portion of said real estate; (11) all plants, trees and shrubbery; (12) all products and proceeds of any of the foregoing, including insurance proceeds and all proceeds of any award for

the taking of all or any part of the foregoing pursuant to any governmental action; (13) all of the foregoing whether now existing or hereafter acquired and all replacements, additions, or substitutions thereof or thereto; and (14) all proceeds, products (including insurance proceeds), improvements, replacements, and substitutions of or to any of the foregoing (collectively referred to as the "Improvements") (the Premises and all Improvements are collectively referred to as the "Property").

SECTION 1. REPRESENTATIONS AND WARRANTIES.  
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Grantor represents, covenants and warrants as follows (which representations, covenants and warranties are continuing, will, in all respects, survive foreclosure of this Deed of Trust and shall run with the Property):

1.01 Title, Possession, Power to Execute. Except as set forth on  
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Exhibit B attached hereto, Grantor is lawfully seized and possessed of a good and indefeasible title and estate in fee simple to the Property, and Grantor has full right and power to convey the Property, and covenants and agrees to execute and deliver or cause to be executed and delivered all further assurances of title necessary or by the Grantee deemed advisable to effectuate the lien of this Deed of Trust hereby given, and Grantor will forever warrant and defend the title to the Property and every part thereof unto Grantee against the claims and demands of all persons whomsoever.

1.02 Liens. Except for the exceptions set forth on Exhibit B attached  
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hereto and incorporated by this reference, the Property, and every part thereof, is free and clear of all liens, encumbrances and charges of every kind and character, including liens of general and special taxes and assessments, excepting taxes for the current year which are not yet due, and excepting the lien of this Deed of Trust;

1.03 Organization; Standing. Grantor is a corporation validly  
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organized and existing under the laws of the State of Delaware. Grantor has the power to own the Property, to carry on its affairs as currently conducted and perform all of the Obligations.

1.04 Power; Authority. The undersigned has full power and authority  
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on behalf of the Grantor to execute this Deed of Trust, and all other instruments evidencing the Obligations, and the execution and delivery thereof have been duly authorized and all acts and proceedings necessary or proper in the premises have been duly done, performed and taken.

1.05 Location of Improvements. All Improvements now or hereafter  
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located on the Premises are and will be located entirely within the boundaries of the Premises.

1.06 Compliance with Law, etc. The Property and the present and  
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proposed use thereof complies with all applicable zoning, building, environmental use, all federal, state and local laws and regulations, and all covenants, restrictions and easements of record. There is no action or proceeding pending before any court, quasi-judicial body or administrative agency which may affect the validity or enforceability of this Deed of Trust or the Obligations.

1.07 Information True and Correct. All financial data and  
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documentation delivered by or on behalf of Grantor to Grantee are true and correct in all material respects, and not misleading, and Grantor has not omitted or failed to provide anything the omission of which would cause any such data or documentation to be misleading.

1.08 Hazardous Waste. Except as otherwise set forth in the Phase I

Report (as hereinafter defined), the Property is free from all Hazardous Waste, as defined hereinafter. Except as otherwise set forth in the Phase I Report (as hereinafter defined), no condition exists in or on the Property that could give rise to any claim, charge or lien against the Property for the removal of such Hazardous Waste or damages attributable thereto or that is or may be a lien on the Property.

SECTION 2. COVENANTS.

Grantor hereby expressly covenants and agrees with Grantee that so long as any of the Obligations are outstanding and in effect and until this Deed of Trust shall be released by the Grantor, it will:

2.01 Payment of Principal and Interest. Duly pay the Obligations

punctually as and when the same shall become due and payable according to the true intent and purport thereof.

2.02 Transfer of Title; Liens. Without the prior written consent of

Grantee, and regardless of whether voluntary or involuntary, not transfer, convey, contract for deed or otherwise part with title to the Property, or create or permit or allow to exist or to be created any mortgage, deed of trust, pledge or other lien or encumbrance on any said Property, other than this Deed of Trust, and Grantor will not suffer or permit any mechanic's or materialmen's lien or any other lien of any nature whatsoever to attach to any of said Property or to remain outstanding against the same or any part thereof.

2.03 Risks to be Insured. At its sole cost and expense, maintain

insurance of the following character:

(a) Hazard Insurance. (i) Insurance on the Premises and

Improvements now existing or hereafter erected or placed on the Premises against loss by fire, and other hazards covered by the so-called "all-risk" form of policy in an amount equal to the full insurable value thereof (but in no event less than the unpaid Obligations secured hereby) without deduction for physical depreciation. While any of the Improvements are in the course of being constructed or rebuilt on the Premises, the Grantor shall provide the aforesaid hazard insurance in builder's risk completed value form, including coverage available on the so-called "all-risk" non-reporting form of policy for an amount equal to 100 % of the insurable replacement value of such building or other improvement.

(ii) If the Property includes or is to include steam boilers or other equipment for the generation or transmission of steam, insurance against loss or damage by explosion, rupture or bursting of steam boilers, pipes, turbines, engines and other pressure vessels and equipment, in an amount satisfactory to Grantee.

(iii) If the Property or any part thereof is located in a designated official flood-hazardous area, flood insurance insuring the Improvements now existing or hereafter erected on the Premises in an amount equal to or greater than the principal balance of the Obligations.

(iv) Comprehensive general liability insurance with such limits, coverages, risks insured and with waiver of subrogations clauses protecting against claims arising from any accident or occurrence in or upon the Property in an amount and in such form as shall be acceptable to Grantee.

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(b) Policy Provisions. All insurance policies and renewals thereof maintained by Grantor pursuant to this Section 2.,03 (collectively, the "Policies" and individually, "Policy") shall (i) be written by an insurance carrier satisfactory to Grantee, (ii) contain a standard non-contributory mortgagee clause in favor of and in form acceptable to Grantee, (iii) contain an agreement of the insurer in form satisfactory to Grantee that it will not cancel or modify the Policy except after thirty (30) days prior written notice to Grantee, (iv) provide breach of warranty protection to Grantee, and (v) be satisfactory to Grantee in all other respects.

(c) Delivery of Policy. Grantor will deliver to Grantee original Policies or certified copies of Policies in form satisfactory to Grantee evidencing the insurance which is required by this Section, and Grantor shall promptly furnish to Grantee copies of all renewal notices and all receipts of paid premiums received by it. At least thirty (30) days prior to the expiration date of a Policy, Grantor shall deliver to Grantee a renewal Policy in form satisfactory to Grantee. If the Grantor has a blanket Policy in force providing coverage for several properties of the Grantor, including the Property, Grantor will deliver to Grantee a certified copy of such blanket Policy; which original Policy (i) is written by a carrier or carriers acceptable to Grantee, (ii) insures against the risks set forth hereinabove, (iii) cannot be amended, modified or cancelled without thirty (30) days prior written notice to Grantee, and (iv) is in amounts satisfactory to Grantee.

(d) Assignment of Policy. If the Property or any part thereof is sold at a foreclosure sale or if Grantee shall acquire title to the Property or any part thereof, Grantee shall have all of the right, title and interest of Grantor in and to any Policies and the unearned premiums thereon and in and to the proceeds resulting from any damage to the Property prior to such sale or acquisition.

(e) Other Insurance. Grantor shall obtain such other insurance coverage (and in such form) as Grantee shall from time to time reasonably require, including, without limitation, earthquake, and/or hurricane insurance.

(f) Notice of Damage or Destruction; Adjusting Loss. If the Property or any part thereof shall be damaged or destroyed by fire or other casualty, Grantor will promptly give written notice thereof to the insurance carrier and Grantee, and will not adjust any damage or loss unless Grantee shall have joined in such adjustment, Grantee or Trustee, acting jointly or severally, may make proof of loss, adjust and compromise any claim under the Policies and appear in and prosecute any action arising from such Policies. In connection therewith, Grantor does hereby irrevocably authorize, empower and appoint Grantee and Trustee (acting jointly or severally) as attorney-in-fact for Grantor (which appointment is coupled with an interest) to do any and all of the foregoing in the name and on behalf of Grantor.

(g) Amounts of Insurance. Unless specified to the contrary herein, all insurance shall be in such amount or amounts acceptable to Grantee.

2.04 Indemnification. Protect, indemnify and save harmless Trustee  
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and Grantee from and against any liability, obligation, claim, damage, penalty, cause of action, cost and expense (including without limitation reasonable attorneys' fees and expenses), imposed upon, incurred by or asserted against Grantee or Trustee by reason of (a) ownership or use of the Property or any interest therein; (b) any accident, injury to or death of persons or loss of or damage to property occurring in, on or about the Property or any part thereof or on any adjoining sidewalks, curbs, adjacent parking areas, streets or ways; (c) any use, nonuse or condition in, on or about the Property or any part thereof or on any adjoining sidewalks, curbs, adjacent parking areas, streets or ways; (d) any failure on the



part of Grantor to perform or comply with any of the terms of this Deed of Trust; or (e) performance of any labor or services or the refurbishing of any materials or other property in respect of the Property or any part thereof, provided, however, and notwithstanding the foregoing, Grantor shall not be required to indemnify Grantee for any loss, cost or expense if said loss, cost or expenses arises from or relates to Grantor's or Trustee's gross negligence or willful misconduct. Any amounts payable to Grantee by reason of the application of this Section shall become immediately due and payable and shall bear interest at a per annum rate of interest equal to the highest rate of interest provided for after a default under the terms of the Obligations (the "Default Rate"). The obligations of Grantor under this Section shall survive any termination or satisfaction of this Deed of Trust.

#### 2.05 Hazardous Waste.

Grantor represents and warrants to Grantee that except as otherwise set forth in that certain Phase I Environmental Site Assessment Update dated as of June 12, 1998, prepared by ATC Associates, Inc., together with all attachments thereto (the "Phase I Report"):

(a) The Premises are free from any Hazardous Materials (as defined below) and that the Premises are not in material violation of any laws, regulations or orders concerning Hazardous Materials.

(b) The Premises are not listed or proposed for listing or, to our knowledge, threatened to be listed on the National Priorities List by the Environmental Protection Agency or on any registry or list maintained by any state or local agency, department or entity regarding Hazardous Materials, and that there have been no discussions between Grantor or its agents, employees or attorneys and state, federal or local officials concerning the possibility of such listings.

(c) Except as otherwise set forth in the Phase I Report, there has been no storage, disposal, discharge, deposit, injection, dumping, leaking, spilling, placing or escape of any Hazardous Materials on, in, under or from the Premises. Grantor agrees that it will not permit the illegal storage, disposal, discharge, deposit, injection, dumping, leaking, spilling, placing or escape of any Hazardous Material on, in or around the Premises now or at any future time so long as any portion of the Obligations remains unpaid or unsatisfied.

(d) Grantor shall materially comply with any and all laws, regulations or orders with respect to the discharge and removal of Hazardous Material, shall pay when due the cost of removal of any such Hazardous Material, and shall keep the Premises free of any lien imposed pursuant to such laws, regulations or orders. In the event Grantor fails to do so, after written notice to Grantor and opportunity to cure in compliance with Section 4.01, Grantee may either declare this Deed of Trust to be in default and/or cause the Premises to be freed from the Hazardous Materials. Grantor shall give to Grantee and its agents and its employees access to the Premises and hereby specifically grants to Grantee a license to remove the Hazardous Materials if Grantor shall so choose but Grantee shall not be obligated to do so. Except where caused the gross negligence or willful misconduct of Grantee, Grantor (jointly and severally if there is more than one party constituting Grantor) shall indemnify Grantee and hold it harmless from and against all loss, cost, damage and expense (including, without limitation, reasonable attorneys' fees and costs incurred in the investigation, defense and settlement of claims) that Grantee may incur as a result of or in connection with the assertion against Grantor or Trustee of any claim relating to the presence or removal of any Hazardous Material or contaminant referred to in this Section 2.05, or compliance with any federal, state or local regulations relating thereto.

(e) As used herein, the term "Hazardous Material" shall mean any asbestos, asbestos containing material (as defined in 29 C.F.R. 1910.1001 (b)), flammable substances, explosives, radioactive materials, PCB-laden oil, hazardous materials, pollutants, contaminants, toxic substances, pollution or related materials from time to time specified as such in, or regulated under any federal, state or local laws, ordinances, rules, regulations or policies governing use, spillage, leakage, dumping, storage, treatment, transportation, manufacturer, refinement, handling, production or disposal of any hazardous substance (as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601(14) as amended from time to time, and the regulations promulgated thereunder), or any hazardous waste (as defined in the Resource Conservation and Recovery Act of 1976 42 U.S.C. 6903(5), as amended from time to time, and the regulations promulgated thereunder), petroleum (including crude oil or any fraction thereof), and natural gas or synthetic gas, including mixtures thereof and whether liquified or not.

2.06 Condition of Property. Keep the Property, and every part thereof, in

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good repair and condition appropriate for property and buildings of like construction, materials and use, without any liability of Trustee or Grantee to any person for damage for failure to repair or for any other cause. Grantor agrees (a) upon damage or destruction of the Property or any part thereof by fire or other casualty, to restore promptly, repair, replace or rebuild the Property that is damaged or destroyed to the condition it was in immediately prior to such damage or destruction, whether or not any insurance proceeds are available or sufficient for such purposes; and (b) not to remove from the Premises any of the Improvements thereon unless the same is immediately replaced with items of at least equal value and utility, and this Deed of Trust shall become a valid first lien on such property.

2.07 Use of Property. Not to use or permit to be used the Property, or any

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part thereof, in any manner inconsistent with the rights of Trustee, or Grantee hereunder, or in violation of the provisions of any insurance policy or any rules or regulations of insurance underwriters, and in the use of said Property will comply with, or cause to be complied with, all valid laws, ordinances, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body, officer or department applicable to the Property or to the uses and purposes thereof, and will maintain and use the Property in full compliance therewith and in condition requisite thereunto.

2.08 Sums Due Grantor. In the event any part of the Property or any

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Improvements shall be destroyed or damaged by any party or from any cause whereby Grantor becomes entitled to indemnity therefor from any third person or persons, Grantor, for the considerations herein named, does hereby sell, assign and transfer to Trustee all of such sum or sums so due from any such third person or persons, and Trustee is hereby authorized to receive, collect and sue for the same, and Grantor hereby authorizes and directs that such sum or sums be paid to Trustee upon presentation of a duly certified copy hereof. Any and all sums received by Trustee hereunder, after deducting therefrom the reasonable charge or expenses paid or incurred in connection with the collection and disbursement of said moneys, may be used and applied at the option of Grantee either for the purpose of paying the cost of repair, restoration or replacement of the mortgaged property damaged or destroyed, or applied to the prepayment, or partial prepayment of the installments of the Obligations. Notwithstanding the provisions of this Section and provided that no Event of Default shall then exist, Grantor may retain the proceeds from any indemnified damage or destruction for purposes of repair or replacement in such manner as Grantor shall determine.

2.09 Taxes. If Grantor shall fail to pay, as the same comes due, any tax,

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assessment, lien or other charge against the Property, or any part thereof, or fails to keep and perform any of the covenants and conditions herein contained, Trustee or Grantee, shall be privileged, but shall not be

obligated, to pay such tax, assessment, lien, rent or other charge, or to redeem such Property from any sale or foreclosure for taxes or assessments or liens, and may effect and pay such insurance, pay any such obligations and make such other disbursements as are necessary or advisable in the opinion of Trustee, or Grantee, to cure any such default of Grantor hereunder, or to protect the lien or the rights of Trustee and Grantee hereunder; any and all such sums of money advanced for such purposes, or any of them, by Trustee, or Grantee, shall be deemed an additional principal sum secured by this Deed of Trust and shall be payable on demand with interest at the Default Rate from the time so advanced; provided, however, nothing herein contained shall be construed as requiring Trustee, or Grantee, to advance or expend money for any of the purposes aforesaid. Nothing contained herein shall prevent Grantor from contesting any tax, assessment, lien or other charge against the Property if Grantor in good faith believes that such tax, assessment, lien or other charge is inaccurate.

2.10 Year 2000 Review. The Borrower and its subsidiaries have reviewed the

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areas within their business and operations which could be adversely affected by, and have developed or are developing a program to address on a timely basis, the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower and its subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date on or after December 31, 1999), and have made related appropriate inquiry of material suppliers and vendors. Based on such review and program, the Borrower believes that the "Year 2000 Problem" will not have a material adverse effect on the Borrower. From time to time, at the request of the Bank, the Borrower and its subsidiaries shall provide to the Bank such updated information or documentation as is requested regarding the status of their efforts to address the Year 2000 problem.

SECTION 3. ASSIGNMENT OF LEASES, RENTS AND OTHER INCOME.  
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3.01 Assignment. Grantor irrevocably assigns to Grantee the rents, income,

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issues and profits of the Property for the purposes and upon the terms and conditions set forth below. This assignment shall not impose upon the Grantee any duty to produce rents from the Property or cause Grantee to be (a) "Mortgagee-in-Possession" for any purpose; (b) responsible for performing any of the obligations of the lessor under any lease; or (c) responsible for any waste committed with respect to the management, upkeep, repair or control of the Property. This is an absolute assignment, not an assignment for security only, and the Grantee's right to rents, issues and profits is not contingent upon, and may be exercised without, possession of the Property. No collection by Grantor or the Grantee of rents or other items pursuant to this Section 3 or otherwise shall cure or waive any default by Grantor.

3.02 License. The Grantee confers upon Grantor a license (the "License") to

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collect and retain the rents, income, issues and profits of the Property as they become due and payable, until the occurrence of an "Event of Default" as hereinafter defined. Upon an Event of Default, the License shall be automatically revoked and the Grantee may collect and retain the rents, issues, income and profits without notice and without taking possession of the Property. This right to collect rents, issues, income and profits shall not grant to the Grantee or the Trustee the right to possession, except as provided below. Neither such right nor termination of the License shall impose upon the Grantee or the Trustee the duty to produce rents, issues, income or profits or to maintain all or any part of the Property.

3.03 Advance Rents; Consent of Grantee. Grantor will not cancel any of the

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leases now or hereafter assigned to Grantee pursuant hereto, nor terminate or accept a surrender thereof or reduce the payment of rent thereunder or accept any prepayment of rent (except any amount which may be required to be prepaid for a period of not more than one month by the terms of any such lease)

without first obtaining the written consent of Grantee on each occasion, which consent shall not be unreasonably withheld or delayed. No such lease shall be allowed by Grantor to be merged into the fee simple estate of Grantor. Grantor will perform all of its obligations as lessor under all of the leases

3.04 Application of Rents. The Grantee, in its sole discretion, may apply

or require the application of any rents, issues, income or profits collected to the payment of any one or more of the Obligations in such order as the Grantee may elect.

SECTION 4. EVENTS OF DEFAULT.

4.01 Events Of Default. It is expressly provided and agreed by Grantor that

the occurrence of any one or more of the following events is hereby defined as (and each of which shall be) an "Event of Default":

(a) If default shall be made in the payment of any of the Obligations as and when the same shall become due and payable;

(b) If an "Event of Default" or default shall occur as defined or pursuant to any agreement evidencing or securing the Obligations including the Note shall occur and any applicable cure period has expired, or;

(c) With respect to Sections 1.01, 1.02, 1.03, 1.04, 1.05, 1.06, 1.07, 1.08, 2.02, and 2.05 (a)-(c), if any warranty of Grantor contained herein shall prove to be in any material respect incorrect or if there shall be any breach of any representation, covenant, agreement or terms hereof, or;

(d) If any other warranty of Grantor contained herein shall prove to be in any material respect incorrect or if there shall be any breach of any other representation, covenant, agreement or terms hereof and Grantee has not cured the same within thirty (30) days after receipt of written notice thereof, or if said cure cannot reasonably be completed within said thirty (30) day period then such additional time as is necessary provided Grantor diligently pursues such cure to completion.

SECTION 5. REMEDIES UPON DEFAULT.

Upon the happening of any Event of Default, Grantee may declare the entire unpaid balance of principal and the accrued interest on the Obligations, and all other sums secured by this Deed of Trust, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, to be forthwith due and payable, whereupon the same shall become immediately due and payable, and Grantee may enforce payment of all obligations owed to Grantee, and exercise any and all other rights and remedies granted to it and the Trustee under any agreements evidencing the Obligations and/or under any applicable law, including any one or more of the following:

5.01 Possession. Upon demand of Trustee or Grantee, Grantor shall forthwith

surrender to Trustee the actual possession of the Property and it shall be lawful (whether or not Grantor has so surrendered possession) for Trustee, either personally or by agents or attorneys, forthwith to enter into or upon the Property and to exclude Grantor, the agents and servants of Grantor, and all parties claiming by, through or under Grantor, wholly therefrom. Trustee shall be solely and exclusively entitled to possession of said Property and every part thereof, and to use,

operate, manage and control the same, either personally or by managers, agents, servants or attorneys, for the benefit of Grantee, to the fullest extent authorized by law; and upon every such entry, the Trustee may, from time to time, at the expense of the Property and every part thereof, make all necessary and proper repairs and replacements thereto and thereon, as the Trustee may deem judicious.

5.02 Rents and Income. In addition to all other rights provided for herein,  
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the Trustee or Grantee, without notice to Grantor, may make demand for and collect and receive all rents and income from the Property, including rents and income accrued but unpaid prior to the date of such default, and the receipt of Trustee or Grantee therefor shall be binding on Grantor with respect to the amount so paid. All sums of money received by Trustee or Grantee from rents and income, after deducting therefrom the reasonable charges and expenses paid or incurred in connection with the collection and disbursement thereof, shall be applied to the payment of the Obligations, or applied to remedy any default hereunder as Grantee may direct. Any lessee or sublessee of the Property, or any part thereof, shall be fully protected in relying and acting upon the written statement of Grantee to the effect that this Deed of Trust is in default and that Trustee or Grantee is entitled to receive the rents and income hereunder, notwithstanding any notice to or knowledge of said lessee or sublessee to the contrary. Such lessee or sublessee shall have no duty to determine that any sum paid to Trustee or Grantee hereunder is properly applied by Trustee or Grantee.

5.03 Sale of Property. (a) Trustee, at the request of Grantee, shall  
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proceed to sell, either by himself or by agent or attorney, the Property or any part thereof at public venue or outcry to the highest bidder for cash at such time and place and upon such terms as it shall deem expedient, or as may be required by applicable law after first giving notice as now required by applicable law. Upon such sale Trustee shall receive the proceeds of such sale or sales and shall execute and deliver deed or deeds or other instruments of conveyance, assignment and transfer to the Property sold, to the purchaser or purchasers thereof.

(b) Upon such sale or sales made by Trustee under the power herein granted, or upon any sale or sales under or by virtue of any judicial proceedings: (i) the whole of the Property, real, personal and mixed, may be sold in one parcel as an entirety, or the Property may be sold in separate parcels as may be determined by Trustee in his discretion; (ii) any deed or other instrument of conveyance, assignment or transfer made and delivered by Trustee in pursuance of the powers granted and conferred herein, and all recitals therein contained shall be prima facie evidence of the facts therein set forth; (iii) any such sale or sales shall operate to divest Grantor of all right, title, interest, claim and demand, either at law or in equity, under statute or otherwise, in and to the Property and every part thereof so sold and shall be a perpetual bar, both in law or equity, against Grantor and any and all persons claiming or to claim from, through or under Grantor; and (iv) at any such sale or sales Grantee may bid for and purchase the Property or any part thereof and may make payment therefor by credits against the Obligations.

5.04 Foreclosure. (a) Trustee may proceed by suit or suits at law or in  
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equity, as Trustee may be advised by counsel, to enforce the payment of the Obligations or to foreclose this Deed of Trust. In such event, Trustee shall be entitled to a reasonable fee for his services and the services of his attorneys and agents, and for all expenses, costs and outlays. Upon or at any time after the filing of any suit to foreclose the lien hereof, Trustee shall be entitled as a matter of right to the appointment of a receiver of the Property, either before or after sale, without notice and without regard to the solvency or insolvency of Grantor at the time of the application for such receiver, and without regard to the then value of the Property. Trustee, or Grantee, may be appointed as such receiver. Such receiver shall have full power to collect the rents, issues and profits from the Property and all

other powers necessary or incidental for the protection, possession, control, management and operation of the Property.

(b) Upon any foreclosure or sale of the Property, or any part thereof, the proceeds of such sale or sales shall be applied as follows: First, to the cost and expense of executing this trust, including reasonable compensation of Trustee and reasonable attorney's fees, outlays for documentary stamps, cost of procuring title certificates, continuing abstracts, title searches or examinations reasonably necessary or proper; Second, to the payment of any and all advances made by Trustee or Grantee, with interest thereon as hereinabove provided; Third, to the payment of the balance of the Obligations, with interest thereon as therein provided and in such order as Grantee shall elect; and Fourth, any surplus thereafter shall be paid to Grantor or to whomever shall be lawfully entitled thereto; provided that in the event the net proceeds of such sale or sales shall not be sufficient to pay in full the indebtedness hereby secured, Grantor hereby promises and agrees to pay any deficiency thereon on demand.

(c) Each time it shall become necessary to insert an advertisement of foreclosure, and sale is not had, Trustee shall be entitled to receive the sum of One Hundred Dollars (\$100.00) for services and the amount of all advertising charges from Grantor, all of which shall be further secured hereby.

5.05 Remedies Not Exclusive. No remedy herein conferred upon or reserved to

Trustee or Grantee is intended to be exclusive of any other remedy, but every remedy herein provided shall be cumulative, and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity, or by statute; and every power and remedy given by this Deed of Trust to Trustee or to Grantee may be exercised from time to time and as often as may be deemed expedient. No delay or omission by Trustee or by Grantee to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any default or an acquiescence therein. In case Trustee shall have proceeded to enforce any right under this Deed of Trust by foreclosure, entry or otherwise, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely, then, and in such and every such case, Grantor and Trustee shall severally and respectively be restored to their former positions and rights hereunder in respect of the Property, and all rights, remedies and powers of Trustee shall continue as though no such proceedings had been taken. The unenforceability or invalidity of any provision or provisions hereof shall not render any other provision or provisions herein contained unenforceable or invalid.

SECTION 6. GENERAL PROVISIONS.

6.01 R.S.Mo. 443.055. Grantor acknowledges and agrees that this Deed of

Trust is to be governed by Section 443.055 of the Revised Statutes of Missouri and the total principal amount of the obligations which may be secured hereby shall not be limited to the face amount specified on the first page hereof to the extent permitted under said Section 443.055. Notwithstanding anything to the contrary, Grantee shall have no obligation to make any advances which would not be secured hereby or enjoy the same priority granted other advances secured hereby pursuant to said Section 443.055.

6.02 Trustee. The Trustee may resign at any time by written instrument to

that effect delivered to Grantee. Grantee shall be entitled to remove, at any time or from time to time without cause, the Trustee. In case of the death, removal, resignation, refusal to act, or the inability to act of the Trustee, Grantee shall be entitled to select and appoint a successor trustee hereunder by an

instrument duly executed, acknowledged and recorded in the manner and form for conveyances of real estate as provided by applicable law, and any such successor trustee shall thereupon succeed as trustee hereunder and to all of the rights, powers, duties, obligations, and estate of Trustee as if specifically named herein, provided no defect or irregularity in the resignation or removal of Trustee or in the appointment of a successor trustee or in the execution and recording of such instrument shall affect the validity of said resignation, removal, or appointment or any act or thing done by such successor trustee pursuant thereto. It is agreed that Trustee and any successor trustee shall not be disqualified from acting as Trustee hereunder or from performing any of the duties of Trustee, or from exercising the rights, powers and remedies herein granted, by reason of the fact that Trustee is an officer, employee or stockholder of or attorney for the Grantee, or is interested, directly or indirectly, as the holder of the Obligations hereby secured, Grantor hereby expressly consenting to Trustee and any successor trustee acting as Trustee irrespective of the fact that Trustee might be otherwise disqualified for any of the foregoing reasons, and that any interest which Trustee or any successor shall have or may acquire in the obligation hereby secured, or the premises and property hereby conveyed, shall neither interfere with nor prevent his acting as Trustee or from purchasing the Property at said sale or sales, and all parties waive any objection to Trustee having or acquiring any such interest in the obligations or property aforesaid and continuing to act as Trustee. Trustee covenants faithfully to perform and fulfill the trust herein created, being liable, however, only for willful misconduct.

6.03 Liens. No lien provided for by the statutes of the State of Missouri,

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in force at any time while the lien hereof exists, in favor of any person who furnished labor or materials in the erection or repair of any Improvements now or hereafter on the Property, shall attach to the Property, except as subject and subordinate to the lien of this instrument, and any person dealing with said Property after the recording of this instrument is hereby charged with notice of and consent to this stipulation, and with a waiver of any lien except as subject and subordinate hereto.

6.04 Taxation. In the event of the passage, after the date of this Deed of

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Trust, of any law of the State of Missouri deducting from the value of land for the purpose of taxation any lien thereon or changing in any way the laws now in force for the taxation of mortgages or deeds of trust for state or local purposes or the manner of collection of such tax so as to make it obligatory upon the Trustee or Grantee to pay such tax, or if any such tax is imposed under any existing law then the whole of the principal sum secured hereby, together with accrued interest thereon shall, at the option of the Grantee, become due and payable, and the Grantee shall have the right to foreclose immediately this Deed of Trust, unless said Grantor shall pay such tax or charge in full forthwith upon demand. Grantor agrees to pay any such tax or charge; provided, however, that should the payment of such tax or charge result in usury, then only such portion of such tax or charge shall be paid by the Grantor as will not amount to an exaction of interest in excess of the highest rate permitted by law, and provided further that if only part of the tax or charge can lawfully be paid, then Grantee shall retain the right to declare the entire outstanding balance owed under the Obligations immediately due and payable.

6.05 Covenants to Run with the Land. Every covenant, agreement, condition,

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promise and undertaking herein, of said Grantor, shall run with the Premises, is a condition upon which the loan secured hereby was made, and is of the essence of this instrument, and any breach of any covenant, agreement, condition, promise or undertaking shall be deemed a material breach going to the substance hereof.

6.06 Gender and Number. Whenever used, the singular number shall include

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the plural, the plural the singular and the use of any gender shall include all genders. If there is more than one Grantor, all obligations of this Deed of Trust shall be joint and several.

6.07 Security Agreement. This instrument is intended to be a security

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agreement pursuant to the Uniform Commercial Code for any of the items specified above as part of the Property which, under applicable law, may be subject to a security interest pursuant to the Uniform Commercial Code, and Grantor hereby grants Grantee a security interest in said items. Grantor agrees that Grantee may file this Deed of Trust, or a reproduction or summary hereof, in the real estate records, personal property index, or other appropriate index, as a financing statement for any of the items specified above as part of the Property. Any reproduction of this Deed of Trust or of any other security agreement or financing statement shall be sufficient as a financing statement. In addition, Grantor agrees to execute and deliver to Grantee, upon Grantee's request, any financing statements, as well as extensions, renewals and amendments thereof, and reproductions of this Deed of Trust in such form as Grantee may require to perfect a security interest with respect to said items. Grantor shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all reasonable costs and expenses of any record searches for financing statements Grantee may reasonably require. Without the prior written consent of Grantee, Grantor shall not create or suffer to be created pursuant to the Uniform Commercial Code any other security interest in said items, including replacements and additions thereto. Upon the occurrence of an Event of Default, Grantee shall have the remedies of a secured party under the Uniform Commercial Code and, at Grantee's option, may also invoke the remedies as otherwise provided in this Deed of Trust. In exercising any of said remedies, Grantee may proceed against the items of real property and any items of personal property specified above as part of the Property separately or together and in any order whatsoever, without in any way affecting the availability of Grantee's remedies under the Uniform Commercial Code or of the remedies otherwise provided in this Deed of Trust.

6.08 Successors, Endorsees and Transferees. This Deed of Trust and all

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provisions hereof shall extend to and be binding upon Grantor, its successors and assigns and all parties claiming by, through or under Grantor. The term "Grantee," shall be deemed to mean and include the endorsee(s), transferee(s) of the holders at any time of any of the Obligations, and the successor or successors and assigns of said Grantee; and the covenants and agreements shall bind and inure to the benefit of the successors and assigns of Grantor and the endorsee(s), transferee(s), assignee(s) and successors of Grantee.

6.09 Severability. In the event any part, portion or provisions of this

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Deed of Trust shall for any reason be illegal, invalid or unenforceable, then such part, portion or provision thereof shall be held to apply only to the extent it is legal, valid and enforceable and such remaining portion thereof shall remain in full force and effect, the same as if such part, portion or provision thereof declared illegal, invalid or unenforceable had not been a part thereof.

6.10 Notice. All notices, demand or documents which are required or

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permitted to be given or served hereunder shall be in writing and shall be deemed given when hand delivered or sent by certified mail return receipt requested addressed to the Grantor, Trustee or Grantee, at the addresses specified in the first paragraph of this Deed of Trust. The date of mailing shall be the date of giving of such notice regardless of whether the notice is actually received. Such addresses may be changed from time to time by any party by serving notice as herein provided.

6.11 Possession of Property. Until an Event of Default shall occur, Grantor

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shall be entitled to remain in possession of the Property, and if Grantor shall well and truly pay or cause to be paid the Obligations with interest thereon, and the other obligations hereby secured as and when the same shall become due and payable under the terms thereof, then this Deed of Trust shall cease and



become null void and the Property hereinbefore conveyed shall be released without recourse or warranty at the cost of Grantor.

6.12 Condemnation. (a) Grantor hereby irrevocably assigns to Trustee any

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award or payment which may become payable by reason of any taking of the Property, or any part thereof, whether directly or indirectly, temporarily or permanently, in or by condemnation or other eminent domain proceedings (a "Taking"). Immediately upon receipt by Grantor of notice of the institution of any proceeding or negotiations for a Taking, Grantor shall give notice thereof to Trustee. Trustee may appear in any such proceedings and participate in any such negotiations and may be represented by counsel. Grantor, notwithstanding that Trustee may not be a party to any such proceeding, will promptly give to Grantee copies of all notices, pleadings, judgments, determinations and other papers received by Grantor therein. Notwithstanding anything herein to the contrary, the Trustee shall have the right, at any time, by an instrument in writing executed and delivered to Grantor, to direct the method of conducting all proceedings for a Taking; provided that such direction shall not be otherwise than in accordance with the provisions of law. Grantor will not enter into any agreement permitting or consenting to the taking of the Property, or any part thereof, or providing for the conveyance thereof in lieu of condemnation, with anyone authorized to acquire the same in condemnation or by eminent domain unless Grantee shall first have consented thereto in writing. All awards payable as a result of a Taking shall be paid to Trustee, who may, at his option, apply them, after first deducting Trustee's expenses incurred in the collection thereof, to the payment of the debt secured hereby, whether or not due and in such order of application as Trustee may determine, or to the repair, replacement, rebuilding or restoration of the Property in such manner as Trustee may determine.

(b) If the Taking involves a taking of any building or other Improvement now or hereafter located on the Premises, Grantor shall promptly proceed, with reasonable diligence, to demolish and remove any ruins and complete repair, replacement, rebuilding or restoration of the Property to its respective size, type, value and character immediately prior to the Taking, whether or not the condemnation awards are available or adequate to complete such repair, replacement, rebuilding or restoration; provided, however, that if Trustee shall apply the entire condemnation award to payment of the debt secured hereby, Grantor shall have the option, in lieu of completing such repair, replacement, rebuilding or restoration, to pay in full the Obligations according to the terms thereof and this Deed of Trust. Grantor shall promptly reimburse Trustee upon demand for all of Trustee's expenses (including reasonable attorney's fees) incurred in the collection of awards and their disbursement in accordance with this Section, and all such expenses, together with interest from the date of disbursement at the Default Rate, shall be additional amounts secured by this Deed of Trust. Grantor shall certify to Trustee and shall provide adequate evidence satisfactory to Trustee that the Property has been put in a state of repair and equivalent to or better than that existing prior to such Taking.

6.13 Failure to Perform. In the event Grantor shall fail to keep and

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perform any covenant, agreement, condition, promise or undertaking herein contained, then Grantee may, at its option, (a) pay any delinquent tax or other assessment, or purchase any tax title obtained or that shall be obtained thereon; (b) pay or compromise any and all suits or claims for liens or any other claims that may be made against the Property; (c) make repairs upon the Property; (d) pay any other expenses necessary to the management of the Property; or (e) pay insurance premiums on policies covering the Property; and Grantor further covenants and agrees to repay forthwith, on demand, all moneys paid for any such purpose and any other moneys advanced by Grantee to protect the lien of this Deed of Trust, with interest thereon from the date of the payment at the Default Rate, and all such moneys shall, if not otherwise repaid, become so much additional indebtedness secured by this Deed of Trust and be

included in any decree foreclosing this Deed of Trust and shall be paid out of the proceeds of sale of the Property. It shall not be obligatory upon Grantee to inquire into the validity of any such tax deed, or of sale or of forfeitures therefor, or claims of liens or claims affecting the Property before advancing money in that behalf, as herein authorized, but nothing herein contained shall be construed as requiring the Grantee to advance or expend any moneys for any purpose aforesaid nor shall any such payments or advancements be construed so as to in any way limit or impair the right of Grantee to avail itself of such default by taking such action at law or in equity as it may deem necessary or advisable to enforce the security hereby given it.

6.14 Fees and Expenses. Grantor agrees to pay all costs associated with

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closing, amending or modifying the transaction contemplated hereby, including but not limited to Grantee's legal fees, the cost of recording all instruments, the cost of preparing all surveys, inspections (including any environmental audit) and appraisals, and all title company charges and any mortgage taxes of any kind that are now or hereafter due in connection with recording this Deed of Trust. All fees, costs and expenses allowable pursuant to the provisions hereof shall be additional indebtedness secured hereby and shall be a charge upon said Property and shall constitute a lien thereon prior and paramount to the Obligations and debt secured hereby, and shall be provided for in any judgment or decree entered in any such proceedings. There shall be included in any decree foreclosing the lien of this Deed of Trust and be paid out of the proceeds of any sale made in pursuance of any such decree in the following order: (a) all costs of such suit or suits, advertising, sale and conveyance, reasonable attorneys' fees of attorneys for Grantee and Trustee, stenographers' fees, outlays for documentary evidence and costs of abstract and examination of title, title opinions and title guaranty policies; (b) all moneys advanced by Grantee for any purpose authorized herein, with interest on such advances at the Default Rate; (c) all the accrued interest remaining unpaid on the indebtedness hereby secured; (d) all amounts under the Obligations at such times remaining unpaid. The remaining proceeds of the sale, if any, shall then be paid to Grantor or to whomever shall be lawfully entitled. In case, after legal proceedings are instituted to foreclose the lien of this Deed of Trust, tender is made of the entire indebtedness due hereunder, Grantee and Trustee shall be entitled to reimbursement for expenses incurred in connection with such legal proceedings, including such expenditures as are enumerated above, and such expenses shall be so much additional indebtedness secured by this Deed of Trust, and no such suit or proceedings shall be dismissed or otherwise disposed of until such fees, expenses and charges shall have been paid in full.

6.15 Power of Attorney. Grantor grants to Trustee and Grantee an

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irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to Grantee or Trustee at law and in equity and pursuant to this Deed of Trust.

6.16 Further Acts. Grantor will, at the cost of Grantor, and without

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expense to Grantee or Trustee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, deeds of trust, mortgages, assignments, notices of assignments, transfers and assurances as Grantee shall, from time to time, require, for the better assuring, conveying, assigning, transferring, and confirming unto Grantee the Property and rights hereby mortgaged, given, granted, bargained, sold, conveyed, confirmed, pledged, assigned and hypothecated or intended now or hereafter so to be, or which Grantor may be or may hereafter become bound to convey or assign to Trustee or Grantee, or for carrying out the intention or facilitating the performance of the terms of this Deed of Trust or for filing, registering or recording this Deed of Trust and, on demand, will execute and deliver and hereby authorizes Grantee to execute in the name of Grantor or without the signature of Grantor to the extent Grantee may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments, to evidence more effectively the lien hereof upon the Property. Grantee agrees

that, upon the reasonable advance written request of Grantor pursuant to a Grantor's refinancing of outstanding debt with Foothill Capital Corporation, it shall execute an Intercreditor Agreement, which shall be mutually acceptable in form to the parties thereto and which shall contain such terms as are customary with respect to real estate and other assets.

6.17 Actions and Proceedings. Grantee or Trustee shall have the right to

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appear in and defend any action or proceeding brought with respect to the Property and to bring any action or proceeding, in the name and on behalf of Grantor, which Grantee or Trustee, in its or his sole discretion, decides should be brought to protect Grantee's interest in the Property. Grantee shall, at its option, be subrogated to the lien of any mortgage or other security instrument discharged in whole or in part by the debt secured hereby, or additional money advanced hereby, and any such subrogation rights shall constitute additional security for the payment of such debt.

6.18 Counterparts. This Deed of Trust may be executed in any number of

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counterparts, each of which shall be deemed an original, and said counterparts shall be deemed to constitute but one and the same instrument, which instrument may be sufficiently evidenced by any one counterpart.

6.19 Amendment. This Deed of Trust may not be modified, amended, changed,

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discharged or terminated orally, but only in writing signed by the person against whom the enforcement of the modification, amendment, change, discharge or termination is sought.

6.20 Filing of Deed of Trust. Grantor forthwith upon the execution and

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delivery of this Deed of Trust and thereafter, from time to time, will cause this Deed of Trust, any financing statements, and any security instrument creating a lien or security interest or evidencing the lien hereof upon the Property and each instrument of further assurance to be filed or refiled, registered or re-registered or recorded or re-recorded in such manner and in such places as may be required under any present or future law in order to publish notice of and protect fully the lien or security interest hereof upon, and the interest of Grantee in the Property.

6.21 Recovery of Sums Required To Be Paid. Grantee shall have the right

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from time to time to take action to recover any sum or sums which constitute a part of the debt secured hereby as the same become due, without regard to whether or not the balance of such debt shall be due, and without prejudice to the right of Grantee thereafter to bring an action of foreclosure, or any other action, for a default or defaults by Grantor existing at the time such earlier action was commenced.

6.22 Estoppel Certificates. Grantor, upon request of Grantee, shall

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certify, by a writing duly acknowledged to Grantee or to anyone else whom Grantee shall designate, the amount of principal and interest then owing on the Obligations, whether any offsets or defenses exist against the Obligations, the name and address of any lessees of the Property or any part thereof together with the terms of their respective leases, the rents payable thereunder and whether any default exists under said leases. Such certificates shall be executed by Grantor and any lessees, if requested by Grantee, and delivered to the Grantee with ten (10) days of such request.

6.23 Documentary Stamps. If at any time the United States of America, any

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State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Obligations or this Deed of Trust or any other Loan Document, or impose any other tax or charge on the same, Grantor will pay the same.

6.24 Uniform Commercial Code Financing Statement. This Deed of Trust

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constitutes a financing statement filed as a fixture filing under the Uniform Commercial Code in the real estate records of the county in which the Property is located with respect to any and all fixtures included within the term "Property" and with respect to any goods or other personal property that may now be or hereafter become such a fixture.

6.25 References; Headings for Convenience. Unless otherwise specified

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herein, all references herein to section numbers refer to section numbers of this Deed of Trust, and all references to Exhibit A refer respectively to the annexed Exhibit A which is incorporated herein by this reference. Headings contained herein are for the convenience of the parties hereto and are not to be considered in the construction or interpretation of this Deed of Trust.

6.26 Governing Law. This Deed of Trust shall be governed and construed

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according to the internal laws of the State of Missouri.

6.27 Waiver of Jury Trial. GRANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY

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(WHICH THE GRANTEE AND TRUSTEE ALSO WAIVE) IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE OBLIGATIONS, THE PROPERTY OR THE GRANTEE OR TRUSTEE'S CONDUCT IN RESPECT OF ANY OF THE FOREGOING.

IN WITNESS WHEREOF, the parties hereto have executed this Deed of Trust as of the day and year first above written.

Grantor:

ALLIED HEALTH PRODUCTS, INC.

By: /S/ Uma Nandan Aggarwal

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Uma Nandan Aggarwal  
Chief Executive Officer and President

Trustee:

By: /S/ Joseph F. Hipskind Jr.

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Joseph F. Hipskind Jr., as Trustee

Grantee:

LASALLE NATIONAL BANK

By: /S/ Andrew K. Dawson

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Andrew K. Dawson  
Vice President

STATE OF MISSOURI     )  
                          ) SS.  
                          )

On this 6th day of August, 1998, before me appeared Uma Nandan Aggarwal, to  
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me  
personally known, who, being by me duly sworn did say that he is the Chief  
Executive Officer and  
President of Allied Healthcare Products, Inc., a Delaware corporation, and  
acknowledged this  
instrument to be signed on behalf of said corporation as the free act and deed  
of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official  
seal at my office in the county and State aforesaid, the day and year first  
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above written.

/s/ Anne Taylor Proffer  
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Notary Public

My term expires 3-30-2002  
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(Seal)

STATE OF MISSOURI     )  
                          ) SS.  
                          )

On this 6th day of August, in the year 1998, before me, Anne Taylor Proffer  
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Notary Public in and for said state, personally appeared Joseph F. Hipskind,  
.Ir., known to me to be the person who executed the foregoing instrument, and  
acknowledged to me that he executed the same for the purposes therein stated.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official  
seal at my office in the county and State aforesaid, the day and year first  
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above written.

/s/ Anne Taylor Proffer  
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Notary Public

My term expires 3-30-2002  
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(Seal)

STATE OF MISSOURI     )  
                          ) SS.  
                          )

On this 6th day of August, 1998, before me appeared Andrew K. Dawson, to me personally known, who, being by me duly sworn did say that he is a Vice President of LaSalle National Bank and acknowledged this instrument to be signed on behalf of said Bank as the free act and deed of said Bank.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the County and State aforesaid, the day and year first above  
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written.

      /s/ Anne Taylor Proffer  
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      Notary Public

My term expires 3-30-2002  
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(Seal)

EXHIBIT A

Legal Description

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A tract of land being part of Blocks 1, 2, 5, 6 and 11 of Mount St. Louis in Blocks 4029 and 4033 of the City of St. Louis, Missouri, and including that part of Northrup Avenue, 50.00 feet wide, vacated per Ordinance No. 47198, League Avenue, 50.00 feet wide, vacated per Ordinance No. 47198 and Lilly Avenue, 50.00 feet wide, vacated per Ordinance No. 56033, No. 39950 and No. 54762 and all being more particularly described as follows;

Beginning at the intersection of the East line of Sublette Avenue, 50.00 feet wide, with the North line of Missouri Interstate Highway 1-44 as established by deed recorded in Book 8501 page 576 of the City of St. Louis Records; thence along said East line, North 00 degrees 00 minutes 00 seconds East a distance of 579.75 feet to the Southwest corner of a tract of land conveyed to Kaminski as recorded in Deed Book MI 061 page 179 of the City of St. Louis Records, said Southwest corner being distant South 196.40 feet from the South line of River Des Peres Drainage Works; thence along the South Line of said property, North 72 degrees 20 minutes 17 seconds East a distance of 3.15 feet; thence continuing along said South line, South 89 degrees 57 minutes 17 seconds East a distance of 237.47 feet to the Southeast corner of said property; thence along the East line of said property, North 00 degrees 00 minutes 00 seconds East a distance of 75.80 feet; thence continuing along said line, North 72 degrees 20 minutes 17 seconds East a distance of 43.87 feet to the centerline of League Avenue, as vacated per City of St. Louis Ordinance No. 47198; thence along said centerline, North 00 degrees 00 minutes 00 seconds East a distance of 165.56 feet to a point in the South line of said River Des Peres Drainage Works, 150.00 feet wide; thence along said South line, North 77 degrees 59 minutes 29 seconds East, a distance of 543.11 feet; thence South 00 degrees 06 minutes 17 seconds West a distance of 238.69 feet to a point in the North line of Northrup Avenue, 50.00 feet wide; thence along said North line, South 89 degrees 45 minutes 31 seconds West a distance of 114.52 feet to the centerline of Lilly Avenue, as vacated per City of St. Louis Ordinance No. 56033; thence along said centerline, South 00 degrees 05 minutes 40 seconds West a distance of 621.58 feet to a point in said North line of Missouri Interstate Highway 1-44; thence along said North line, South 82 degrees 42 minutes 31 seconds West a distance of 712.81 feet to the Point of Beginning, according to survey made by Massmann Surveying, Project No. 298242 dated July 29, 1998.

EXHIBIT "B"

All assessments and taxes for the year 1998 and all subsequent years for the City of St. Louis.

Relinquishment of direct access to Interstate Highway 1-44, according to instrument recorded in Book 8501 page 576.

Easements for utilities reserved by the City of St. Louis under the provisions of its Ordinance Number 56033, and Ordinance No. 47198.

Rights of the City of St. Louis to construct, reconstruct, replace and repair and maintain the existing sewers, sewer pipes, manholes and inlets, and appurtenances thereto, under provisions of Ordinance No. 47198, Section Two. Easement granted to Union Electric Company, according to instrument recorded in Book 8620 page 195.

Subject property lies within an area designated as blighted by the St. Louis City Ordinance No. 63234.

Encroachment of a wood fence, located on the Northwest part just East of Sublette, onto the adjoining property, encroachment of a fence, located in the Northwest corner into River Des Peres Drainage Works and encroachment of the concrete curb and concrete sign base over and onto Northrup Avenue as shown on Survey made by Massmann Surveying being project No. 298242 dated July 29, 1998.



INDEMNITY AGREEMENT

THIS INDEMNITY AGREEMENT (the "Agreement") is made as of the 7th day of August, 1998, by Allied Healthcare Products, Inc., (the "Borrower") for the benefit of LaSalle National Bank, ("Lender").

WITNESSETH:

WHEREAS, Borrower has requested and Lender has agreed to make a loan to Borrower in the amount of Five Million and No/00 Dollars (\$5,000,000) (the "Loan"), which Loan is evidenced by that certain Promissory Note in the original principal amount of Five Million and No/00 Dollars (\$5,000,000) of even date herewith, as from time to time renewed, modified, amended or extended (the "Note"), executed by Borrower and payable to the order or Lender;

WHEREAS, Borrower's obligations under the Note are secured in pan by a Deed of Trust, Assignment of Rents and Security Agreement as from time to time renewed, modified, amended or extended (the "Deed of Trust") from Borrower to Joseph F. Hipskind, Jr., Trustee, for the benefit of the Lender dated of even date with the Note, covering certain real property (including without limitation, the real property described in Exhibit A, attached hereto and incorporated herein) and personal property described therein (hereinafter collectively referred to as the "Property") (the foregoing documents and all other documents executed by Borrower in connection with or securing or evidencing the Loan are hereinafter collectively called the "Loan Documents"); and

WHEREAS, as a condition to making the Loan, Lender requires Borrower to provide certain indemnities;

WHEREAS, to induce Lender to make the Loan to Borrower, Borrower has agreed to provide this Agreement for Lender's benefit.

NOW, THEREFORE, for and in consideration of the Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lender, by its acceptance of delivery hereof, and Borrower hereby agree as follow:

1. Recitals. The foregoing recitals are incorporated into this Agreement by this reference.

2. Definitions. The following definitions shall apply for purposes of this Agreement:

(a) "Accessibility Laws" means any and all present and future applicable (i) federal, state and municipal laws, ordinances, rules and regulations and guidelines currently in existence or hereinafter enacted or rendered governing accessibility for the disabled or handicapped, including but not limited to The Architectural Barriers Act of 1968, The Rehabilitation Act of 1973, The Fair Housing Act of 1988 and The Americans With Disabilities Act of 1990, (ii) judicial or administrative interpretations thereof, including any judicial or administrative orders or judgments, and (iii) including but not limited to ordinances, codes, plans, injunctions, decrees, permits, demand letters, concessions, grants, franchises,

licenses, agreements, notices, or other governmental restrictions, relating to the protection of the disabled or handicapped.

(b) "Environmental Law" shall mean any federal, state or local statute, regulation or ordinance or any judicial or administrative decree or decision, whether now existing or hereinafter enacted, promulgated or issued, with respect to any Hazardous Materials, drinking water, groundwater, wetlands, landfills, open dumps, storage tanks, underground storage tanks, solid waste, waste water, storm water, run-off, waste emissions or wells. Without limiting the generality of the foregoing, the term shall encompass each of the following statutes, and regulations promulgated thereunder, and amendments and successors to such statutes and regulations, as may be enacted and promulgated from time to time: (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (codified in scattered sections of 26 U.S.C.; 33 U.S.C.; 42 U.S.C. and 9601 et seq.) ("CERCLA"); (ii) the Resource Conservation and Recovery Act of 1976 (42 U.S.C. 6901 et seq.); (iii) the Hazardous Materials Transportation Act (49 U.S.C. 1801 et seq.) (iv) the Toxic Substances Control Act (15 U.S.C. 2601 et seq.); (v) the Clean Water Act (33 U.S.C. 1251 et seq.; (vi) the Clean Air Act 42 U.S.C. 7401 et seq.); (vii) the Safe Drinking Water Act (21 U.S.C. 349; 42 U.S.C. 201 and 300f et seq.); (viii) the National Environmental Policy Act of 1969 (42 U.S.C. 4321); (ix) the Superfund Amendments and Reauthorization Act of 1986 (codified in scattered sections of 10 U.S.C., 29 U.S.C., 33 U.S.C. and 42 U.S.C.) ("SARA"); (x) Title III of the Superfund Amendments and Reauthorization Act (42 U.S.C. 11001 et seq.); (xi) the Missouri Hazardous Waste Management Law (Mo. Rev. Stat 260.350-260.434); (xii) Missouri Abandoned or Uncontrolled Sites Law (Mo. Rev. Stat. 260.435-260.546); (xiii) Missouri Air Conversation Law (Mo. Rev. Stat. Chapter 643); (xiv) Missouri Clean Water Law (Mo. Rev. Stat. Chapter 644); and (xv) Missouri Underground Storage Tank Regulation (Mo. Rev. Stat. 319.100-319.137).

(c) "Clean-Up" shall mean removal, containment, or remediation of any Environmental Activity which constitutes a violation of Environmental Laws in accordance with Environmental Laws and good commercial practices from the Property or surrounding areas.

(d) "Hazardous Materials" shall mean each and every element, compound, chemical mixture, contaminant, pollutant, material, waste or other substance which is defined, determined or identified as hazardous or toxic under any Environmental Law.

(f) "Environmental Activity" means any actual, proposed, or threatened storage, spilling, leaking, pouring, pumping, dumping, holding, existence, release, emission, discharge, generation, injection, discarding, burying, abandoning, processing, abatement, treatment, removal, disposition, handling, transportation or other management of any Hazardous Material or any other activity or occurrence that causes or would cause any such event to exist.

(g) "Indemnified Parties" shall mean Lender, Lender's successors and assigns, Lender's trustee under the Deed of Trust, if any, and Lender's parents, subsidiaries, and affiliates, each of their respective shareholders, directors, officers, employees and agents, and any financial institution that is the successor or assign of Lender and "Indemnified Party" shall mean any one of the Indemnified Parties.

(h) "Regulatory Actions" mean any claim, action, proceeding brought or instigated by any governmental authority in connection with any Environmental Law or any Accessibility Law.

3. Representations and Warranties. Except as otherwise set forth in that

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certain Phase 1 Environmental Site Assessment Update dated as of June 12, 1998, prepared by ATC Associates, Inc., together with all attachments thereto (the "Phase ] Report"), to the best of Borrower's knowledge, after due investigation and inquiry:

(a) The Property is not and has not been a site for the use, generation, manufacture, storage, treatment, Release, threatened Release, discharge, disposal, transportation, or presence of Hazardous Materials.

(b) The Property is in material compliance with all Environmental Laws and all Accessibility Laws.

(c) There are no Regulatory Actions or any claims by any person or entity due to any violation of any Environmental Laws or based on a violation of any Accessibility Laws pending or threatened against Borrower or the Property.

(d) There is no Environmental Activity in violation of any Environmental Law upon, under, or within the Property or any material violation of any Accessibility Law.

(e) Borrower has not received any notice, order, directive, complaint or other communication, written or oral, has been made or issued by any governmental agency or other person, entity or agency alleging the occurrence of any Environmental Activity with respect to the Property or the use thereof or of any violations of Accessibility Laws.

(f) Neither Borrower nor any other party has been or is involved in operations at or near the Property which operations could lead to (i) the imposition of liability on Borrower, or on any subsequent or former owner of the Property as a result of a violation of any Environmental Law or any Accessibility Law, or (ii) the creation of a lien on the Property under any Environmental Laws or any Accessibility Laws.

(g) Neither Borrower nor any other party has engaged in any activity that could impose liability under any Environmental Laws or Accessibility Laws on Borrower or on any other person.

(h) The use of the Property for its intended purpose will not result in any Environmental Activity in violation of any Environmental Laws or of any violations of any Accessibility Law.

4Covenants.  
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(a) Borrower shall substantially comply and in all respects with the requirements of all Environmental Laws relating to the Property or the use thereof and shall not engage in or otherwise permit the occurrence of any Environmental Activity that constitutes a violation of any Environmental Laws at, upon, under or within the Property.

(b) Borrower shall at all times maintain the Property in substantial compliance with the requirements of all Accessibility Laws.

(c) In the event of any Environmental Activity in violation of any applicable Environmental Laws relating to the Property, Borrower shall notify Lender within forty eight (48) hours of becoming aware of said violation.

(d) Borrower shall promptly forward to Lender copies of all orders, notices, permits, applications or other communications and reports in connection with any Environmental Activity or any other matters relating to any Environmental Laws or any Accessibility Laws as they may affect the Property.

(e) Borrower will notify Lender, in writing, within forty eight (48) hours of becoming aware of any existing, pending, or threatened (a) Regulatory Actions, (b) any claims by any person or entity due to any violation of any Environmental Laws or based on a violation of any Accessibility Laws, or (c) any Environmental Activity which constitutes a violation of Environmental Laws, or (d) of any event that would render any representation or warranty contained herein incorrect in any respect as if said representations and warranties were made at the time of such discovery.

(f) Borrower will Clean-Up any Environmental Activity which constitutes a violation of Environmental Laws (a) in accordance with a schedule required by such Environmental Laws or (b) in accordance with a schedule acceptable to any regulatory authority enforcing such Environmental Laws.

(g) If Lender has reasonable cause to believe that there has been any Environmental Activity in violation of any applicable Environmental Laws or any violation of any Accessibility Laws at, upon, under or within the Property, then promptly upon the written request of Lender, Borrower shall provide Lender, at Borrower's expense, an environmental site assessment or environmental audit or accessibility audit, as the case may be, in each case in form and substance reasonably acceptable to Lender.

In the event that any of the forgoing covenants are breached, Lender after first providing Borrower with notice of the alleged breach and allowing Borrower thirty (30) days in which to cure said alleged breach, may declare the Loan to be in default and pursue its remedies for default under the Note or any of the Loan Documents.

5. Indemnity Agreement. Subject to the provisions of paragraph 7 below,

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Borrower covenants and agrees at its sole cost and expense, to indemnify, defend (at all administrative, trial, and appellate levels) and hold each Indemnified Party harmless against and from any and all liens, damages, losses, liabilities, obligations, settlement payments, penalties, assessments, citations, directives, claims, litigation, demands, defenses, judgments, suits, proceedings (administrative or otherwise), costs, disbursements or expenses of any kind or of any nature whatsoever (including, without limitation, reasonable attorneys, consultants, and experts' fees and expenses and disbursements incurred in investigating, defending against, settling or prosecuting any claim, litigation or proceeding) which may at any time be imposed upon, incurred by or asserted or awarded against such Indemnified Party whether as beneficiary of the Deed of Trust, Mortgagee in possession, or as successor in interest to Borrower by foreclosure or deed in lieu of foreclosure on the Property, and arising directly or indirectly under or on account of the violation of any Environmental Law or any Accessibility Law including but not limited to:

(a) the occurrence of any Environmental Activity in violation of any Environmental Law affecting the Property, whether or not the same originates or emanates from the Property or any contiguous real estate, including without limitation, any loss of value of the Property as a result of any of the foregoing regardless of whether or not caused by or within the control of Borrower;

(b) a Clean-Up;

(c) the violation of any Environmental Laws in connection with other real property of Borrower which gives or may give rise to any rights whatsoever in any party with respect to the Property by virtue of any Environmental Laws;

(d) any Regulatory Actions related to the Property;

(e) any costs of modifications or alterations to the Property required by a regulatory authority so that it is in compliance with Accessibility Laws;

(f) any representation or warranty of Borrower set forth herein shall prove to be false at any time hereunder or any failure of Borrower to perform any covenant set forth herein or any other failure of Borrower to comply fully with the terms and conditions of this Agreement;

(g) the enforcement of this Agreement or the assertion by Borrower of any defense to its obligations hereunder (except the successful defense of actual performance not subject to further appeal).

Lender's and the other Indemnified Parties' rights under this Agreement shall be in addition to all rights of Lender under the Deed of Trust, the Notes, the Loan Documents, and under any other documents or instruments evidencing, securing or relating to the Loan, and payments by Borrower under this Agreement shall not reduce Borrower's obligations and liabilities under any of the Loan Documents.

Notwithstanding anything in this Agreement to the contrary, Borrower shall not indemnify any Indemnified Party for any liens, damages, losses, liabilities, obligations, settlement payments, penalties, assessments, citations, directives, claims, litigation, demands, defenses, judgments, suits, proceedings (administrative or otherwise), costs, disbursements or expenses of any kind or of any nature whatsoever (including, without limitation, reasonable attorneys,' consultants,' and experts' fees and expenses and disbursements incurred in investigating, defending against, settling or prosecuting any claim, litigation or proceeding) which may at any time be imposed upon, incurred by or asserted or awarded against such Indemnified Party whether as beneficiary of the Deed of Trust, Mortgagee in possession, or as successor in interest to Borrower by foreclosure or deed in lieu of foreclosure on the Property, and arising directly or indirectly under or on account of the gross negligence or willful misconduct of such Indemnified Party, its officers, directors, employees, agents, contractors or representatives.

Borrower's obligations under this Agreement as to Environmental Laws shall arise upon the discovery of the presence of any Hazardous Materials that constitutes a violation of any Environmental Laws at, upon, under or within the Property, whether or not the Environmental Protection Agency, any other federal agency or any state or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Materials.

This Indemnity shall apply to violations of the Accessibility Laws after the Transfer Date (hereinafter defined) due to conditions or events occurring or existing at the Property on or before the Transfer Date, even though such conditions or events which caused the violations of the Accessibility Laws did not constitute violations when the Property was owned by Borrower due to the fact that compliance with respect to such conditions or events was not "readily achievable" (as such term is defined in the Accessibility Laws) for the Borrower but is "readily achievable" for the Lender.

Subject to the provisions of Paragraph 7 below, in the event of any Environmental Activity affecting the Property, whether or not the same originates or emanates from the Property or any contiguous real estate, or if Borrower shall fail to comply with any of the requirements of any Environmental Laws or Accessibility Laws, Lender may at its election, but without the obligation to do so, give such notices or cause such work to be performed at the Property or take any and all other actions as Lender shall deem necessary or advisable in order to abate the discharge of any Hazardous Materials, remove the Hazardous Materials, or cure Borrower's noncompliance with any Environmental Laws or any Accessibility Laws; provided, however, that as long as (i) Borrower is in possession, custody and control of the Property, and (ii) no uncured default exists under any of the Loan Documents or under this Agreement, Lender shall not exercise its right to cause work to be performed at the Property if, within thirty (30) days after Borrower has received notice of any violation of the representations, warranties or covenants set forth herein, Borrower shall have commenced and thereafter shall diligently prosecute to completion the cure of any such violation in accordance with the terms of this Agreement.

6. Transfer Date. In the event that (i) Lender takes title to the Property,

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or any portion thereof, through a Foreclosure Transfer (as defined below), or (ii) Borrower transfers ownership of the Property pursuant to transfer approved by Lender in its sole discretion, and the transferee of the Property assumes all obligations of Borrower under the Loan Documents, including without limitation this Agreement, then from and after the date title vests in Lender or such transferee (the "Transfer Date") with respect to such Property, or such portion thereof, except as otherwise provided, this Agreement shall not apply to any losses incurred by Lender as a result of actions after the Transfer Date by Lender as owner and operator of such Property, or such portion thereof, or by a party other than Lender if, but only if, such actions are the cause of damage resulting from the introduction and release of a Hazardous Material at the Property or the violation of Environmental Laws or Accessibility after the Transfer Date by Lender or by such other party; provided, however, that, from and after the Transfer Date, this Agreement shall otherwise remain in full force and effect with respect to any and all other losses, including, without limitation, with respect to (i) any conditions in existence on or prior to the Transfer Date, (ii) the continuing migration or release of any Hazardous Materials introduced at the Property or surrounding property on or prior to the Transfer Date, and (iii) the existence of any conditions on or prior to the Transfer Date which become a violation of any Environmental Laws or any Accessibility Laws after the Transfer Date as a result of a change in the law that becomes effective after that date. The burden of proof under this paragraph with regard to establishing the date upon which a Hazardous Material was placed or appeared in, on or under the Property shall be upon the Borrower. For purposes hereof, "Foreclosure Transfer" means the transfer of title to all or any part of the Property at a foreclosure sale under the Deed of Trust, either pursuant to judicial decree of power of sale contained in the Deed of Trust, or by a deed in lieu of such foreclosure. Liability under this Indemnity shall extend beyond repayment of the Note and Borrower's other obligations to Lender unless at such time Borrower provides Lender an environmental assessment report acceptable to Lender showing the Property to be free of Hazardous Materials and in compliance with all Environmental Laws and an accessibility assessment report acceptable to the Lender showing the Property to be in compliance with all Accessibility Laws, in which case Borrower shall be released from the provisions hereof. For the purposes of this paragraph, "free" shall mean to a level that is acceptable to the Missouri Department of Natural Resources and any other applicable federal, state or local authority in accordance with Environmental Laws and good commercial practices.

7. Permitted Contests. Notwithstanding any provision of this Agreement to

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the contrary, so long as Borrower is in possession, custody and control of the Property, Borrower will be permitted to contest, at its sole cost and expense, subject to compliance with the requirements of this paragraph, by appropriate

action any investigation or monitoring of site conditions or any Clean-Up, containment, restoration, removal, modification, alteration, or other remedial work (collectively the "Remedial Work") required under any applicable Environmental Law or any Accessibility Law, and Lender shall not perform any such Remedial Work on Borrower's behalf, so long as (i) no uncured default exists under this Agreement, the Deed of Trust, or any other Loan Document and (ii) Borrower has given Lender written notice that Borrower is contesting the same and Borrower actually contests the application, interpretation or validity of such Environmental Law or any Accessibility Laws pertaining to the Remedial Work by appropriate proceedings conducted in good faith with due diligence; provided, such contest shall not subject Lender or any assignee of its interest (including any person having a beneficial interest) in the Loan Documents to civil or other liability and shall not jeopardize any such party's lien upon or interest in the Property or affect in any way the payment of any sums to be paid under the terms of the Loan Documents. Borrower shall give such security or assurances as may be reasonably required by Lender to insure compliance with the Environmental Laws or any Accessibility Laws pertaining to the Remedial Work (and payment of all costs, expenses, interest and penalties in connection therewith) and to prevent any sale, forfeiture or loss by reason of such nonpayment or noncompliance.

8. Action. Borrower shall have the right to control any action for which

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indemnity is required through counsel of its choice, subject to Lender's consent, which consent shall not be unreasonably withheld or delayed, provided, however, at Lender's option, Lender may participate in such action and appoint its own counsel. If Borrower fails to notify Lender in writing of its intent to control such action within thirty (30) days (or 5 days less than such lesser time as may be required to respond to such claims) of notice of such claims, Lender shall have the right to undertake the control, conduct or settlement of such claims through its own counsel at Borrower's expense and may settle such matter without Borrower's consent at Borrower's sole expense. In the event any proposed settlement includes non-monetary relief, including Clean-Up or compliance with Accessibility Laws, Lender may agree to such Clean-Up or compliance and settle such matter only with the consent of Borrower, which consent shall not be unreasonably withheld or delayed, and provided that if Borrower fails to notify Lender as to whether it shall consent to such non-monetary relief within ten (10) days from Lender's request approval, Borrower shall be deemed to have consented to such non-monetary relief.

9. No Waiver. The liabilities of the Borrower under this Agreement shall in

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no way be limited or impaired by (i) any amendment or modification of the Loan Documents; (ii) any extensions of time for performance required by any of the Loan Documents; (iii) any sale, assignment or foreclosure pursuant to the Loan Documents or any sale or transfer of all or any part of the Property (except as set forth in paragraph 6 hereof); (iv) any exculpatory provision in any of the Loan Documents limiting Lender's recourse to the Property or to any other security, or limiting Lender's rights to a deficiency judgment against Borrower; (v) the accuracy or inaccuracy of the representations and warranties made by Borrower under the Loan Documents; (vi) the release of Borrower or any other person from performance or observance of any of the agreements, covenants, terms, or conditions contained in any of the Loan Documents by operation of law, Lender's voluntary act, or otherwise; (vii) the release or substitution in whole or in part, of any security for the note or other evidence of debt issued pursuant to the Loan Documents; or (viii) Lender's failure to record any of the Loan Documents (or improper recording or filing of any thereof) or to otherwise perfect, protect, secure or insure any security interest or lien given as security for the Note or other evidence of indebtedness under the Loan Documents; and in any of such cases, whether with or without notice to Borrower and with or without consideration.

10. Reliance. Borrower acknowledges that Lender has agreed to enter into

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the Loan and accept

the Deed of Trust in reliance upon the representations, warranties and covenants in this Agreement. For this reason, it is the intention of Borrower and Lender that the provisions of this Agreement shall supersede any provisions in any of the Loan Documents, including, without limitation, the Deed of Trust, which in any way limit the personal liability of Borrower and that Borrower shall be personally liable for any obligations arising under this Agreement even if the amount of liability exceeds Borrower's obligations under the Loan Documents. All of the representations, warranties, covenants and indemnities of this Agreement shall survive the repayment and satisfaction of the Loan except as set forth in paragraph 6 hereof.

11. Assignment. It is agreed and intended by Borrower and Lender that the  
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indemnity set forth herein may be assigned or otherwise transferred by Lender to any financial institution that is the successor or assign of Lender or any holder of the Note, without notice to Borrower and without any further consent of Borrower. To the extent consent of any such assignment or transfer is required by law, advance consent to any such assignment or transfer is hereby given by Borrower in order to maximize the extent and effect of the indemnity given hereby.

12. Costs and Expenses. Borrower shall pay to Lender all costs and expenses  
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(including the reasonable fees and disbursements of Lender's legal counsel and the reasonable charges of Lender's internal legal counsel) incurred by Lender in connection with the enforcement of the terms of this Agreement.

13. License. Borrower hereby grants, and will cause any tenants of the  
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Property to grant, to Lender and its agents, employees, attorneys, consultants, contractors, successors and assigns, an irrevocable license and authorization, upon reasonable notice, to enter upon and inspect the Property and facilities thereon, and perform such tests, including without limitation subsurface testing, soils and groundwater testing, and any other tests thereon as Lender in its sole discretion determines are necessary to protect its security interest; provided, however, that under no circumstances shall Lender be obligated to perform such inspections or tests.

14. Security. This Agreement and the obligations of Borrower under this  
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Agreement are secured by the Deed of Trust and each of the other Loan Documents.

15. Waiver by Borrower. Borrower waives any right or claim of right to  
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cause a marshalling of Borrower's assets or to cause Lender to proceed against any of the security for the Loan before proceeding under this Agreement against Borrower; Borrower agrees that any payments required to be made hereunder shall become due on demand.

16. Severability. If any clause or provision herein contained operates or  
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would prospectively operate to invalidate this Agreement in whole or in part, then such clause or provision shall be held for naught as though not contained herein, and the remainder of this Agreement shall remain operative and in full force and effect.

17. Delay. No delay on Lender's part in exercising any right, power or  
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privilege under any of the Loan Documents shall operate as a waiver of any privilege, power or right hereunder.



18. Multiple Parties and Joint and Several Liability. Where two or more

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persons or entities have executed this Agreement, unless the context clearly indicates otherwise, all references herein to "Borrower" shall mean the indemnitors hereunder or any of them. All obligations and liabilities of said indemnitors shall be joint and several.

19. Counterparts. This Agreement may be executed in one or more

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counterparts, each of which shall be deemed an original. Said counterparts shall  
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constitute but one and the same instrument and shall be binding upon each of the undersigned individually as fully and completely as if all had signed but one instrument so that the joint and several liability of each of the undersigned hereunder shall be unaffected by the failure of any of the undersigned to execute any or all of the said counterparts.

20. Notices. Each notice, demand, election or request provided for or

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permitted to be given pursuant to this Agreement (hereinafter in this paragraph referred to as "Notice") must be in writing and shall be deemed to have been sufficiently given or served by personal delivery or by sending same by overnight courier or by depositing same in the United States Mail, postpaid and registered or certified, return receipt requested, and addressed as follows:

If to Lender:

LaSalle National Bank  
One Metropolitan Square  
211 N. Broadway, Suite 2140  
St. Louis, Missouri 63102  
Attn: Andrew K. Dawson

If to Borrower:

Allied Healthcare Products, Inc.  
1720 Sublette Avenue  
St. Louis, Missouri 63110  
Attn: Uma Nandan Aggarwal

Each Notice shall be effective upon being personally delivered or upon being sent by overnight courier or upon being deposited in the United States Mail as aforesaid. The time period in which a response to such Notice must be given or any action taken with respect thereto (if any), however, shall commence to run from the date of receipt if personally delivered or sent by overnight courier or, if so deposited in the United States Mail, the earlier of (i) three (3) business days following such deposit or (ii) the date of receipt as disclosed on the return receipt. Rejection or other refusal to accept or the inability to deliver because of changed address for which no Notice was given shall be deemed to be receipt of the Notice sent. By giving at least thirty (30) days prior Notice thereof, Lender or Borrower shall have the right from time to time and at any time during the term of this Agreement to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

21. Amendments. No provision of this Agreement may be changed, waived,

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discharged or terminated orally, by telephone or by any other means except by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge, or termination is sought.

22. Binding Effect. Except as herein provided, this Agreement shall be

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binding upon Borrower and its heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender, the other Indemnified Parties, and their respective successors and assigns. Notwithstanding the foregoing, Borrower, without the prior written consent of Lender in each instance, may not assign, transfer or set over to another, in whole or in part, all or any part of its benefits, rights, duties, and obligations hereunder, including, but not limited to, performance of and compliance with conditions hereof.

23. Governing Law. This Agreement and the rights and obligations of the

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parties hereunder shall in all respects be governed by, and interpreted and determined in accordance with, the laws of the State of Missouri (excluding the laws applicable to conflicts or choice of law).

24. Non-Exclusive. Lender's rights and remedies against Borrower hereunder

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shall be in addition to and no in lieu of all other rights and remedies of Lender at law or in equity.

IN WITNESS WHEREOF, Borrower has caused this Agreement to be executed under seal as of the day and year first written above.

ALLIED HEALTH PRODUCTS, INC.

By: /S/ Uma Nandan Aggarwal

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Uma Nandan Aggarwal  
Chief Executive Officer and President

EXHIBIT A

Legal Description  
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A tract of land being part of Blocks 1, 2, 5, 6 and 11 of Mount St. Louis in Blocks 4029 and 4033 of the City of St. Louis, Missouri, and including that part of Northrup Avenue, 50.00 feet wide, vacated per Ordinance No. 47198, League Avenue, 50.00 feet wide, vacated per Ordinance No. 47198 and Lilly Avenue, 50.00 feet wide, vacated per Ordinance No. 56033, No. 39950 and No. 54762 and all being more particularly described as follows:

Beginning at the intersection of the East line of Sublette Avenue, 50.00 feet wide, with the North line of Missouri Interstate Highway 1-44 as established by deed recorded in Book 8501 page 576 of the City of St. Louis Records; thence along said East line, North 00 degrees 00 minutes 00 seconds East a distance of 579.75 feet to the Southwest comer of a tract of land conveyed to Kaminski as recorded in Deed Book M1061 page 179 of the City of St. Louis Records, said Southwest comer being distant South 196.40 feet from the South line of River Des Peres Drainage Works; thence along the South Line of said property, North 72 degrees 20 minutes 17 seconds East a distance of 13.15 feet; thence continuing along said South line, South 89 degrees 57 minutes 17 seconds East a distance of 237.47 feet to the Southeast comer of said property; thence along the East line of said property, North 00 degrees 00 minutes 00 seconds East a distance of 75.80 feet; thence continuing along said line, North 72 degrees 20 minutes 17 seconds East a distance of 43.87 feet to the centerline of League Avenue, as vacated per City of St. Louis Ordinance No. 47198; thence along said centerline, North 00 degrees 00 minutes 00 seconds East a distance of 165.56 feet to a point in the South line of said River Des Peres Drainage Works, 150.00 feet wide; thence along said South line, North 77 degrees 59 minutes 29 seconds East, a distance of 543.11 feet; thence South 00 degrees 06 minutes 17 seconds West a distance of 238.69 feet to a point in the North line of Northrup Avenue, 50.00 feet wide; thence along said North line, South 89 degrees 45 minutes 31 seconds West a distance of 114.52 feet to the centerline of Lilly Avenue, as vacated per City of St. Louis Ordinance No. 56033; thence along said centerline, South 00 degrees 05 minutes 40 seconds West a distance of 621.58 feet to a point in said North line of Missouri Interstate Highway 1-44; thence along said North line, South 82 degrees 42 minutes 31 seconds West a distance of 712.81 feet to the Point of Beginning, according to survey made by Massmann Surveying, Project No. 298242 dated July 29, 1998.



AMENDED AND RESTATED  
LOAN AND SECURITY AGREEMENT

among

ALLIED HEALTHCARE PRODUCTS, INC.,  
B&F MEDICAL PRODUCTS, INC.,  
HOSPITAL SYSTEMS, INC.,

and

LIFE SUPPORT PRODUCTS, INC.,  
as Borrowers, on the one hand,

and

FOOTHILL CAPITAL CORPORATION,  
on the other hand

Dated as of September 10, 1998

TABLE OF CONTENTS

	Page(s)	
	-----	
1.	DEFINITIONS AND CONSTRUCTION	1
1.1	Definitions	1
1.2	Accounting Terms	17
1.3	Code	17
1.4	Construction	17
1.5	Schedules and Exhibits	17
2.	LOAN AND TERMS OF PAYMENT	18
2.1	Revolving Advances	18
2.2	Letters of Credit	18
2.3	[Intentionally Omitted]	21
2.4	[Intentionally Omitted]	21
2.5	Overadvances	21
2.6	Interest and Letter of Credit Fees: Rates, Payments, and Calculations	21
2.7	Collection of Accounts	22
2.8	Crediting Payments; Application of Collections	23
2.9	Designated Account	23
2.10	Maintenance of Loan Account; Statements of Obligations	24
2.11	Fees	24
2.12	Eurodollar Rate Loans	25
2.13	Illegality	26
2.14	Requirements of Law	27
2.15	Indemnity	28
3.	CONDITIONS; TERM OF AGREEMENT	29
3.1	Conditions Precedent to the Initial Advance	29
3.2	Conditions Precedent to all Advances and all Letters of Credit	29
3.3	Condition Subsequent	30
3.4	Term	30
3.5	Effect of Termination	30
3.6	Early Termination by Borrowers	30
3.7	Termination Upon Event of Default	31
4.	CREATION OF SECURITY INTEREST	31
4.1	Grant of Security Interest	31
4.2	Negotiable Collateral	31
4.3	Collection of Accounts, General Intangibles, and Negotiable Collateral	31
4.4	Delivery of Additional Documentation Required	31
4.5	Power of Attorney	32

4.6	Right to Inspect	32
5.	REPRESENTATIONS AND WARRANTIES	32
5.1	No Encumbrances	33
5.2	Eligible Accounts	33
5.3	Eligible Inventory	33
5.4	Equipment	33
5.5	Location of Inventory and Equipment	33
5.6	Inventory Records	33
5.7	Location of Chief Executive Office; FEIN	33
5.8	Due Organization and Qualification; Subsidiaries	34
5.9	Due Authorization; No Conflict	34
5.10	Litigation	35
5.11	No Material Adverse Change	35
5.12	Solvency	35
5.13	Employee Benefits	35
5.14	Environmental Condition	36
6.	AFFIRMATIVE COVENANTS	36
6.1	Accounting System	36
6.2	Collateral Reporting	36
6.3	Financial Statements, Reports, Certificates	37
6.4	Tax Returns	38
6.5	[Intentionally Omitted]	38
6.6	Returns	38
6.7	Title to Equipment	38
6.8	Maintenance of Equipment	39
6.9	Taxes	39
6.10	Insurance	39
6.11	No Setoffs or Counterclaims	41
6.12	Location of Inventory and Equipment	41
6.13	Compliance with Laws	41
6.14	Employee Benefits	41
6.15	Leases	42
7.	NEGATIVE COVENANTS	42
7.1	Indebtedness	42
7.2	Liens	43
7.3	Restrictions on Fundamental Changes	43
7.4	Disposal of Assets	43
7.5	Change Name	43
7.6	Guarantee	43
7.7	Nature of Business	43
7.8	Prepayments and Amendments	44
7.9	Change of Control.	44

7.10	Consignments	44
7.11	Distributions	44
7.12	Accounting Methods	44
7.13	Investments	44
7.14	Transactions with Affiliates	44
7.15	Suspension	45
7.16	[Intentionally	45
7.17	Use of Proceeds	45
7.18	Change in Location of Chief Executive Office; Inventory and Equipment with Bailees	45
7.19	No Prohibited Transactions Under ERISA	45
7.20	Financial Covenants	46
7.21	Capital Expenditures	46
8.	EVENTS OF DEFAULT	46
9.	FOOTHILL'S RIGHTS AND REMEDIES	48
9.1	Rights and Remedies	48
9.2	Remedies Cumulative	50
10.	TAXES AND EXPENSES	50
11.	WAIVERS; INDEMNIFICATION	51
11.1	Demand; Protest; etc	51
11.2	Foothill's Liability for Collateral	51
11.3	Indemnification	51
11.4	Joint Borrowers	52
12.	NOTICES	57
13.	CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER	58
14.	DESTRUCTION OF BORROWERS' DOCUMENTS	59
15.	GENERAL PROVISIONS	59
15.1	Effectiveness	59
15.2	Successors and Assigns	59
15.3	Section Headings	60
15.4	Interpretation	60
15.5	Severability of Provisions	60
15.6	Amendments in Writing	60
15.7	Counterparts; Telefacsimile Execution	60
15.8	Revival and Reinstatement of Obligations	60
15.9	Integration	61

SCHEDULES AND EXHIBITS,  
-----

Schedule	E-1	Eligible Inventory Locations
Schedule	P-1	Permitted Liens
Schedule	R-1	Real Property Collateral
Schedule	5.10	Litigation
Schedule	5.13	ERISA Benefit Plans
Schedule	6.12	Location of Inventory and Equipment
Exhibit	C-1	Form of Compliance Certificate



AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Agreement"), is entered into as of September 10, 1998, among FOOTHILL CAPITAL CORPORATION, a California corporation ("Foothill"), with a place of business located at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333, on the one hand, and ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation ("Parent"), B&F MEDICAL PRODUCTS, INC., a Delaware corporation CB&F), HOSPITAL SYSTEMS, INC., a California corporation ("Hospital Systems"), and LIFE SUPPORT PRODUCTS, INC., a California corporation ("Life Support"), each with its chief executive office located at 1720 Sublette Avenue, St. Louis, Missouri 63110, on the other hand.

A. WHEREAS, Foothill, on the one hand, and Parent, B&F, Hospital Systems, and Life Support (together with certain other affiliates of Parent) entered into that certain Loan and Security Agreement, dated as of August 7, 1997 (as amended by Amendment Number One thereto dated as of March 3, 1998 and Amendment Number Two dated as of July 24, 1998, the "Original Loan Agreement").

B. WHEREAS, Parent, B&F, Hospital Systems and Life Support have requested and Foothill has agreed, that the Original Loan Agreement be amended and restated as provided herein.

C. NOW, THEREFORE, each of the parties hereto agrees that the Original Loan Agreement is hereby amended and restated as follows:

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Account Debtor" means any Person who is or who may become obligated under, with respect to, or on account of, an Account.

"Accounts" means all currently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to a Person arising out of the sale or lease of goods or the rendition of services by such Person, irrespective of whether earned by performance, and any and all credit insurance, guaranties, or security therefor.

"Adjusted Eurodollar Rate" means, with respect to each Interest Period for any Eurodollar Rate Loan, the rate per annum (rounded upwards, if necessary, to the next whole multiple of 1/16 of 1% per annum) determined by dividing (a) the Eurodollar

Rate for such Interest Period by (b) a percentage equal to (i) 100% minus (ii) the Reserve Percentage. The Adjusted Eurodollar Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

"Advances" has the meaning set forth in Section 2.1(a).

"Affiliate" means, as applied to any Person, any other Person who directly

or indirectly controls, is controlled by, is under common control with or is a director or officer of such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to vote 5% or more of the securities having ordinary voting power for the election of directors or the direct or indirect power to direct the management and policies of a Person.

"Agreement" has the meaning set forth in the preamble hereto.

"Applicable Margin." means: (a) with respect to Eurodollar Rate Loans,

2.50%, and (b) with respect to all other Obligations (other than outstanding L/Cs), 0.25%, in each case subject to adjustment as provided herein. In the event that (i) Parent's audited financial statements delivered pursuant to Section 6.3 (b) for its fiscal year ending in 1999 or for its fiscal year ending

in 2000 indicate that Parent's consolidated net profit (as defined by GAAP) after taxes for such fiscal year of Parent is at least \$1.00, and (ii) no Default or Event of Default is then existing, then the then existing Applicable Margin shall be reduced by 0.25% on Foothill's receipt of such statements evidencing such profit (such date of receipt in either such year the "Adjustment Date"), but effective retroactively to the August 15 immediately preceding such Adjustment Date. An appropriate credit shall be given promptly (but no sooner than the first day of the month following the Adjustment Date) to Borrower in the event of, and to give effect to, any such retroactive adjustments to the Applicable Margin. The maximum aggregate reduction of the Applicable Margin (if Borrower has consolidated net profits in each such fiscal year) would be 0.50%, resulting in an adjusted Applicable Margin of 2.00% for Eurodollar Rate Loans and -0.25% for all other Obligations (other than outstanding L/Cs) effective as of August 15, 2000. Notwithstanding anything to the contrary in this definition: (y) any adjustment to the Applicable Margin with respect to Eurodollar Rate Loans will only affect Eurodollar Rate Loans with Interest Periods commencing after the relevant Adjustment Date; and (z) at any time during the term of this Agreement that an Event of Default exists, interest will be calculated on the basis of Section 2.6 (c).

"Authorized Person" means any officer or other employee of

Borrower.

"Average Unused Portion of Maximum Revolving Amount" means, as of any date

of determination, (a) \$15,000,000, less (b) the sum of (i) the average Daily

Balance of Advances that were outstanding during the immediately preceding month, plus (ii) the average Daily Balance of the undrawn Letters of Credit that

were outstanding during the immediately preceding month.

"B&F" has the meaning set forth in the preamble to this Agreement.  
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"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. 101 et seq.), as amended, and any successor statute.

"Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which any Borrower, any Subsidiary of any Borrower, or any ERISA Affiliate has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"Borrower" means any one of Parent, B&F, Hospital Systems, or Life  
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Support.

"Borrowers' Books" means all of Borrowers' books and records including:  
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ledgers; records indicating, summarizing, or evidencing Borrowers' properties or assets (including the Collateral) or liabilities; all information relating to Borrowers' business operations or financial condition; and all computer programs, disk or tape files, printouts, runs, or other computer prepared information.

"Borrowing Base" has the meaning set forth in Section 2. 1(a).  
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"Business Day" means any day that is not a Saturday, Sunday, or other day on which national banks are authorized or required to close.

"Change of Control" shall be deemed to have occurred at such time as a  
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"person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 20% of the total voting power of all classes of stock then outstanding of any Borrower entitled to vote in the election of directors.

"Closing Date" means the date of the making of the initial Advance  
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hereunder.  
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"Code" means the California Uniform Commercial Code.  
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"Collateral" means each Borrower's right, title, and interest in each of the  
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following:

- (a) Accounts,
- (b) Borrowers' Books,
- (c) Equipment,

(d) General Intangibles,:

(e) Inventory,

(f) Investment Property,

(g) Negotiable Collateral,

(h) Real Property Collateral,

(i) any money, or other assets of Borrowers that now or hereafter come into the possession, custody, or control of Foothill, and

(j) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the Collateral of Borrowers, and any and all Accounts, Borrowers' Books, Equipment, General Intangibles, Inventory, Investment Property, Negotiable Collateral, Real Property, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Collateral Access Agreement" means a landlord waiver, mortgagee waiver,

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bailee letter, or acknowledgement agreement of any warehouseman, processor, lessor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in the Equipment or Inventory of any Borrower, in each case, in form and substance satisfactory to Foothill.

"Collections" means all cash, checks, notes, instruments, and other items of

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payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds).

"Compliance Certificate" means a certificate substantially in the form of

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Exhibit C-1 and delivered by the chief accounting officer of a Borrower to  
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Foothill.

"Consolidated Current Assets" means, for any Person, as of any date of

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determination, the aggregate amount of all current assets of such Person that would, in accordance with GAAP, be classified on a balance sheet as current assets.

"Consolidated Current Liabilities" means, for any Person, as of any date of

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determination, the aggregate amount of all current liabilities of such Person that would, in accordance with GAAP, be classified on a balance sheet as current liabilities. For purposes of this definition, all Obligations outstanding under this Agreement shall be deemed to be current liabilities without regard to whether they would be deemed to be so under GAAP.

"Daily Balance"means, with respect to each day during the term of this Agreement, the amount of an Obligation owed at the end of such day.

"deems itself insecure"means that the Person deems itself insecure in accordance with the provisions of Section 1208 of the Code.

"Default"means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Designated Account"means account number 10-0101-268682 of Borrowers maintained with Borrowers' Designated Account Bank, or such other deposit account of Borrowers (located within the United States) which has been designated, in writing and from time to time, by Borrowers to Foothill.

"Designated Account Bank"means NationsBank, N.A., whose office is located at St. Louis, Missouri, and whose ABA number is 081000032.

"Dilution"means, in each case based upon the experience of the immediately prior three months, the result of dividing the Dollar amount of (a) bad debt write-downs, discounts, advertising, returns, promotions, credits, or other dilution with respect to the Accounts of Borrowers, by (b) Borrowers' Collections (excluding extraordinary items) plus the Dollar amount of clause (a).

"Dilution Reserve"means, as of any date of determination, an amount sufficient to reduce Foothill's advance rate against Eligible Accounts by one percentage point for each percentage point by which Dilution is in excess of 5.00%.

"Disbursement Letter"means an instructional letter executed and delivered by Borrowers to Foothill regarding the extensions of credit to be made on the Closing Date, the form and substance of which shall be satisfactory to Foothill.

"Dollars or \$"means United States dollars.

"Domestic Eligible Accounts"means Eligible Accounts that are payable in Dollars with respect to Account Debtors that maintain their chief executive offices in the United States; however, Domestic Eligible Accounts shall not include: (a) Accounts with selling terms of more than 60 days, (b) Accounts that the Account Debtor has failed to pay within 120 days of invoice date (but in no event shall more than \$1,000,000 of domestic Accounts more than 90 days from invoice date be deemed eligible), and (c) Accounts owed by an Account Debtor or its Affiliates where 50% or more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (b) above.

"Early Termination Premium"has the meaning set forth in

Section 3.6.

"Eligible Accounts" means those Accounts created by a Borrower in the

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ordinary course of business, that arise out of such Borrower's sale of goods or rendition of services, that strictly comply with each and all of the representations and warranties respecting Accounts made by such Borrower to Foothill in the Loan Documents, and that are and at all times continue to be acceptable to Foothill in all respects; provided, however, that standards of

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eligibility may be fixed and revised from time to time by Foothill in Foothill's reasonable credit judgment. Eligible Accounts shall not include the following:

(a) Accounts with respect to which the Account Debtor is an employee, Affiliate, or agent of a Borrower;

(b) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, or other terms by reason of which the payment by the Account Debtor may be conditional;

(c) [Intentionally Omitted];

(d) Accounts with respect to which the Account Debtor is either (i) the United States or any department, agency, or instrumentality of the United States (exclusive, however, of Accounts with respect to which the relevant Borrower has complied, to the satisfaction of Foothill, with the Assignment of Claims Act, 31 U.S.C. 3727), or (ii) any State of the United States (exclusive, however, of Accounts owed by any State that does not have a statutory counterpart to the Assignment of Claims Act);

(e) Accounts with respect to which the Account Debtor is a creditor of any Borrower, has or has asserted a right of setoff, has disputed its liability, or has made any claim with respect to the Account;

(f) Accounts with respect to an Account Debtor whose total obligations owing to the Borrowers exceed 10% of all Eligible Accounts of the Borrowers, to the extent of the obligations owing by such Account Debtor in excess of such percentage;

(g) Accounts with respect to which the Account Debtor is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business;

(h) Accounts the collection of which Foothill, in its reasonable credit judgment, believes to be doubtful by reason of the Account Debtor's financial condition;

(i) Accounts with respect to which the goods giving rise to such Account have not been shipped and billed to the Account Debtor, the services giving rise to such Account have not been performed and accepted by the Account Debtor, or the Account otherwise does not represent a final sale;

(j) Accounts with respect, to which the Account Debtor is located in the states of New Jersey, Minnesota, or West Virginia (or any other state that requires a creditor to file a Business Activity Report or similar document in order to bring suit or otherwise enforce its remedies against such Account Debtor in the courts or through any judicial process of such state), unless the relevant Borrower has qualified to do business in New Jersey, Minnesota, West Virginia, or such other states, or has filed a Notice of Business Activities Report with the applicable division of taxation, the department of revenue, or with such other state offices, as appropriate, for the then-current year, or is exempt from such filing requirement; and

(k) Accounts that represent progress payments or other advance billings that are due prior to the completion of performance by a Borrower of the subject contract for goods or services.

"Eligible Inventory" means Inventory (net of cost price adjustments)

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consisting of first quality finished goods held for sale in the ordinary course

of a Borrower's business and raw materials for such finished goods, including component parts, that are located at or in-transit between such Borrower's premises identified on Schedule E-1, that strictly comply with each and all of

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the representations and warranties respecting Inventory made by such Borrower to Foothill in the Loan Documents, and that are and at all times continue to be acceptable to Foothill in all respects as reasonably determined by Foothill pursuant to its standard credit policy; provided, however, that standards of

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eligibility may be fixed and revised from time to time by Foothill in Foothill's reasonable credit judgment. In determining the amount to be so included, Inventory shall be valued on a first in first out basis at the lower of cost or market on a basis consistent with such Borrower's current and historical accounting practices. An item of Inventory shall not be included in Eligible Inventory if:

(a) it is not owned solely by such Borrower or such Borrower does not have good, valid, and marketable title thereto;

(b) it is not located at one of the locations set forth on  
Schedule E-1;

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(c) it is not located on property owned or leased by a Borrower or in a contract warehouse, in each case, subject to a Collateral Access Agreement executed by the mortgagee, lessor, the warehouseman, or other third party, as the case may be, and segregated or otherwise separately identifiable from goods of others, if any, stored on the premises;

(d) it is not subject to a valid and perfected first priority security interest in favor of Foothill;

(e) it consists of goods returned or rejected by such Borrower's customers, goods held for return to vendor or goods in transit; and

(f) it is obsolete or slow moving, a restrictive or custom item, work-in-process, or constitutes spare parts, samples, field service inventory, floor reject inventory, packaging and shipping materials, supplies used or consumed in such Borrower's business, Inventory subject to a Lien in favor of any third Person, bill and hold goods, defective goods, "seconds," or Inventory acquired on consignment.

"Equipment" means all of a Person's present and hereafter acquired

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machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, goods (other than consumer goods, farm products, or Inventory), wherever located, including all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, 29 U.S.C.

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1000 et seq., amendments thereto, successor statutes, and regulations or guidance promulgated thereunder.

"ERISA Affiliate" means (a) any corporation subject to ERISA whose employees

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are treated as employed by the same employer as the employees of a Borrower under IRC Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of a Borrower under IRC Section 414(c), (c) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any organization subject to ERISA that is a member of an affiliated service group of which a Borrower is a member under IRC Section 414(m), or (d) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any party subject to ERISA that is a party to an arrangement with a Borrower and whose employees are aggregated with the employees of such Borrower under IRC Section 414(o).

"ERISA Event" means (a) a Reportable Event with respect to any Benefit Plan

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or Multiemployer Plan, (b) the withdrawal of a Borrower, any of its Subsidiaries or ERISA Affiliates from a Benefit Plan during a plan year in which it was a "substantial employer" (as defined in Section 4001(a)(2) of ERISA), (c) the providing of notice of intent to terminate a Benefit Plan in a distress termination (as described in Section 4041(c) of ERISA), (d) the institution by the PBGC of proceedings to terminate a Benefit Plan or Multiemployer Plan, (e) any event or condition (i) that provides a basis under Section 4042(a)(1), (2), or (3) of ERISA for the termination of, or the appointment of a trustee to administer, any Benefit Plan or Multiemployer Plan, or (ii) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA, (f) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of a Borrower, any of its Subsidiaries or ERISA Affiliates from a Multiemployer Plan, or (g) providing any security to any Plan under Section 401(a)(29) of the IRC by a Borrower or its Subsidiaries or any of their ERISA Affiliates.

"Eurodollar Rate" means, with respect to the Interest Period for a

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Eurodollar Rate Loan, the interest rate per annum (rounded upwards, if



next whole multiple of 1/16 of 1% per annum) at which United States dollar deposits are offered to Norwest Bank Minnesota, National Association (or its Affiliates) by major banks in the London interbank market (or other Eurodollar Rate market selected by Foothill) on or about 11:00 a.m. (California time) two Business Days prior to the commencement of such Interest Period in amounts comparable to the amount of the Eurodollar Rate Loans requested by and available to Borrowers in accordance with this Agreement and for a period of three months from the date of such offer.

"Eurodollar Rate Loans" means any Advance (or any portion thereof) made or outstanding hereunder during any period when interest on such Advance (or portion thereof) is payable based on the Adjusted Eurodollar Rate.

"Event of Default" has the meaning set forth in Section 8.

"Existing Lender" means NationsBank, N.A. as agent for a syndicated lending group, pursuant to a Loan Agreement dated October 13, 1995.

"FEIN" means Federal Employer Identification Number.

"Financing or Sale Event" means any of the following which is approved by Foothill in its reasonable discretion: (a) a sale of all or substantially all of the issued and outstanding stock of any Subsidiary of Parent in one or a series of related transactions or all or substantially all of the assets of any Subsidiary or division of Parent in one or a series of related transactions, (b) a private placement of debt or equity by Parent, (c) a public offering of debt or equity by Parent, or (d) a capital infusion in Parent or any Subsidiary.

"Foothill" has the meaning set forth in the preamble to this Agreement.

"Foothill Account" has the meaning set forth in Section 2.7.

"Foothill Expenses" means all: costs or expenses (including taxes, and insurance premiums) required to be paid by a Borrower under any of the Loan Documents that are paid or incurred by Foothill; fees or charges paid or incurred by Foothill in connection with Foothill's transactions with Borrowers, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches (including tax lien, litigation, and UCC searches and including searches with the patent and trademark office, the copyright office, or the department of motor vehicles), filing, recording, publication, appraisal (including periodic Personal Property Collateral or Real Property Collateral appraisals), real estate surveys, real estate title policies and endorsements, and environmental audits; costs and expenses incurred by Foothill in the disbursement of funds to Borrowers (by wire transfer or otherwise); charges paid or incurred by Foothill resulting from the dishonor of checks; costs and expenses paid or incurred by Foothill to correct any default or enforce any provision of the Loan Documents,

or in gaining possession of, maintaining, handling', preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Personal Property Collateral or the Real Property Collateral, or any portion thereof, irrespective of whether a sale is consummated; costs and expenses paid or incurred by Foothill in examining Borrowers' Books; costs and expenses of third party claims or any other suit paid or incurred by Foothill in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents or Foothill's relationship with Borrowers or any guarantor; and Foothill's reasonable attorneys fees and expenses incurred in advising, structuring, drafting, reviewing, administering, amending, terminating, enforcing, defending, or concerning the Loan Documents, (including attorneys fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Borrowers or any guarantor of the Obligations) irrespective of whether suit is brought.

"Foreign Eligible Accounts" means Eligible Accounts with respect to which

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the Account Debtor does not maintain its chief executive office in the United States where the Accounts are either (i) supported by an irrevocable letter of credit satisfactory to Foothill (as to form, substance, and issuer or United States confuming bank) that has been delivered to Foothill and is directly drawable by Foothill, or (ii) covered by credit insurance in form and amount, and by an insurer, satisfactory to Foothill; however, Foreign Eligible Accounts

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shall not include: (a) Accounts with selling terms of more than 90 days from invoice date, (b) Accounts more than 60 days from due date, not to exceed 150 days from invoice date, and (c) Accounts owed by an Account Debtor or its Affiliates where 50% or more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (b) above.

"GAAP" means generally accepted accounting principles as in effect from time

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to time in the United States, consistently applied.

"General Intangibles" means all of any Person's present and future general

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intangibles and other personal property (including contract rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, literature, reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), other than goods, Accounts, and Negotiable Collateral.

"Governing Documents" means the certificate or articles of incorporation,

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by-laws, or other organizational or governing documents of any Person.

"Governmental Authority" means any nation or government, any state or other

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political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Hazardous Materials" means (a) substances that are defined or listed in, or

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otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hospital Systems" has the meaning set forth in the preamble to this

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Agreement.

"Indebtedness" means: (a) all obligations of a Person for borrowed money,

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(b) all obligations of a Person evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations of a Person in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations of a Person under capital leases, (d) all obligations or liabilities of others secured by a Lien on any property or asset of a Person, irrespective of whether such obligation or liability is assumed, and (e) any obligation of a Person guaranteeing or intended to guarantee (whether guaranteed, endorsed, co-made, discounted, or sold with recourse to such Person) any indebtedness, lease, dividend, letter of credit, or other obligation of any other Person.

"Insolvency Proceeding" means any proceeding commenced by or against any

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Person under any provision of the Bankruptcy Code or under any other bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intangible Assets" means, with respect to any Person, that portion of the

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book value of all of such Person's assets that would be treated as intangibles under GAAP.

"Intellectual Property Security Agreements" means those certain Intellectual

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Property Security Agreements between Foothill and each of Parent, B&F, Hospital Systems and Life Support, all dated as of August 7, 1997 as amended from time to time.

"Interest Period" means, for any Eurodollar Rate Loan, the period commencing

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on the Business Day such Eurodollar Rate Loan is disbursed or continued, or on the Business Day on which a Reference Rate Loan is converted to such Eurodollar Rate Loan, and ending on the date that is one, two, three or six months thereafter, as selected by Borrowers and notified to Foothill as provided in Section 2.12(a) and (b).

"Inventory" means all present and future inventory in which a Person has any  
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interest, including goods held for sale or lease or to be furnished under a  
contract of service and all of such Person's present and future raw materials,  
work in process, finished goods, and packing and shipping materials, wherever  
located.

"Investment Property" has the meaning set forth in Section 9115 of  
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the Code.

"IRC" means the Internal Revenue Code of 1986, as amended, and the  
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regulations thereunder.

"Junior Notes" means those certain subordinated notes in the aggregate  
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principal amount of \$5,000,000, in favor of Sam Fox, Donald Nickelson, Dennis  
Sheehan, and Woodbourne Partners, L.P., a Missouri limited partnership.

"L/C" has the meaning set forth in Section 2.2(a).  
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"L/C Guaranty" has the meaning set forth in Section 2.2(a).  
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"Letter of Credit" means an L/C or an L/C Guaranty, as the context requires.  
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"Lien" means any interest in property securing an obligation owed to, or a  
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claim by, any Person other than the owner of the property, whether such interest  
shall be based on the common law, statute, or contract, whether such interest  
shall be recorded or perfected, and whether such interest shall be contingent  
upon the occurrence of some future event or events or the existence of some  
future circumstance or circumstances, including the lien or security interest  
arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation,  
assignment, deposit arrangement, security agreement, adverse claim or charge,  
conditional sale or trust receipt, or from a lease, consignment, or bailment for  
security purposes and also including reservations, exceptions, encroachments,  
easements, rights-of-way, covenants, conditions, restrictions, leases, and other  
title exceptions and encumbrances affecting Real Property.

"Life Support" has the meaning set forth in the preamble to this  
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Agreement.

"Loan Account" has the meaning set forth in Section 2.10.  
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"Loan Documents" means this Agreement, the Intellectual Property Security  
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Agreements, the Disbursement Letter, the Letters of Credit, the Lockbox  
Agreements, the Mortgages, any note or notes executed by any Borrower and  
payable to Foothill, and any other agreement entered into, now or in the future,  
in connection with this Agreement.

"Lockbox Account" shall mean a depository account established pursuant to one of the Lockbox Agreements.

"Lockbox Agreements" means those certain Lockbox Operating Procedural Agreements and those certain Depository Account Agreements, in form and substance satisfactory to Foothill, each of which is among a Borrower or Borrowers, Foothill, and one of the Lockbox Banks.

"Lockbox Banks" means NationsBank, N.A., or such other banks as may be agreed to by Foothill and Borrower from time to time.

"Lockboxes" has the meaning set forth in Section 2.7.

"Material Adverse Change" means (a) a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of a Borrower, (b) the material impairment of a Borrower's ability to perform its obligations under the Loan Documents to which it is a party or of Foothill to enforce the Obligations or realize upon the Collateral, (c) a material adverse effect on the value of the Collateral or the amount that Foothill would be likely to receive (after giving consideration to delays in payment and costs of enforcement) in the liquidation of such Collateral, or (d) a material impairment of the priority of Foothill's Liens with respect to the Collateral.

"Maximum Revolving Amount" means \$25,000,000.

"Mortgages" means one or more mortgages, deeds of trust, or deeds to secure debt, executed by a Borrower in favor of Foothill, the form and substance of which shall be satisfactory to Foothill, that encumber the Real Property Collateral and the related improvements thereto.

"Multiemployer Plan" means a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA) to which a Borrower, any of its Subsidiaries, or any ERISA Affiliate has contributed, or was obligated to contribute, within the past six years.

"Negotiable Collateral" means all of a Person's present and future letters of credit, notes, drafts, instruments, Investment Property, securities (including the shares of stock of Subsidiaries of such Person), documents, personal property leases (wherein such Person is the lessor), and chattel paper.

"Obligations" means all loans, Advances, debts, principal, interest (including any interest that, but for the provisions of the Bankruptcy Code, would have accrued), contingent reimbursement obligations under any outstanding Letters of Credit, premiums (including Early Termination Premiums), liabilities (including all amounts charged to Borrowers' Loan Account pursuant hereto), obligations, fees, charges, costs, or Foothill Expenses (including any fees or expenses that, but for the provisions of the

Bankruptcy Code, would have accrued), lease payments, guaranties, covenants, and duties owing by a Borrower to Foothill of any kind and description (whether pursuant to or evidenced by the Loan Documents or pursuant to any other agreement between Foothill and any Borrower, and irrespective of whether for the payment of money), whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including any debt, liability, or obligation owing from a Borrower to others that Foothill may have obtained by assignment or otherwise, and further including all interest not paid when due and all Foothill Expenses that a Borrower is required to pay or reimburse by the Loan Documents, by law, or otherwise.

"Overadvance" has the meaning set forth in Section 2.5.  
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"Parent" has the meaning set forth in the preamble to this Agreement.  
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"Pay-Off Letter" means a letter, in form and substance reasonably  
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satisfactory to Foothill, from Existing Lender respecting the amount necessary to repay in full all of the obligations of Borrowers owing to Existing Lender and obtain a termination or release of all of the Liens existing in favor of Existing Lender in and to the properties or assets of Borrowers.

"PBGC" means the Pension Benefit Guaranty Corporation as defined in Title IV  
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of ERISA, or any successor thereto.

"Permitted Liens" means (a) Liens held by Foothill, (b) Liens for unpaid taxes  
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that either (i) are not yet due and payable or (ii) are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1, (d) the interests of lessors under  
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operating leases and purchase money security interests and Liens of lessors under capital leases to the extent that the acquisition or lease of the underlying asset is permitted under Section 7.21 and so long as the Lien only  
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attaches to the asset purchased or acquired and only secures the purchase price of the asset, (e) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business of a Borrower and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet due and payable, (ii) are the subject of Permitted Protests, or (iii) removed by payment or bonded within 20 Business Days of any Borrower's obtaining notice thereof, (f) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, (g) Liens or deposits to secure performance of bids, tenders, or leases (to the extent permitted under this Agreement), incurred in the ordinary course of business of a Borrower and not in connection with the borrowing of money, (h) Liens arising by reason of security for surety or appeal bonds in the ordinary course of business of a Borrower, (i) Liens of or resulting from any judgment or award that would not cause a Material Adverse Change and as to which the time for the appeal or petition for rehearing of which has not yet expired, or in respect of which a Borrower is in good faith prosecuting an appeal or proceeding for a review, and in respect of which a stay of execution pending such appeal or proceeding for review has been secured, (j) Liens with respect to the Real Property Collateral that are

exceptions to the commitments for title insurance issued in connection with the Mortgages, as accepted by Foothill, and (k) with respect to any Real Property that is not part of the Real Property Collateral, easements, rights of way, zoning and similar covenants and restrictions, and similar encumbrances that customarily exist on properties of Persons engaged in similar activities and similarly situated and that in any event do not materially interfere with or impair the use or operation of the Collateral by any Borrower or the value of Foothill's Lien thereon or therein, or materially interfere with the ordinary conduct of the business of a Borrower.

"Permitted Protest" means the right of a Borrower to protest any Lien (other than any such Lien that secures the Obligations), tax (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the books of such Borrower in an amount that is reasonably satisfactory to Foothill, (b) any such protest is instituted and diligently prosecuted by such Borrower in good faith, and (c) Foothill is satisfied that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Liens of Foothill in and to the Collateral.

"Person" means and includes natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Personal Property Collateral" means all Collateral other than the Real Property Collateral.

"Plan" means any employee benefit plan, program, or arrangement maintained or contributed to by a Borrower or with respect to which it may incur liability.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by a Borrower.

"Real Property Collateral" means the parcel or parcels of real property and the related improvements thereto identified on Schedule R-I, and any Real Property hereafter acquired by a Borrower.

"Reference Rate" means the variable rate of interest, per annum, most recently announced by Norwest Bank Minnesota, National Association, or any successor thereto, as its "base rate," irrespective of whether such announced rate is the best rate available from such financial institution.

"Reference Rate Loan" means any Advance (or portion thereof) made or outstanding hereunder during any period when interest on such Advance (or portion thereof) is payable based on the Reference Rate.

"Renewal Date" has the meaning set forth in Section 3.4.

"Reportable Event" means any of the events described in Section 4043(c) of

ERISA or the regulations thereunder other than a Reportable Event as to which the provision of 30 days notice to the PBGC is waived under applicable regulations.

"Requirement of Law" means, as to any Person: (a) (i) all statutes and

regulations and (ii) court orders and injunctions, arbitrators' decisions, and/or similar rulings, in each instance by any Governmental Authority or arbitrator applicable to or binding upon such Person or any of such Person's property or to which such Person or any of such Person's property is subject; and (b) that Person's organizational documents, by-laws and/or other instruments which deal with corporate or similar governance, as applicable.

"Reserve Percentage" for any Interest Period means, as of the date of

determination thereof, the maximum percentage (rounded upward, if necessary to the nearest 1/100th of 1%), as determined by Foothill (or its Affiliates) in accordance with its (or their) usual procedures (which determination shall be conclusive in the absence of manifest error), that is in effect on such date as prescribed by the Board of Governors of the Federal Reserve System for determining the reserve requirements (including supplemental, marginal, and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "eurocurrency liabilities") having a term equal to such Interest Period by Foothill or its Affiliates.

"Retiree Health Plan" means an "employee welfare benefit plan" within the

meaning of Section 3(1) of ERISA that provides benefits to individuals after termination of their employment, other than as required by Section 601 of ERISA.

"Solvent" means, with respect to any Person on a particular date, that on

such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.



"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of stock or other ownership interests having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity.

"Tangible Net Worth" means, as of any date of determination, the difference of (a) a Person's total stockholder's equity, minus (b) the sum of: (i) all Intangible Assets of such Person, and (ii) all amounts due to such Person from Affiliates.

"Voidable Transfer" has the meaning set forth in Section 15.8.

"Warrant" means that certain Warrant, dated as of the Closing Date, for the purchase by Foothill of 50,000 shares of Parent's Common Stock.

"Working Capital" means the result of subtracting Consolidated Current Liabilities from Consolidated Current Assets.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrower" is used in respect of a financial covenant or a related definition, it shall be understood to mean Borrowers on a consolidated basis unless the context clearly requires otherwise.

1.3 Code. Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. An Event of Default shall "continue" or be "continuing" until such Event of Default has been waived in writing by Foothill. Section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement or in the Loan Documents to this Agreement or any of the Loan Documents shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

1.5 Schedules and Exhibits. All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. LOAN AND TERMS OF PAYMENT.

2.1 REVOLVING ADVANCES.

(a) Subject to the terms and conditions of this Agreement, Foothill agrees to make advances ("Advances") to Borrowers in an amount outstanding not to exceed at any one time the lesser of (i) the Maximum Revolving Amount less the outstanding balance of all undrawn or unreimbursed Letters of Credit, or (ii) the Borrowing Base less the aggregate amount of all undrawn or unreimbursed Letters of Credit. For purposes of this Agreement, "Borrowing Base," as of any date of determination, shall mean the result of:

(w) the lesser of (i) 85 % of Domestic Eligible Accounts, less the amount, if any, of the Dilution Reserve; provided, however, that Advances based upon Domestic Eligible Accounts and Foreign Eligible Accounts, in the aggregate, shall not exceed an amount equal to Borrower's Collections with respect to Accounts for the immediately preceding 60 day period, plus

(x) the lesser of (i) (a) 85 % of Foreign Eligible Accounts supported by letters of credit, plus (b) 85 % of Foreign Eligible Accounts supported by credit insurance (net of the aggregate amount of all applicable deductibles), and (ii) \$8,000,000, plus

(y) the lesser of (i) \$10,000,000, and (ii) 45 % of the value of Eligible Inventory, minus

(z) the aggregate amount of reserves, if any, established by Foothill under Sections 2.1(b), 6.15 and 10.

(b) Anything to the contrary in Section 2.1(a) above notwithstanding, Foothill may create reserves against the Borrowing Base or reduce its advance rates based upon Eligible Accounts or Eligible Inventory without declaring an Event of Default if it reasonably determines that there has occurred a Material Adverse Change.

(c) Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

2.2 Letters of Credit.

(a) Subject to the terms and conditions of this Agreement, Foothill agrees to issue letters of credit for the account of a Borrower (each, an "L/C") or to issue guarantees of payment (each such guaranty, an "L/C Guaranty") with respect to letters of

credit issued by an issuing bank for the account of a Borrower. Foothill shall have no obligation to issue a Letter of Credit if any of the following would result:

(i) 100% of the aggregate amount of all other types of undrawn and unreimbursed Letters of Credit, would exceed the Borrowing Base less the amount of outstanding Advances less the reserves established under Section 2.1 (b); or

(ii) the aggregate amount of all undrawn or unreimbursed Letters of Credit (including Inventory Letters of Credit) would exceed the lower of: (x) the Maximum Revolving Amount less the amount of outstanding Advances less reserves established under Section 2.1(b); or (y) \$3,000,000.

Each Borrower expressly understands and agrees that Foothill shall have no obligation to arrange for the issuance by issuing banks of the letters of credit that are to be the subject of L/C Guarantees. Each Borrower and Foothill acknowledge and agree that certain of the letters of credit that are to be the subject of L/C Guarantees may be outstanding on the Closing Date. Each Letter of Credit shall have an expiry date no later than 60 days prior to the date on which this Agreement is scheduled to terminate under Section 3.4 (without regard

to any potential renewal term) and all such Letters of Credit shall be in form and substance acceptable to Foothill in its sole discretion. If Foothill is obligated to advance funds under a Letter of Credit, Borrowers immediately shall reimburse such amount to Foothill and, in the absence of such reimbursement, the amount so advanced immediately and automatically shall be deemed to be an Advance hereunder and, thereafter, shall bear interest at the rate then applicable to Advances under Section 2.6.

(b) Each Borrower hereby agrees to indemnify, save, defend, and hold Foothill harmless from any loss, cost, expense, or liability, including payments made by Foothill, expenses, and reasonable attorneys fees incurred by Foothill arising out of or in connection with any Letter of Credit. Each Borrower agrees to be bound by the issuing bank's regulations and interpretations of any letters of credit guaranteed by Foothill and opened to or for such Borrower's account or by Foothill's interpretations of any Letter of Credit issued by Foothill to or for such Borrower's account, even though this interpretation may be different from such Borrower's own, and Borrowers understand and agree that Foothill shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following any Borrower's instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto. Each Borrower understands that the L/C Guarantees may require Foothill to indemnify the issuing bank for certain costs or liabilities arising out of claims by a Borrower against such issuing bank. Each Borrower hereby agrees to indemnify, save, defend, and hold Foothill harmless with respect to any loss, cost, expense (including reasonable attorneys fees), or liability incurred by Foothill under any L/C Guaranty as a result of Foothill's indemnification of any such issuing bank.

(c) Each Borrower hereby authorizes and directs any bank that issues a letter of credit guaranteed by Foothill to deliver to Foothill all instruments, documents, and other writings and property received by the issuing bank pursuant to such letter of credit, and to accept and rely upon Foothill's instructions and agreements with respect to all matters arising in connection with such letter of credit and the related application. A Borrower may or may not be the "applicant" or "account party" with respect to such letter of credit.

(d) Any and all charges, commissions, fees, and costs incurred by Foothill relating to the letters of credit guaranteed by Foothill shall be considered Foothill Expenses for purposes of this Agreement and immediately shall be reimbursable by Borrowers to Foothill.

(e) Immediately upon the termination of this Agreement, Borrowers agree to either (i) provide cash collateral to be held by Foothill in an amount equal to 102% of the maximum amount of Foothill's obligations under outstanding Letters of Credit, or (ii) cause to be delivered to Foothill releases of all of Foothill's obligations under outstanding Letters of Credit. At Foothill's discretion, any proceeds of Collateral received by Foothill after the occurrence and during the continuation of an Event of Default may be held as the cash collateral required by this Section 2.2(e).  
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(f) If by reason of (i) any change in any applicable law, treaty, rule, or regulation or any change in the interpretation or application by any governmental authority of any such applicable law, treaty, rule, or regulation, or (ii) compliance by the issuing bank or Foothill with any direction, request, or requirement (irrespective of whether having the force of law) of any governmental authority or monetary authority including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect (and any successor thereto):

- (A) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letters of Credit issued hereunder, or
- (B) there shall be imposed on the issuing bank or Foothill any other condition regarding any letter of credit, or Letter of Credit, as applicable, issued pursuant hereto;

and the result of the foregoing is to increase, directly or indirectly, the cost to the issuing bank or Foothill of issuing, making, guaranteeing, or maintaining any letter of credit, or Letter of Credit, as applicable, or to reduce the amount receivable in respect thereof by such issuing bank or Foothill, then, and in any such case, Foothill may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Borrowers, and Borrowers shall pay on demand such amounts as the issuing bank or Foothill may specify to be necessary to compensate the issuing bank or Foothill for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate set forth in Section 2.6(a)(i) or (c)(i),  
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as applicable. The determination by the issuing bank or Foothill, as the case may be, of any amount due pursuant to this Section 2.2(f), as set forth in a

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certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

2.3 [Intentionally Omitted]

2.4 [Intentionally Omitted]

2.5 Overadvances. If, at any time or for any reason, the amount of Obligations owed by Borrowers to Foothill pursuant to Sections 2.1 or 2.2 is

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greater than either the Dollar or percentage limitations set forth in Sections

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2.1 or 2.2 (an "Overadvance"), Borrowers immediately shall pay to Foothill, in

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cash, the amount of such excess to be used by Foothill first, to repay Advances

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outstanding under Section 2.1 and, thereafter, to be held by Foothill as cash

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collateral to secure Borrower's obligation to repay Foothill for all amounts paid pursuant to Letters of Credit; provided, however, that with respect to any

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Overadvance caused by Foothill's charging fees, costs, expenses, or interest to the Loan Account, the Borrowers shall have two Business Days to make such payments.

2.6 Interest and Letter of Credit Fees: Rates, Payments, and Calculations.

(a) Interest Rate. Except as provided in Section 2.6(c), all Obligations (except for undrawn Letters of Credit) shall bear interest on the Daily Balance as follows:

(i) each Eurodollar Rate Loan shall bear interest at a per annum rate equal to the Applicable Margin plus the Adjusted Eurodollar Rate; and

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(ii) all other Obligations shall bear interest at a per annum [rate equal to the Applicable Margin plus the Reference Rate.

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(b) Letter of Credit Fee. Borrowers shall pay Foothill a fee (in addition to the charges, commissions, fees, and costs set forth in Section 2.2(d)) equal to 0.75 % per annum times the aggregate undrawn amount of all Letters of Credit outstanding at the end of each day.

(c) Default Rate. Upon the occurrence and during the continuation of an Event of Default, (i) all Obligations (except for undrawn Letters of Credit) shall bear interest on the Daily Balance as follows: (1) subject to the optional conversion provisions of Section 2.12(c), each Eurodollar Rate Loan shall bear

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interest at a per annum rate of 6.50 percentage points above the Adjusted Eurodollar Rate; and (2) all other Obligations shall bear interest at a per annum rate equal to 4.25 percentage points above the Reference Rate; and (ii) the Letter of Credit fee provided in Section 2.6(c) shall be increased to 4.75%

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per

annum times the aggregate undrawn amount of all, Letters of Credit outstanding at the end of each day.

(d) Minimum Interest. In no event shall the rate of interest chargeable hereunder for any day for Advances be less than 7.00% per annum. To the extent that interest accrued hereunder at the rate set forth herein would be less than the foregoing minimum daily rate, the interest rate chargeable hereunder for such day automatically shall be deemed increased to the minimum rate.

(e) Payments. Interest in respect of Reference Rate Loans and Letter of Credit fees payable hereunder shall be due and payable, in arrears, on the first day of each month during the term hereof. Interest in respect of each Eurodollar Rate Loan shall be due and payable, in arrears, on (i) the last day of the applicable Interest Period, and (ii) the first day of each month occurring during the term thereof. Each Borrower hereby authorizes Foothill, at its option, without prior notice to such Borrower, to charge such interest and Letter of Credit fees, all Foothill Expenses (as and when incurred), the charges, commissions, fees, and costs provided for in Section 2.2(d)(as and when accrued or incurred), the fees and charges provided for in Section 2.11(as and when accrued or incurred), and all installments or other payments due under any Loan Document to Borrowers' Loan Account, which amounts thereafter shall accrue interest at the rate then applicable to Advances hereunder. Any interest not paid when due shall be compounded and shall thereafter accrue interest at the rate then applicable to Advances hereunder.

(f) Computation. The Reference Rate as of the date of this Agreement is 8.50% per annum. In the event the Reference Rate is changed from time to time hereafter, the applicable rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Reference Rate. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed.

(g) Intent to Limit Charges to Maximum Lawful Rate. In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrowers and Foothill, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto as of the date of this Agreement, Borrowers are and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrowers in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.7 Collection of Accounts. Borrowers shall at all times maintain lockboxes (the "Lockboxes") and, immediately after the Closing Date, shall instruct all

Account Debtors with respect to the Accounts,, ' General Intangibles, and Negotiable Collateral of Borrowers to remit all Collections in respect thereof to such Lockboxes. Borrowers, Foothill, and the Lockbox Banks shall enter into the Lockbox Agreements, which among other things shall provide for the opening of a Lockbox Account for the deposit of Collections at a Lockbox Bank. Each Borrower agrees that all Collections and other amounts received by such Borrower from any Account Debtor or any other source immediately upon receipt shall be deposited into a Lockbox Account. No Lockbox Agreement or arrangement contemplated thereby shall be modified by a Borrower without the prior written consent of Foothill. Upon the terms and subject to the conditions set forth in the Lockbox Agreements, all amounts received in each Lockbox Account shall be wired each Business Day into an account (the "Foothill Account") maintained by Foothill at a depository selected by Foothill.

2.8 Crediting Payments; Application of Collections. The receipt of any Collections by Foothill (whether from transfers to Foothill by the Lockbox Banks pursuant to the Lockbox Agreements or otherwise) immediately shall be applied provisionally to reduce the Obligations outstanding under Section 2.1, but shall

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not be considered a payment on account unless such Collection item is a wire transfer of immediately available federal funds and is made to the Foothill Account or unless and until such Collection item is honored when presented for payment. From and after the Closing Date, Foothill shall be entitled to charge Borrowers for one Business Day of 'clearance' or 'float' at the rate set forth in Section 2.6(a)(i) or Section 2.6(c)(i), as applicable, on all Collections that

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are received by Foothill (regardless of whether forwarded by the Lockbox Banks to Foothill, whether provisionally applied to reduce the Obligations under Section 2.1, or otherwise). This across-the-board one Business Day clearance or

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float charge on all Collections is acknowledged by the parties to constitute an integral aspect of the pricing of Foothill's financing of Borrowers, and shall apply irrespective of the characterization of whether receipts are owned by a Borrower or Foothill, and whether or not there are any outstanding Advances, the effect of such clearance or float charge being the equivalent of charging one Business Day of interest on such Collections. Should any Collection item not be honored when presented for payment, then Borrowers shall be deemed not to have made such payment, and interest shall be recalculated accordingly. Anything to the contrary contained herein notwithstanding, any Collection item shall be deemed received by Foothill only if it is received into the Foothill Account on a Business Day on or before 11:00 a.m. California time. If any Collection item is received into the Foothill Account on a non-Business Day or after 11:00 a.m. California time on a Business Day, it shall be deemed to have been received by Foothill as of the opening of business on the immediately following Business Day.

2.9 Designated Account. Foothill is authorized to make the Advances, the Letters of Credit under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person, or without instructions if pursuant to Section 2.6(e). Borrowers agree to establish

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and maintain a single Designated Account with the Designated Account Bank for the purpose of receiving the proceeds of the Advances requested by Borrowers and made by Foothill hereunder. Unless otherwise

agreed by Foothill and Borrowers, any Advance requested by Borrowers and made by Foothill hereunder shall be made to the Designated Account.

2.10 Maintenance of Loan Account; Statements of Obligations. At the request of Borrowers, to facilitate and expedite the administration and accounting processes and procedures of their borrowings under this Agreement, Foothill has agreed, in lieu of maintaining separate loan accounts on Foothill's books in the name of each of the Borrowers, that Foothill shall maintain a single account on its books in the names of all of the Borrowers (the "Loan Account"). All Advances made by Foothill to Borrowers or for Borrower's account, including accrued interest, Foothill Expenses, and any other payment Obligations of Borrowers shall be made jointly and severally to the Borrowers and shall be charged to the Loan Account. In accordance with Section 2.8, the Loan Account

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will be credited with all payments received by Foothill from any Borrower or for any Borrowers' account, including all amounts received in the Foothill Account from any Lockbox Bank. Foothill shall render one statement regarding the Loan Account to Parent on behalf of Borrowers, including principal, interest, fees, and including an itemization of all charges and expenses constituting Foothill Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrowers and Foothill unless, within 90 days after receipt thereof by Borrowers, Borrowers shall deliver to Foothill written objection thereto describing the error or errors contained in any such statements. Each Borrower hereby expressly agrees and acknowledges that Foothill shall have no obligation to account separately to such Borrower.

2.11 Fees. Borrowers shall pay to Foothill the following fees:

(a) [Intentionally Omitted];

(b) Anniversary Fee. On each August 7 during the term of this Agreement, an anniversary fee in an amount equal to \$35,000, which fee is fully earned on each anniversary.

(c) [Intentionally Omitted]

(d) Unused Line Fee. On the first day of each month during the term of this Agreement, an unused line fee in an amount equal to 0.25% per annum times the Average Unused Portion of Maximum Revolving Amount;

(e) Financial Examination, Documentation, and Appraisal Fees. Foothill's customary fee of \$650 per day per examiner, plus out-of-pocket Expenses for each financial analysis and examination (i.e., audits) of Borrowers performed by personnel employed by Foothill; Foothill's customary appraisal fee of \$1,500 per day per appraiser, plus out-of-pocket expenses for each appraisal of the Collateral performed by personnel employed by Foothill; and, the actual charges paid or incurred by Foothill if it elects to employ the services of one or more third Persons to perform such financial analyses and examinations (i.e., audits) of Borrowers or to appraise the Collateral; provided, however,  
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that prior to the occurrence and continuation of. an Event of Default or Foothill deeming itself insecure, Borrowers shall not be obligated to pay for more than two audits in any 12 month period; and

(f) Servicing Fee. On the first day of each month during the term of this Agreement, and thereafter so long as any Obligations are outstanding, a servicing fee in an amount equal to \$2,000.

2.12 Eurodollar Rate Loans. Any other provisions herein to the contrary notwithstanding, the following provisions shall govern with respect to Eurodollar Rate Loans as to the matters covered:

(a) Borrowing; Conversion; Continuation. Borrowers may from time to time, on -----  
or after the Closing Date (and subject to the satisfaction of the requirements of Sections 3.1 and 3.2), request in a written or telephonic communication with -----

Foothill: (i) Advances to constitute Eurodollar Rate Loans; (ii) that Reference Rate Loans be converted into Eurodollar Rate Loans; or (iii) that existing Eurodollar Rate Loans continue for an additional Interest Period. Any such request shall specify the aggregate amount of the requested Eurodollar Rate Loans, the proposed funding date therefor (which shall be a Business Day, and with respect to continued Eurodollar Rate Loans shall be the last day of the Interest Period of the existing Eurodollar Rate Loans being continued), and the proposed Interest Period (in each case subject to the limitations set forth below). Eurodollar Rate Loans may only be made, continued, or extended if, as of the proposed funding date therefor, each of the following conditions is satisfied:

- (v) no Event of Default exists;
- (w) no more than five Interest Periods may be in effect at any one time;
- (x) the amount of each Eurodollar Rate Loan borrowed, converted, or continued must be in an amount not less than \$500,000 and integral multiples of \$100,000 in excess thereof;
- (y) Foothill shall have determined that the Interest Period or Adjusted Eurodollar Rate is available to it and can be readily determined as of the date of the request for such Eurodollar Rate Loan by Borrowers; and
- (z) Foothill shall have received such request at least two Business Days prior to the proposed funding date therefor.

Any request by Borrowers to borrow Eurodollar Rate Loans, to convert Reference Rate Loans to Eurodollar Rate Loans, or to continue any existing Eurodollar Rate Loans shall be irrevocable, except to the extent that Foothill shall determine

under Sections 2.12(a), 2.13 or 2.14 that such Eurodollar Rate Loans cannot be made or continued.

(b) Determination of Interest Period. By giving notice as set forth in Section 2.12(a), Borrowers shall select an Interest Period for such Eurodollar Rate Loan. The determination of the Interest Period shall be subject to the following provisions:

(A) in the case of immediately successive Interest Periods, each successive Interest Period shall commence on the day on which the next preceding Interest Period expires;

(B) if any Interest Period would otherwise expire on a day which is not a Business Day, the Interest Period shall be extended to expire on the next succeeding Business Day; provided, however, that if the next succeeding Business Day occurs in the following calendar month, then such Interest Period shall expire on the immediately preceding Business Day;

(C) if any Interest Period begins on the last Business Day of a month, or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, then the Interest Period shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(D) Borrowers may not select an Interest Period which expires later than the Renewal Date.

(c) Automatic Conversion: Optional Conversion by Foothill. Any Eurodollar Rate Loan shall automatically convert to a Reference Rate Loan upon the last day of the applicable Interest Period, unless Foothill has received a request to continue such Eurodollar Rate Loan at least two Business Days prior to the end of such Interest Period in accordance with the terms of Section 2.12(a). Any Eurodollar Rate Loan shall, at Foothill's option, upon notice to Borrowers, immediately convert to a Reference Rate Loan in the event that (i) an Event of Default shall have occurred and be continuing or (ii) this Agreement shall terminate, and Borrowers shall pay to Foothill any amounts required by Section 2.15 as a result thereof.

2.13 Illegality. Any other provision herein to the contrary notwithstanding, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof by a Governmental Authority made subsequent to the Closing Date shall make it unlawful for Foothill to make or maintain Eurodollar Rate Loans as contemplated by this Agreement, (a) the obligation of Foothill hereunder to make Eurodollar Rate Loans, continue Eurodollar Rate Loans as such, and convert Reference Rate Loans to Eurodollar Rate Loans shall forthwith be suspended and (b) Foothill's then outstanding Eurodollar Rate Loans, if any, shall be converted automatically to Reference Rate Loans on the respective last days of the then current Interest Periods with respect thereto or within such earlier

period as required by law; provided, however, that before making any such demand,

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Foothill agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions and so long as such efforts would not be disadvantageous to it, in its reasonable discretion, in any legal, economic, or regulatory manner) to designate a different lending office if the making of such a designation would allow Foothill or its lending office to continue to perform its obligations to make Eurodollar Rate Loans. If any such conversion of a Eurodollar Rate Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, Borrowers shall pay to Foothill such amounts, if any, as may be required pursuant to Section 2.14. If

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circumstances subsequently change so that Foothill shall determine that it is no longer so affected, Foothill will promptly notify, and upon receipt of such notice, the obligations of Foothill to make or continue Eurodollar Rate Loans or to convert Reference Rate Loans into Eurodollar Rate Loans shall be reinstated.

#### 2.14 REQUIREMENTS OF LAW.

(a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof by a Governmental Authority made subsequent to the Closing Date or compliance by Foothill with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the Closing Date

(A) shall subject Foothill to any tax, levy, charge, fee, reduction, or withholding of any kind whatsoever with respect to Eurodollar Rate Loans, or change the basis of taxation of payments to Foothill in respect thereof (except for the establishment of a tax based on the net income of Foothill or changes in the rate of tax on the net income of Foothill);

(B) shall in respect of Eurodollar Rate Loans impose, modify or hold applicable any reserve, special deposit, compulsory loan, or similar requirement against assets held by, deposits or other liabilities in or for the account of, Advances or other extensions of credit by, or any other acquisition of funds by, any office of Foothill; or

(C) shall impose on Foothill any other condition with respect to Eurodollar Rate Loans;

and the result of any of the foregoing is to increase the cost to Foothill, by an amount which Foothill deems to be material, of making, converting into, continuing, or maintaining Eurodollar Rate Loans or to increase the cost to Foothill in respect of Eurodollar Rate Loans, by an amount which Foothill deems to be material, or to reduce any amount receivable hereunder in respect of Eurodollar Rate Loans, or to forego any other sum payable thereunder or make any payment on account thereof in respect of Eurodollar Rate Loans, then, in any such case, Borrowers shall promptly pay Foothill, upon its demand, any additional amounts necessary to compensate Foothill for such increased cost or reduced

amount receivable; provided, however, that before making any such demand,

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Foothill agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions and so long as such efforts would not be disadvantageous to it, in its reasonable discretion, in any legal, economic, or regulatory manner) to designate a different Eurodollar lending office if the making of such designation would allow Foothill or its Eurodollar lending office to continue to perform its obligations to make Eurodollar Rate Loans or to continue to fund or maintain Eurodollar Rate Loans and avoid the need for, or materially reduce the amount of, such increased cost. If Foothill becomes entitled to claim any additional amounts pursuant to this Section 2.14, Foothill

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shall promptly notify Borrowers of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this Section 2.14 submitted in reasonable detail by Foothill to Borrowers shall be

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conclusive in the absence of manifest error. Within five Business Days after Foothill notifies Borrowers of any increased cost pursuant to the foregoing provisions of this Section 2.14, Borrowers may convert all Eurodollar Rate Loans then outstanding into Reference Rate Loans in accordance with Section 2.12 and,

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additionally, reimburse Foothill for any cost in accordance with Section

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2.15. This covenant shall survive the termination of this Agreement and the

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payment of the Advances and all other amounts payable hereunder for nine months following such termination and repayment.

(b) If Foothill shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof by a Governmental Authority made subsequent to the Closing Date or compliance by Foothill or any Person controlling Foothill with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the Closing Date does or shall have the effect of increasing the amount of capital required to be maintained or reducing the rate of return on Foothill's or such Person's capital as a consequence of its obligations hereunder to a level below that which Foothill or such Person could have achieved but for such change or compliance (taking into consideration Foothill's or such Person's policies with respect to capital adequacy) by an amount deemed by Foothill to be material, then from time to time, after submission by Foothill to Borrowers of a prompt written request therefor, Borrowers shall pay to Foothill such additional amount or amounts as will compensate Foothill or such Person for such reduction. This covenant shall survive the termination of this Agreement and the payment of the Advances and all other amounts payable hereunder for nine months following such termination and repayment.

2.15 Indemnity. Borrowers agree to indemnify Foothill and to hold Foothill harmless from any loss or expense which Foothill may sustain or incur as a consequence of (a) default by Borrowers in payment when due of the principal amount of or interest on any Eurodollar Rate Loan, (b) default by Borrowers in making a Borrowing of, conversion into, or continuation of Eurodollar Rate Loans after Borrowers have given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by Borrowers in making any prepayment of a Eurodollar Rate Loan after Borrowers have given a notice thereof in accordance with the provisions of this Agreement, or (d) the making of a prepayment of Eurodollar Rate Loans on a day which is not the last day of an

Interest Period with respect thereto (whether due to the termination of this Agreement, upon an Event of Default, or otherwise), including, in each case, any such loss or expense (but excluding loss of margin or anticipated profits) arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained; provided,

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however, that Foothill, if requesting indemnification, shall have delivered to the Borrowers a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error. Calculation of all amounts payable to Foothill under this Section 2.15 shall be made as though

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Foothill had actually funded the relevant Eurodollar Rate Loan through the purchase of a deposit bearing interest at the Eurodollar Rate in an amount equal to the amount of such Eurodollar Rate Loan and having a maturity comparable to the relevant Interest Period; provided, however, that Foothill may fund each of

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the Eurodollar Rate Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this Section 2.15. This covenant shall survive the termination of this Agreement

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and the payment of the Loans and all other amounts payable hereunder for a period of nine months thereafter.

### 3. CONDITIONS; TERM OF AGREEMENT.

3.1 CONDITIONS PRECEDENT TO the Initial Advance. The obligation of Foothill to make the initial Advance hereunder, is subject to the fulfillment, to the satisfaction of Foothill and its counsel, of each of the following conditions on or before the Closing Date:

(a) Foothill shall have received a fully executed counterpart of this Agreement;

(b) the outstanding principal balance, and any accrued and unpaid interest or fees in respect of, the Term Loans (as defined in the Original Loan Agreement) have been paid in full; and

(c) all other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed, or recorded and shall be in form and substance satisfactory to Foothill and its counsel.

3.2 Conditions Precedent to all Advances and all Letters of Credit. The following shall be conditions precedent to all Advances and all Letters of Credit hereunder:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Default or Event Of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof; and

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the extending of such credit shall have been issued and remain in force by any governmental authority against any Borrower, Foothill, or any of their Affiliates.

3.3 Condition Subsequent. As a condition subsequent to initial closing hereunder, Borrowers shall perform or cause to be performed the following (the failure by Borrowers to so perform or cause to be performed constituting an Event of Default):

(a) within 30 days of the Closing Date, deliver to Foothill the certified copies of the policies of insurance, together with the endorsements thereto, as are required by Section 6.10, the form and substance of which shall be ----- satisfactory to Foothill and its counsel.

3.4 Term. This Agreement shall become effective upon the execution and delivery hereof by Borrowers and Foothill and shall continue in full force and effect for a term ending on August 6, 2001 (the "Maturity Date"), unless sooner terminated pursuant to the terms hereof. The foregoing notwithstanding, Foothill shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.5 Effect of Termination. On the date of termination of this Agreement, all Obligations (including contingent reimbursement obligations of Borrowers with respect to any outstanding Letters of Credit) immediately shall become due and payable without notice or demand. No termination of this Agreement, however, shall relieve or discharge Borrowers of Borrowers' duties, Obligations, or covenants hereunder, and Foothill's continuing security interests in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and Foothill's obligation to provide additional credit hereunder is terminated.

3.6 Early Termination by Borrowers. The provisions of Section 3.4 that allow --- termination of this Agreement by Borrowers only on the Maturity Date notwithstanding, Borrowers have the option, at any time upon 90 days prior written notice to Foothill, to terminate this Agreement by paying to Foothill, in cash, the Obligations (including an amount equal to 102% of the undrawn amount of the Letters of Credit), in full, together with a premium (the "Early Termination Premium") equal to the following amounts: (a) \$300,000 if such prepayment occurs on or before August 15, 1999; (b) \$200,000 if such prepayment occurs on or after August 16, 1999 but on or before August 15, 2000, and (c) \$100,000 if such prepayment occurs on or after August 16, 2000.

3.7 Termination Upon Event Of Default. If Foothill terminates this Agreement upon the occurrence of an Event of Default, in view of the impracticability and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Foothill's lost profits as a result thereof, Borrowers shall pay to Foothill upon the effective date of such termination, a premium in an amount equal to the Early Termination Premium. The Early Termination Premium shall be presumed to be the amount of damages sustained by Foothill as the result of the early termination and Borrowers agree that it is reasonable under the circumstances currently existing. The Early Termination Premium provided for in this Section 3.7 shall be -----  
deemed included in the Obligations.

#### 4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Each Borrower hereby grants to Foothill a continuing security interest in all of such Borrower's currently existing and hereafter acquired or arising Personal Property Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by such Borrower of each of its covenants and duties under the Loan Documents. Foothill's security interests in the Personal Property Collateral shall attach to all Personal Property Collateral without further act on the part of Foothill or Borrowers. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for the sale of Inventory to buyers in the ordinary course of business, no Borrower has any authority, express or implied, to dispose of any item or portion of the Personal Property Collateral or the Real Property Collateral.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, Borrowers, immediately upon the request of Foothill, shall endorse and deliver physical possession of such Negotiable Collateral to Foothill.

4.3 Collection of Accounts, General Intangibles, and Negotiable Collateral. At any time, Foothill or Foothill's designee may (a) notify customers or Account Debtors of any Borrower that the Accounts, General Intangibles, or Negotiable Collateral of such Borrower have been assigned to Foothill or that Foothill has a security interest therein, and (b) after an Event of Default, collect the Accounts, General Intangibles, and Negotiable Collateral of such Borrower directly and charge the collection costs and expenses to the Loan Account. Each Borrower agrees that it will hold in trust for Foothill, as Foothill's trustee, any Collections that it receives and immediately will deliver said Collections to Foothill in their original form as received by Borrower.

4.4 Delivery of Additional Documentation Required. At any time upon the request of Foothill, Borrowers shall execute and deliver to Foothill all financing statements, continuation financing statements, continuation filings, security agreements, pledges, assignments, control agreements, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of accounts, letters of authority, and all other

documents that Foothill reasonably may request, in "form satisfactory to Foothill, to perfect and continue perfected Foothill's security interests in the Collateral, and in order to fully consummate all of the transactions contemplated hereby and under the other the Loan Documents.

4.5 Power of Attorney. Each Borrower hereby irrevocably makes, constitutes, and appoints Foothill (and any of Foothill's officers, employees, or agents designated by Foothill) as such Borrower's true and lawful attorney, with power to (a) if such Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of such Borrower on any

of the documents described in Section 4.4,(b) at any time that an Event of

Default has occurred and is continuing or Foothill deems itself insecure, sign such Borrower's name on any invoice or bill of lading relating to any Account of such Borrower, drafts against Account Debtors, schedules and assignments of Accounts of such Borrower, verifications of Accounts of such Borrower, and notices to Account Debtors, (c) send requests for verification of Accounts of such Borrower, (d) endorse such Borrower's name on any Collection item that may come into Foothill's possession, (e) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure, notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by Foothill, to receive and open all mail addressed to such Borrower, and to retain all mail relating to the Collateral of such Borrower and forward all other mail to such Borrower, (f) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure, make, settle, and adjust all claims under such Borrower's policies of insurance and make all determinations and decisions with respect to such policies of insurance, and (g) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure, settle and adjust disputes and claims respecting the Accounts of such Borrower directly with Account Debtors, for amounts and upon terms that Foothill determines to be reasonable, and Foothill may cause to be executed and delivered any documents and releases that Foothill determines to be necessary. The appointment of Foothill as such Borrower's attorney, and each and every one of Foothill's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and Foothill's obligation to extend credit hereunder is terminated.

4.6 Right to Inspect. Foothill (through any of its officers, employees, or agents) shall have the right, from time to time hereafter to inspect Borrowers' Books and to check, test, and appraise the Collateral in order to verify Borrowers' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

#### 5. REPRESENTATIONS AND WARRANTIES.

In order to induce Foothill to enter into this Agreement, each Borrower makes the following representations and warranties which shall be true, correct, and complete in all respects as of the date hereof, and shall be true, correct, and complete in all respects as of the Closing Date, and at and as of the date of the making of each Advance and each Letter of Credit as though made on and as of the date of such Advance or Letter of Credit



(except to the extent that such representations and Warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

5.1 No Encumbrances. Each Borrower has good and indefeasible title to its Collateral, free and clear of Liens except for Permitted Liens.

5.2 Eligible Accounts. The Eligible Accounts of each Borrower are bona fide existing obligations created by the sale and delivery of Inventory or the rendition of services to Account Debtors in the ordinary course of such Borrower's business, unconditionally owed to such Borrower without (to the best of such Borrower's knowledge) defenses, disputes, offsets, counterclaims, or rights of return or cancellation. The property giving rise to such Eligible Accounts has been delivered to the Account Debtor, or to the Account Debtor's agent for immediate shipment to and unconditional acceptance by the Account Debtor. Borrowers have not received notice of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of any Account Debtor regarding any Eligible Account.

5.3 Eligible Inventory. All Eligible Inventory of Borrowers is of good and merchantable quality, free from known defects.

5.4 Equipment. All of the Equipment of Borrowers is used or held for use in Borrowers' business and is fit for such purposes.

5.5 Location of Inventory and Equipment. The Inventory and Equipment of Borrowers are not stored with a bailee, warehouseman, or similar party (without Foothill's prior written consent) and are located only at the locations identified on Schedule 6.12 or otherwise permitted by Section 6.12.

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5.6 Inventory Records. Each Borrower keeps correct and accurate records itemizing and describing the kind, type, quality, and quantity of its Inventory, and such Borrower's cost therefor.

5.7 Location of Chief Executive Office; FEIN. The chief executive office of each Borrower is located at 1720 Sublette Avenue, St. Louis, Missouri 63110, and each Borrower's FEIN is set forth below:

Borrower	FEIN
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Parent	25-1370721
B&F	34-1792342
Hospital Systems	94-3218390
Life Support	95-3560739

5.8 DUE Organization and Qualification; Subsidiaries.

(a) Each Borrower is duly organized and existing and in good standing under the laws of the jurisdiction of its incorporation and qualified and licensed to do business in, and in good standing in, any state where the failure to be so licensed or qualified reasonably could be expected to cause a Material Adverse Change.

(b) Set forth on Schedule 5.8, is a complete and accurate list of each

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Borrower's direct and indirect Subsidiaries, showing: (i) the jurisdiction of their incorporation; (ii) the number of shares of each class of common and preferred stock authorized for each of such Subsidiaries; and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by such Borrower. All of the outstanding capital stock of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(c) Except as set forth on Schedule 5.8, no capital stock (or any

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securities, instruments, warrants, options, purchase rights, conversion or exchange rights, calls, commitments or claims of any character convertible into or exercisable for capital stock) of any direct or indirect Subsidiary of any Borrower is subject to the issuance of any security, instrument, warrant, option, purchase right, conversion or exchange right, call, commitment or claim of any right, title, or interest therein or thereto.

5.9 DUE AUTHORIZATION; NO CONFLICT.

(a) The execution, delivery, and performance by each Borrower of this Agreement and the Loan Documents to which it is a party have been duly authorized by all necessary corporate action.

(b) The execution, delivery, and performance by each Borrower of this Agreement and the Loan Documents to which it is a party do not and will not (i) violate any provision of federal, state, or local law or regulation (including Regulations T, U, and X of the Federal Reserve Board) applicable to such Borrower, the Governing Documents of such Borrower, or any order, judgment, or decree of any court or other Governmental Authority binding on such Borrower, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation or material lease of such Borrower, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any properties or assets of such Borrower, other than Permitted Liens, or (iv) require any approval of stockholders or any approval or consent of any Person under any material contractual obligation of such Borrower.

(c) Other than the filing of appropriate financing statements, fixture filings, and mortgages, the execution, delivery, and performance by each Borrower of this Agreement and the Loan Documents to which such Borrower is a party do not and

will not require any registration with, consent, or approval of, or notice to, or other action with or by, any federal, state, foreign, or other Governmental Authority or other Person.

(d) This Agreement and the Loan Documents to which any Borrower is a party, and all other documents contemplated hereby and thereby, when executed and delivered by such Borrower will be the legally valid and binding obligations of such Borrower, enforceable against such Borrower in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

(e) The Liens granted by each Borrower to Foothill in and to its properties and assets pursuant to this Agreement and the other Loan Documents are validly created, perfected, and first priority Liens, subject only to Permitted Liens.

5.10 Litigation. There are no actions or proceedings pending by or against any Borrower before any court or administrative agency and no Borrower has any knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving any Borrower or any guarantor of the Obligations, except for: (a) ongoing collection matters in which a Borrower is the plaintiff; (b) matters disclosed on Schedule 5.10; and (c) matters arising after the date hereof that, if decided adversely to a Borrower, would not have a Material Adverse Change.

5.11 No Material Adverse Change. All financial statements relating to any Borrower or any guarantor of the Obligations that have been delivered by any Borrower to Foothill have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and fairly present such Borrower's (or such guarantor's, as applicable) financial condition as of the date thereof and such Borrower's results of operations for the period then ended. There has not been a Material Adverse Change with respect to any Borrower (or such guarantor, as applicable) since the date of the latest financial statements submitted to Foothill on or before the Closing Date.

5.12 Solvency. Each Borrower is Solvent. No transfer of property is being made by any Borrower and no obligation is being incurred by any Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of any Borrower.

5.13 Employee Benefits. None of Borrowers, any of their Subsidiaries, or any of their ERISA Affiliates maintains or contributes to any Benefit Plan, other than those listed on Schedule 5.13. Each Borrower, each of its Subsidiaries and each ERISA Affiliate have satisfied the minimum funding standards of ERISA and the IRC with respect to each Benefit Plan to which it is obligated to contribute. No ERISA Event has occurred

nor has any other event occurred that may result in' an ERISA Event that reasonably could be expected to result in a Material Adverse Change. None of Borrowers or their Subsidiaries, any ERISA Affiliate, or any fiduciary of any Plan is subject to any direct or indirect liability with respect to any Plan under any applicable law, treaty, rule, regulation, or agreement. None of Borrowers or their Subsidiaries or any ERISA Affiliate is required to provide security to any Plan under Section 401(a)(29) of the IRC.

5.14 Environmental Condition. None of Borrowers' properties or assets has ever been used by any Borrower or, to the best of each Borrower's knowledge, by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials. None of Borrowers' properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, or a candidate for closure pursuant to any environmental protection statute. No Lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned or operated by any Borrower. No Borrower has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by any Borrower resulting in the releasing or disposing of Hazardous Materials into the environment.

#### 6. AFFIRMATIVE COVENANTS.

Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, and unless Foothill shall otherwise consent in writing, such Borrower shall do all of the following:

6.1 Accounting System. Maintain a standard and modern system of accounting that enables such Borrower to produce financial statements in accordance with GAAP, and maintain records pertaining to its Collateral that contain information as from time to time may be requested by Foothill. Such Borrower also shall keep a modern inventory reporting system that shows all additions, sales, claims, returns, and allowances with respect to its Inventory.

6.2 Collateral Reporting. Provide Foothill with the following documents at the following times in form satisfactory to Foothill: (a) on a weekly basis, the summary page of each such Borrower's Accounts aging report, (b) on a monthly basis, a sales journal, collection journal, and credit register since the last such schedule and a calculation of the Borrowing Base as of such date using the amount of ineligible Accounts as determined based upon the prior month's aging of Accounts, (c) on a monthly basis and, in any event, by no later than the 10th Business Day of each month during the term of this Agreement, (i) a detailed calculation of the Borrowing Base, and (ii) a detailed aging, by total, of such Borrower's Accounts, together with a reconciliation to the detailed calculation of the Borrowing Base previously provided to Foothill, (d) on a monthly basis and, in any event, by no later than the 10th Business Day of each month during the term of this Agreement, a summary aging, by vendor, of such Borrower's accounts payable and any

book overdraft, (e) on a monthly basis, Inventory reports specifying such Borrower's cost, (f) upon Foothill's request, notice of all returns, disputes, or claims, (g) upon Foothill's request, copies of invoices in connection with its Accounts, customer statements, credit memos, remittance advices and reports, deposit slips, shipping and delivery documents in connection with its Accounts and for Inventory and Equipment acquired by such Borrower, purchase orders and invoices, (h) on a quarterly basis, a detailed list of such Borrower's customers, (i) on a monthly basis, a calculation of the Dilution for the prior month; and (j) such other reports as to the Collateral or the financial condition of such Borrower as Foothill may request from time to time. Original sales invoices evidencing daily sales shall be mailed by such Borrower to each Account Debtor and, at Foothill's direction, the invoices shall indicate on their face that such Borrower's Account has been assigned to Foothill and that all payments are to be made directly to Foothill. In the event that, at any time, Borrowers' excess borrowing availability under Section 2.1 shall be less than \$3,000,000, then Borrower agrees that Foothill may, in the exercise of its reasonable credit judgment, require changes in the frequency and type of reports required under this Section 6.2.

6.3 Financial Statements, Reports, Certificates. Deliver to Foothill: (a) as soon as available, but in any event within 45 days after the end of each month during each of Parent's fiscal years, a company prepared balance sheet, income statement, and statement of cash flow covering Parent's operations during such period; and (b) as soon as available, but in any event within 90 days after the end of each of such Parent's fiscal years, financial statements of Parent for each such fiscal year, audited by independent certified public accountants reasonably acceptable to Foothill and certified, without any qualifications, by such accountants to have been prepared in accordance with GAAP, together with a certificate of such accountants addressed to Foothill stating that such accountants do not have knowledge of the existence of any Default or Event of Default. Such audited financial statements shall include a balance sheet, profit and loss statement, and statement of cash flow and, if prepared, such accountants' letter to management. In addition to the financial statements referred to above, Parent agrees to deliver financial statements prepared on a consolidating basis so as to present such Parent and each such related entity separately, and on a consolidated basis.

Together with the above, Parent also shall deliver to Foothill such Parent's Form 10-Q Quarterly Reports, Form 10-K Annual Reports, and Form 8-K Current Reports, and any other filings made by Parent with the Securities and Exchange Commission, if any, as soon as the same are filed, or any other information that is provided by Parent to its shareholders, and any other report reasonably requested by Foothill relating to the financial condition of such Parent.

Each month, together with the financial statements provided pursuant to Section 6.3(a), Parent shall deliver to Foothill a certificate signed by its  
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chief financial officer to the effect that: (i) all financial statements delivered or caused to be delivered to Foothill hereunder have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit

adjustments) and fairly present the financial condition of Parent, (ii) the representations and warranties of Borrowers contained in this Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of such certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date), (iii) for each month that also is the date on which a financial covenant in Section 7.20 is to be tested, a Compliance Certificate demonstrating in

reasonable detail compliance at the end of such period with the applicable financial covenants contained in Section 7.20, and (iv) on the date of delivery

of such certificate to Foothill there does not exist any condition or event that constitutes a Default or Event of Default (or, in the case of clauses (i), (ii), or (iii), to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Parent has taken, is taking, or proposes to take with respect thereto).

Each Borrower shall have issued written instructions to its independent certified public accountants authorizing them to communicate with Foothill and to release to Foothill whatever financial information concerning such Borrower that Foothill may request. Each Borrower hereby irrevocably authorizes and directs all auditors, accountants, or other third parties to deliver to Foothill, at such Borrower's expense, copies of such Borrower's financial statements, papers related thereto, and other accounting records of any nature in their possession, and to disclose to Foothill any information they may have regarding such Borrower's business affairs and financial conditions.

6.4 Tax Returns. Deliver to Foothill copies of each of such Parent's future federal income tax returns, and any amendments thereto, within 45 days of the filing thereof with the Internal Revenue Service.

6.5 [Intentionally Omitted].

6.6 Returns. Cause returns and allowances, if any, as between such Borrower and its Account Debtors to be on the same basis and in accordance with the usual customary practices of such Borrower, as they exist at the time of the execution and delivery of this Agreement. If, at a time when no Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to such Borrower, such Borrower shall determine the reason for such return as soon as reasonably practicable and, if such Borrower accepts such return, issue a credit memorandum (with a copy to be sent to Foothill) in the appropriate amount to such Account Debtor. If, at a time when an Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to such Borrower, such Borrower promptly shall determine the reason for such return and, if Foothill consents (which consent shall not be unreasonably withheld), issue a credit memorandum (with a copy to be sent to Foothill) in the appropriate amount to such Account Debtor.

6.7 Title to Equipment. Upon Foothill's request, such Borrower immediately shall deliver to Foothill, properly endorsed, any and all evidences of ownership of, certificates of title, or applications for title to any items of its Equipment.

6.8 Maintenance of Equipment. Maintain its Equipment in good operating condition and repair (ordinary wear and tear excepted), and make all necessary replacements thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved. Other than those items of Equipment that constitute fixtures on the Closing Date, such Borrower shall not permit any item of its Equipment to become a fixture to real estate or an accession to other property, and such Equipment shall at all times remain personal property.

6.9 Taxes. Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against such Borrower or any of its property to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest. Such Borrower shall make due and timely payment or deposit of all such federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Foothill, on demand, appropriate certificates attesting to the payment thereof or deposit with respect thereto. Such Borrower will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Foothill with proof satisfactory to Foothill indicating that such Borrower has made such payments or deposits.

6.10 Insurance.

(a) At its expense, keep its Personal Property Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as are ordinarily insured against by other owners in similar businesses. Such Borrower also shall maintain business interruption, public liability, product liability, and property damage insurance relating to such Borrower's ownership and use of its Personal Property Collateral, as well as insurance against larceny, embezzlement, and criminal misappropriation.

(b) At its expense, obtain and maintain (i) insurance of the type necessary to insure the Improvements and Chattels (as such terms are defined in the Mortgages), for the full replacement cost thereof, against any loss by fire, lightning, windstorm, hail, explosion, aircraft, smoke damage, vehicle damage, earthquakes, elevator collision, and other risks from time to time included under "extended coverage" policies, in such amounts as Foothill may require, but in any event in amounts sufficient to prevent such Borrower from becoming a co-insurer under such policies, (ii) combined single limit bodily injury and property damages insurance against any loss, liability, or damages on, about, or relating to each parcel of Real Property Collateral, in an amount of not less than \$1,000,000; and (iii) insurance for such other risks as Foothill may require. Replacement costs, at Foothill's option, may be redetermined by an insurance appraiser, satisfactory to Foothill, not more frequently than once every 12 months at such Borrower's cost.

(c) All such policies of insurance shall be in such form, with such companies, and in such amounts as may be reasonably satisfactory to Foothill. All insurance required herein shall be written by companies which are authorized to do insurance business in the State of California. All hazard insurance and such other insurance as Foothill shall specify, shall contain a California Form 438BFU (NS)mortgagee endorsement, or an equivalent endorsement satisfactory to Foothill, showing Foothill as sole loss payee thereof, and shall contain a waiver of warranties. Every policy of insurance referred to in this Section

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6.10shall contain an agreement by the insurer that it will not cancel such policy except after 30 days prior written notice to Foothill and that any loss payable thereunder shall be payable notwithstanding any act or negligence of such Borrower or Foothill which might, absent such agreement, result in a forfeiture of all or a part of such insurance payment and notwithstanding (i) occupancy or use of the Real Property Collateral for purposes more hazardous than permitted by the terms of such policy, (ii) any foreclosure or other action or proceeding taken by Foothill pursuant to the Mortgages upon the happening of an Event of Default, or (iii) any change in title or ownership of the Real Property Collateral. Such Borrower shall deliver to Foothill certified copies of such policies of insurance and evidence of the payment of all premiums therefor.

(d) Original policies or certificates thereof satisfactory to Foothill evidencing such insurance shall be delivered to Foothill prior to the expiration of the existing or preceding policies. Such Borrower shall give Foothill prompt notice of any loss covered by such insurance, and Foothill shall have the right to adjust any loss. Foothill shall have the exclusive right to adjust all losses payable under any such insurance policies without any liability to such Borrower whatsoever in respect of such adjustments. Any monies received as payment for any loss under any insurance policy including the insurance policies mentioned above, shall be paid over to Foothill to be applied at the option of Foothill either to the prepayment of the Obligations without premium, in such order or manner as Foothill may elect, or shall be disbursed to such Borrower under stage payment terms satisfactory to Foothill for application to the cost of repairs, replacements, or restorations. All repairs, replacements, or restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property destroyed prior to such damage or destruction. Upon the occurrence of an Event of Default, Foothill shall have the right to apply all prepaid premiums to the payment of the Obligations in such order or form as Foothill shall determine.

(e) Such Borrower shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 6.10, unless Foothill is included thereon as named insured with the

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loss payable to Foothill under a standard California 438BFU (NS) Mortgagee endorsement, or its local equivalent. Such Borrower immediately shall notify Foothill whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and originals of such policies immediately shall be provided to Foothill.



6.11 No Setoffs or Counterclaims. Make payments hereunder and under the other Loan Documents by or on behalf of such Borrower without setoff or counterclaim and free and clear of, and without deduction or withholding for or on account of, any federal, state, or local taxes.

6.12 Location of Inventory and Equipment. Keep its Inventory and Equipment only at the locations identified on Schedule 6.12; provided, however, that Borrowers may amend Schedule 6.12 so long as such amendment occurs by written notice to Foothill not less than 30 days prior to the date on which the Inventory or Equipment of Borrowers is moved to such new location, so long as such new location is within the continental United States, and so long as, at the time of such written notification, Borrowers provide any financing statements or fixture filings necessary to perfect and continue perfected Foothill's security interests in such assets and also provides to Foothill a Collateral Access Agreement.

6.13 Compliance with Laws. Comply with the requirements of all applicable laws, rules, regulations, and orders of any governmental authority, including the Fair Labor Standards Act and the Americans With Disabilities Act, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, would not have and could not reasonably be expected to cause a Material Adverse Change.

6.14 Employee Benefits.

(a) Deliver to Foothill: (i) promptly, and in any event within 10 Business Days after such Borrower or any of its Subsidiaries knows or has reason to know that an ERISA Event has occurred that reasonably could be expected to result in a Material Adverse Change, a written statement of the chief financial officer of such Borrower describing such ERISA Event and any action that is being taken with respect thereto by such Borrower, any such Subsidiary or ERISA Affiliate, and any action taken or threatened by the IRS, Department of Labor, or PBGC. Such Borrower or such Subsidiary, as applicable, shall be deemed to know all facts known by the administrator of any Benefit Plan of which it is the plan sponsor, (ii) promptly, and in any event within 3 Business Days after the filing thereof with the IRS, a copy of each funding waiver request filed with respect to any Benefit Plan and all communications received by such Borrower, any of its Subsidiaries or, to the knowledge of such Borrower, any ERISA Affiliate with respect to such request, and (iii) promptly, and in any event within 3 Business Days after receipt by such Borrower, any of its Subsidiaries or, to the knowledge of such Borrower, any ERISA Affiliate, of the PBGC's intention to terminate a Benefit Plan or to have a trustee appointed to administer a Benefit Plan, copies of each such notice.

(b) Cause to be delivered to Foothill, upon Foothill's request, each of the following: (i) a copy of each Plan (or, where any such plan is not in writing, complete description thereof) (and if applicable, related trust agreements or other funding instruments) and all amendments thereto, all written interpretations thereof and written descriptions thereof that have been distributed to employees or former employees of such

Borrower or its Subsidiaries; (ii) the most recent determination letter issued by the IRS with respect to each Benefit Plan; (iii) for the three most recent plan years, annual reports on Form 5500 Series required to be filed with any governmental agency for each Benefit Plan; (iv) all actuarial reports prepared for the last three plan years for each Benefit Plan; (v) a listing of all Multiemployer Plans, with the aggregate amount of the most recent annual contributions required to be made by such Borrower or any ERISA Affiliate to each such plan and copies of the collective bargaining agreements requiring such contributions; (vi) any information that has been provided to such Borrower or any ERISA Affiliate regarding withdrawal liability under any Multiemployer Plan; and (vii) the aggregate amount of the most recent annual payments made to former employees of such Borrower or its Subsidiaries under any Retiree Health Plan.

6.15 Leases. Pay when due all rents and other amounts payable under any leases to which such Borrower is a party or by which such Borrower's properties and assets are bound, unless such payments are the subject of a Permitted Protest. To the extent that such Borrower fails timely to make payment of such rents and other amounts payable when due under its leases, Foothill shall be entitled, in its discretion, to reserve an amount equal to such unpaid amounts against the Borrowing Base.

#### 7. NEGATIVE COVENANTS.

Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, such Borrower will not, without Foothill's prior written approval which may be given in Foothill's sole discretion, do any of the following:

7.1 Indebtedness. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement, together with Indebtedness to issuers of letters of credit that are the subject of L/C Guarantees;

(b) Indebtedness set forth in the latest financial statements of Borrowers submitted to Foothill on or prior to the Closing Date;

(c) Indebtedness secured by Permitted Liens;

(d) Indebtedness evidenced by the Junior Notes and by that certain \$5,000,000 Promissory Note in favor of LaSalle National Bank, dated August 7, 1998;

(e) The private placement of subordinate debt on terms and conditions consistent in all material respects with the A.G. Edwards draft Private Placement Memorandum dated July 24, 1997, with subordination provisions no less favorable than those set forth in those certain Subordination Agreements entered into by Foothill in connection with the Junior Notes; and

(f) refinancings, renewals; or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any

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Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrowers, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, refundings, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to Foothill as those applicable to the refinanced Indebtedness.

7.2 Liens. Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of its property or assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced under Section 7.1(d) and so long as the replacement Liens only encumber those assets or -----  
property that secured the original Indebtedness).

7.3 Restrictions on Fundamental Changes. Enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, assign, lease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its property or assets.

7.4 Disposal of Assets. Sell, lease, assign, transfer, or otherwise dispose of any of such Borrower's properties or assets other than sales of Inventory to buyers in the ordinary course of such Borrower's business as currently conducted.

7.5 Change Name. Change such Borrower's name, FEIN, corporate structure (within the meaning of Section 9402(7) of the Code), or identity, or add any new fictitious name.

7.6 Guarantee. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except by endorsement of instruments or items of payment for deposit to the account of such Borrower or which are transmitted or turned over to Foothill.

7.7 Nature of Business. Make any change in the principal nature of such Borrower's business.

7.8 Prepayments and Amendments.

(a) Except in connection with a refinancing permitted by Section 7. 1(d)or,  
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so long as no Event of Default has occurred and is continuing, the prepayment of the Junior Notes upon completion of a Financing or Sale Event, prepay, redeem, retire, defease, purchase, or otherwise acquire any Indebtedness owing to any third Person, other than the Obligations in accordance with this Agreement, and

(b) Directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 7.  
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l(b), (c). or (d).  
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7.9 Change of Control. Cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 Consignments. Consign any Inventory or sell any of its Inventory on bill and hold, sale or return, sale on approval, or other conditional terms of sale.

7.11 Distributions. Make any distribution or declare or pay any dividends (in cash or other property, other than capital stock) on, or purchase, acquire, redeem, or retire any of such Borrower's capital stock, of any class, whether now or hereafter outstanding.

7.12 Accounting Methods. Modify or change its method of accounting or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of such Borrower's accounting records without said accounting firm or service bureau agreeing to provide Foothill information regarding the Collateral or such Borrower's financial condition. Such Borrower waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Foothill pursuant to or in accordance with this Agreement, and agrees that Foothill may contact directly any such accounting firm or service bureau in order to obtain such information.

7.13 Investments. Directly or indirectly make, acquire, or incur any liabilities (including contingent obligations) for or in connection with (a) the acquisition of the securities (whether debt or equity) of, or other interests in, a Person, (b)loans, advances, capital contributions, or transfers of property to a Person, or (c) the acquisition of all or substantially all of the properties or assets of a Person.

7.14 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of such Borrower except for transactions that are in the ordinary course of such Borrower's business, upon fair and

reasonable terms, that are fully disclosed to Foothill, and that are no less favorable to such Borrower than would be obtained in an arm's length transaction with a non-Affiliate.

7.15 Suspension. Suspend or go out of a substantial portion of its business.

7.16 [Intentionally Omitted].

7.17 Use of Proceeds. Use (a) the proceeds of the Advances made hereunder for any purpose other than (i) on the Closing Date, (y) to repay in full the outstanding principal, accrued interest, and accrued fees and expenses owing to Existing Lender, and (z) to pay transactional costs and expenses incurred in connection with this Agreement, and (ii) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted corporate purposes.

7.18 Change in Location of Chief Executive Office; Inventory and Equipment with Bailees. Relocate its chief executive office to a new location without providing 30 days prior written notification thereof to Foothill and so long as, at the time of such written notification, such Borrower provides any financing statements or fixture filings necessary to perfect and continue perfected Foothill's security interests and also provides to Foothill a Collateral Access Agreement with respect to such new location. The Inventory and Equipment of such Borrower shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Foothill's prior written consent.

7.19 No Prohibited Transactions Under ERISA. Directly or indirectly:

(a) engage, or permit any Subsidiary of such Borrower to engage, in any prohibited transaction which is reasonably likely to result in a civil penalty or excise tax described in Sections 406 of ERISA or 4975 of the IRC for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the Department of Labor;

(b) permit to exist with respect to any Benefit Plan any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the IRC), whether or not waived;

(c) fail, or permit any Subsidiary of such Borrower to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(d) terminate, or permit any Subsidiary of such Borrower to terminate, any Benefit Plan where such event would result in any liability of such Borrower, any of its Subsidiaries or any ERISA Affiliate under Title IV of ERISA;

(e) fail, or permit any Subsidiary of such Borrower to fail, to make any required contribution or payment to any Multiemployer Plan;

(f) fail, or permit any Subsidiary of such Borrower to fail, to pay any required installment or any other payment required under Section 412 of the IRC on or before the due date for such installment or other payment;

(g) amend, or permit any Subsidiary of such Borrower to amend, a Plan resulting in an increase in current liability for the plan year such that either of such Borrower, any Subsidiary of such Borrower or any ERISA Affiliate is required to provide security to such Plan under Section 401(a)(29) of the IRC; or

(h) withdraw, or permit any Subsidiary of such Borrower to Multiemployer Plan where such withdrawal is reasonably likely to of any such withdraw, from any result in any liability entity under Title IV of ERISA;

which, individually or in the aggregate, results in or reasonably would be expected to result in a claim against or liability of such Borrower, any of its Subsidiaries or any ERISA Affiliate in excess of \$500,000.

7.20 Financial Covenants. Have Parent fail to maintain:

(a) Minimum Tangible Net Worth. Minimum Tangible Net Worth of not less than: (i) \$20,000,000, measured as of any month end during Parent's fiscal year 1999, and (ii) \$21,000,000, measured as of any month end thereafter.

(b) [Intentionally Omitted]

(c) [Intentionally Omitted]

7.21 Capital Expenditures. Borrowers shall, in the aggregate, make capital expenditures in any fiscal year in excess of \$3,000,000.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 If Borrowers fail to pay when due and payable or when declared due and payable, any portion of the Obligations (whether of principal, interest (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due Foothill, reimbursement of Foothill Expenses, or other amounts constituting Obligations);

8.2 If any Borrower fails to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between such Borrower and Foothill; provided, however, that Borrowers' failure to perform,

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keep, or observe the terms of Sections 6.2, 6.3, 6.4, 6.7, 6.8, 6.13, 6.14 or  
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6.15 shall not constitute an Event of Default unless such failure continues for  
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five Business Days or more in the case of Section 6.2 and otherwise 15 days or  
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more;

8.3 If there is a Material Adverse Change;

8.4 If any material portion of any Borrower's properties or assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person;

8.5 If an Insolvency Proceeding is commenced by any Borrower;

8.6 If an Insolvency Proceeding is commenced against any Borrower and any of the following events occur: (a) such Borrower consents to the institution of the Insolvency Proceeding against it; (b) the petition commencing the Insolvency Proceeding is not timely controverted; (c) the petition commencing the Insolvency Proceeding is not dismissed within 60 calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, Foothill  
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shall be relieved of its obligation to extend credit hereunder; (d) an interim trustee is appointed to take possession of all or a substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, such Borrower; or (e) an order for relief shall have been issued or entered therein;

8.7 If any Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

8.8 If a notice of Lien, levy, or assessment is filed of record with respect to any of any Borrower's properties or assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien, whether choate or otherwise, upon any of such Borrower's properties or assets and the same is not paid on the payment date thereof; provided, however, that no  
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such Liens or debts for aggregate amounts of less than \$250,000 (in the case of the United States Government) or \$1,000,000 (for any state, county or municipality) shall constitute an Event of Default if the same are discharged within 30 days of the date thereof; provided, however, that Foothill shall have  
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the right to establish a reserve in Borrowers' Loan Account for the amount of such Liens;

8.9 If judgments or other claims, in excess of \$250,000 in the aggregate, become Liens or encumbrances upon any material portion of any Borrower's properties or

assets, and such Liens or encumbrances are not discharged within 30 days of the date thereof or stayed pending appeal;

8.10 If there is a default in any material agreement to which any Borrower is a party with one or more third Persons (including LaSalle National Bank) and such default (a) occurs at the final maturity of the obligations thereunder, or (b) results in a right by such third Person(s), irrespective of whether exercised, to accelerate the maturity of such Borrower's obligations thereunder;

8.11 If any Borrower makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness; or

8.12 If any material misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or report made to Foothill by any Borrower or any officer, employee, agent, or director of any Borrower, or if any such warranty or representation is withdrawn.

#### 9. Foothill's RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence, and during the continuation, of an Event of Default Foothill may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrowers:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrowers under this Agreement, under any of the Loan Documents, or under any other agreement between Borrowers and Foothill;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of Foothill, but without affecting Foothill's rights and security interests in the Personal Property Collateral or the Real Property Collateral and without affecting the Obligations;

(d) Settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which Foothill considers advisable, and in such cases, Foothill will credit Borrowers' Loan Account with only the net amounts received by Foothill in payment of such disputed Accounts after deducting all Foothill Expenses incurred or expended in connection therewith;



(e) Cause Borrowers to hold all of their returned Inventory in trust for Foothill, segregate all such returned Inventory from all other property of any Borrower or in any Borrower's possession and conspicuously label said returned Inventory as the property of Foothill;

(f) Without notice to or demand upon any Borrower or any guarantor, make such payments and do such acts as Foothill considers necessary or reasonable to protect its security interests in the Collateral. Borrowers agree to assemble the Personal Property Collateral if Foothill so requires, and to make the Personal Property Collateral available to Foothill as Foothill may designate. Each Borrower authorizes Foothill to enter the premises where the Personal Property Collateral is located, to take and maintain possession of the Personal Property Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or Lien that in Foothill's determination appears to conflict with its security interests and to pay all expenses incurred in connection therewith. With respect to any of Borrowers' owned or leased premises, each Borrower hereby grants Foothill a license to enter into possession of such premises and to occupy the same, without charge, for up to 120 days in order to exercise any of Foothill's rights or remedies provided herein, at law, in equity, or otherwise;

(g) Without notice to any Borrower (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of Section 9505 of the Code), set off and apply to the Obligations any and all (i) balances and deposits of any Borrower held by Foothill (including any amounts received in the Lockbox Accounts), or (ii) indebtedness at any time owing to or for the credit or the account of any Borrower held by Foothill;

(h) Hold, as cash collateral, any and all balances and deposits of any Borrower held by Foothill, and any amounts received in the Lockbox Accounts, to secure the full and final repayment of all of the Obligations;

(i) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Personal Property Collateral. Foothill is hereby granted a license or other right to use, without charge, any Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Personal Property Collateral, in completing production of, advertising for sale, and selling any Personal Property Collateral and each Borrower's rights under all licenses and all franchise agreements shall inure to Foothill's benefit;

(j) Sell the Personal Property Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including any Borrower's premises) as Foothill determines is commercially reasonable. It is not necessary that the Personal Property Collateral be present at any such sale;

(k) Foothill shall give notice of the disposition of the Personal Property Collateral as follows:

(1) Foothill shall give Borrowers and each holder of a security interest in the Personal Property Collateral who has filed with Foothill a written request for notice, a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Personal Property Collateral, then the time on or after which the private sale or other disposition is to be made;

(2) The notice shall be personally delivered or mailed, postage prepaid, to Borrowers as provided in Section 12, at least 5 days before the date fixed for

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the sale, or at least 5 days before the date on or after which the private sale or other disposition is to be made; no notice needs to be given prior to the disposition of any portion of the Personal Property Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrowers claiming an interest in the Personal Property Collateral shall be sent to such addresses as they have furnished to Foothill;

(3) If the sale is to be a public sale, Foothill also shall give notice of the time and place by publishing a notice one time at least 5 days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held;

(1) Foothill may credit bid and purchase at any public sale; and

(m) Any deficiency that exists after disposition of the Personal Property Collateral as provided above will be paid immediately by Borrowers. Any excess will be returned, without interest and subject to the rights of third Persons, by Foothill to Borrowers.

9.2 Remedies Cumulative. Foothill's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Foothill shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Foothill of one right or remedy shall be deemed an election, and no waiver by Foothill of any Event of Default shall be deemed a continuing waiver. No delay by Foothill shall constitute a waiver, election, or acquiescence by it.

#### 10. TAXES AND EXPENSES.

If any Borrower fails to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, to the extent that Foothill determines that such failure by such Borrower could result

in a Material Adverse Change, in its discretion and without prior notice to Borrowers, Foothill may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves in Borrowers' Loan Account as Foothill deems necessary to protect Foothill from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type described in Section 6.10, and take any action with respect to such policies as Foothill deems

prudent. Any such payments paid by Foothill shall constitute Foothill Expenses. Any such payments made by Foothill shall not constitute an agreement by Foothill to make similar payments in the future or a waiver by Foothill of any Event of Default under this Agreement. Foothill need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1 Demand; Protest; etc. Each Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Foothill on which such Borrower may in any way be liable.

11.2 Foothill's Liability for Collateral. So long as Foothill complies with its obligations, if any, under Section 9207 of the Code, Foothill shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person. All risk of loss, damage, or destruction of the Collateral shall be borne by Borrowers.

11.3 Indemnification. Borrowers shall pay, indemnify, defend, and hold Foothill, each Participant, and each of their respective officers, directors, employees, counsel, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys fees and disbursements and other costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them in connection with or as a result of or related to the execution, delivery, enforcement, performance, and administration (including any of the foregoing arising out of the administration of the credit facilities hereunder on a joint borrowing basis) of this Agreement and any other Loan Documents or the transactions contemplated herein, and with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities"). Borrowers shall have no obligation to any Indemnified Person under this Section

11.3 with respect to any Indemnified Liability

that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations.

#### 11.4 Joint Borrowers.

(a) Each Borrower agrees that it is jointly and severally, directly and primarily liable to Foothill for payment in full of all Obligations, whether for principal, interest or otherwise and that such liability is independent of the duties, obligations, and liabilities of the other Borrowers. Foothill may bring a separate action or actions on each, any, or all of the Obligations against any Borrower, whether action is brought against the other Borrowers or whether the other Borrowers are joined in such action. In the event that any Borrower fails to make any payment of any Obligations on or before the due date thereof, the other Borrowers immediately shall cause such payment to be made or each of such Obligations to be performed, kept, observed, or fulfilled.

(b) The Loan Documents are a primary and original obligation of each Borrower, are not the creation of a surety relationship, and are an absolute, unconditional, and continuing promise of payment and performance which shall remain in full force and effect without respect to future changes in conditions, including any change of law or any invalidity or irregularity with respect to the Loan Documents. Each Borrower agrees that its liability under the Loan Documents shall be immediate and shall not be contingent upon the exercise or enforcement by Foothill of whatever remedies it may have against the other Borrowers, or the enforcement of any lien or realization upon any security Foothill may at any time possess. Each Borrower consents and agrees that Foothill shall be under no obligation (under Section 2899 or 3433 of the California Civil Code or otherwise) to marshal any assets of any Borrower against or in payment of any or all of the Obligations.

(c) Each Borrower acknowledges that it is presently informed as to the financial condition of the other Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Borrower hereby covenants that it will continue to keep informed as to the financial condition of the other Borrowers, the status of the other Borrowers and of all circumstances which bear upon the risk of nonpayment of the Obligations. Absent a written request from any Borrower to Foothill for information, such Borrower hereby waives any and all rights it may have to require Foothill to disclose to such Borrower any information which Foothill may now or hereafter acquire concerning the condition or circumstances of the other Borrowers.

(d) The liability of each Borrower under the Loan Documents includes Obligations arising under successive transactions continuing, compromising, extending, increasing, modifying, releasing, or renewing the Obligations, changing the interest rate, payment terms, or other terms and conditions thereof, or creating new or additional Obligations after prior Obligations have been satisfied in whole or in part. To

the maximum extent permitted by law, each Borrower hereby waives any right to revoke its liability under the Loan Documents as to future indebtedness, and in connection therewith, each Borrower hereby waives any rights it may have under Section 2815 of the California Civil Code. If such a revocation is effective notwithstanding the foregoing waiver, each Borrower acknowledges and agrees that (a) no such revocation shall be effective until written notice thereof has been received by Foothill, (b) no such revocation shall apply to any Obligations in existence on such date (including, any subsequent continuation, extension, or renewal thereof, or change in the interest rate, payment terms, or other terms and conditions thereof), (c) no such revocation shall apply to any Obligations made or created after such date to the extent made or created pursuant to a legally binding commitment of Foothill in existence on the date of such revocation, (d) no payment by such Borrower or from any other source prior to the date of such revocation shall reduce the maximum obligation of the other Borrowers hereunder, and (e) any payment by such Borrower or from any source other than Borrowers, subsequent to the date of such revocation, shall first be applied to that portion of the Obligations as to which the revocation is effective and which are not, therefore, guaranteed hereunder, and to the extent so applied shall not reduce the maximum obligation of each Borrower hereunder.

(e) (i) Each Borrower absolutely, unconditionally, knowingly, and expressly waives:

(1) (A) notice of acceptance hereof; (B) notice of any loans or other financial accommodations made or extended under the Loan Documents or the creation or existence of any Obligations; (C) notice of the amount of the Obligations, subject, however, to each Borrower's right to make inquiry of Foothill to ascertain the amount of the Obligations at any reasonable time; (D) notice of any adverse change in the financial condition of the other Borrowers or of any other fact that might increase such Borrower's risk hereunder; (E) notice of presentment for payment, demand, protest, and notice thereof as to any instruments among the Loan Documents; and (F) all notices (except if such notice is specifically required to be given to Borrowers hereunder or under the Loan Documents) and demands to which such Borrower might otherwise be entitled.

(2) its right, under Sections 2845 or 2850 of the California Civil Code, or otherwise, to require Foothill to institute suit against, or to exhaust any rights and remedies which Foothill has or may have against, the other Borrowers or any third party, or against any Collateral provided by the other Borrowers, or any third party. In this regard, each Borrower agrees that it is bound to the payment of all Obligations, whether now existing or hereafter accruing, as fully as if such Obligations were directly owing to Foothill by such Borrower. Each Borrower further waives any defense arising by reason of any disability or other defense (other than the defense that the Obligations shall have been fully and finally performed and indefeasibly paid) of the other Borrowers or by reason of the cessation from any cause whatsoever of the liability of the other Borrowers in respect thereof.

(3) (A) any rights to assert against Foothill any defense (legal or equitable), set-off, counterclaim, or claim which such Borrower may now or at any time hereafter have against the other Borrowers or any other party liable to Foothill; (B) any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of the Obligations or any security therefor; (C) any defense such Borrower has to performance hereunder, and any right such Borrower has to be exonerated, provided by Sections 2819, 2822, or 2825 of the California Civil Code, or otherwise, arising by reason of: the impairment or suspension of Foothill's rights or remedies against the other Borrowers; the alteration by Foothill of the Obligations; any discharge of the other Borrowers' obligations to Foothill by operation of law as a result of Foothill's intervention or omission; or the acceptance by Foothill of anything in partial satisfaction of the Obligations; (D) the benefit of any statute of limitations affecting such Borrower's liability hereunder or the enforcement thereof, and any act which shall defer or delay the operation of any statute of limitations applicable to the Obligations shall similarly operate to defer or delay the operation of such statute of limitations applicable to such Borrower's liability hereunder.

(ii) Each Borrower absolutely, unconditionally, knowingly, and expressly waives any defense arising by reason of or deriving from (i) any claim or defense based upon an election of remedies by Foothill including any defense based upon an election of remedies by Foothill under the provisions of Sections 580a, 580b, 580d, and 726 of the California Code of Civil Procedure or any similar law of California or any other jurisdiction; or (ii) any election by Foothill under Bankruptcy Code Section 111 l(b) to limit the amount of, or any collateral securing, its claim against the Borrowers. Pursuant to California Civil Code Section 2856(b):

"Each Borrower waives all rights and defenses arising out of an election of remedies by the creditor, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed such Borrower's rights of subrogation and reimbursement against the other Borrowers by the operation of Section 580(d) of the California Code of Civil Procedure or otherwise.

"Each Borrower waives all rights and defenses that such Borrower may have because another Borrower's Obligations are secured by real property. This means, among other things:

"(1) Foothill may collect from such Borrower without first foreclosing on any real or personal property collateral pledged by another Borrower.

"(2) If Foothill forecloses on any collateral pledged by another Borrower: real property

(A) The amount of the Obligations may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price.

(B) Foothill may collect from such Borrower even if Foothill, by foreclosing on the real property collateral, has destroyed any right such Borrower may have to collect from another Borrower.

"This is an unconditional and irrevocable waiver of any rights and defenses such Borrower may have because the Obligations are secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the California Code of Civil Procedure."

If any of the Obligations at any time is secured by a mortgage or deed of trust upon real property, Foothill may elect, in its sole discretion, upon a default with respect to the Obligations, to foreclose such mortgage or deed of trust judicially or nonjudicially in any manner permitted by law, before or after enforcing the Loan Documents, without diminishing or affecting the liability of any Borrower hereunder except to the extent the Obligations are repaid with the proceeds of such foreclosure. Each Borrower understands that (a) by virtue of the operation of California's antideficiency law applicable to nonjudicial foreclosures, an election by Foothill nonjudicially to foreclose such a mortgage or deed of trust probably would have the effect of impairing or destroying rights of subrogation, reimbursement, contribution, or indemnity of such Borrower against the other Borrowers or other guarantors or sureties, and (b) absent the waiver given by such Borrower, such an election would prevent Foothill from enforcing the Loan Documents against such Borrower. Understanding the foregoing, and understanding that such Borrower is hereby relinquishing a defense to the enforceability of the Loan Documents, such Borrower hereby waives any right to assert against Foothill any defense to the enforcement of the Loan Documents, whether denominated "estoppel" or otherwise, based on or arising from an election by Foothill nonjudicially to foreclose any such mortgage or deed of trust. Each Borrower understands that the effect of the foregoing waiver may be that each Borrower may have liability hereunder for amounts with respect to which such Borrower may be left without rights of subrogation, reimbursement, contribution, or indemnity against the other Borrower or other guarantors or sureties. Each Borrower also agrees that the "fair market value" provisions of Section 580a of the California Code of Civil Procedure shall have no applicability with respect to the determination of such Borrower's liability under the Loan Documents.

(iii) Until such time as all Obligations have been fully, finally, and indefeasibly paid in full, in cash, each Borrower hereby absolutely, unconditionally, knowingly, and expressly postpones: (1) any right of subrogation such Borrower has or may have as against the other Borrowers with respect to the Obligations; (2) any right to proceed against the other Borrowers or any other Person, now or hereafter, for contribution, indemnity, reimbursement, or any other suretyship rights and claims, whether direct or indirect, liquidated or contingent, whether arising under express or implied contract or by operation of law, which such Borrower may now have or hereafter have as against the other Borrowers with respect to the Obligations; and (3) any right to proceed or seek recourse against or with respect to any property or asset of the other Borrowers.

(iv) WITHOUT LIMITING THE GENERALITY OF ANY OTHER WAIVER OR OTHER PROVISION SET FORTH IN THIS SECTION 11.4, EACH BORROWER HEREBY ABSOLUTELY, KNOWINGLY, UNCONDITIONALLY, AND EXPRESSLY WAIVES AND AGREES NOT TO ASSERT ANY AND ALL BENEFITS OR DEFENSES ARISING DIRECTLY OR INDIRECTLY UNDER ANY ONE OR MORE OF CALIFORNIA CIVIL CODE SECTIONS 2799, 2808, 2809, 2810, 2815, 2819, 2820, 2821, 2822, 2825, 2839, 2845, 2848, 2849, AND 2850, CALIFORNIA CODE OF CIVIL PROCEDURE SECTIONS 580a, 580b, 580c, 580d, AND 726, AND CHAPTER 2 OF TITLE 14 OF THE CALIFORNIA CIVIL CODE.

(f) Each Borrower consents and agrees that, without notice to or by such Borrower, and without affecting or impairing the liability of such Borrower hereunder, Foothill may, by action or inaction:

(i) compromise, settle, extend the duration or the time payment of, or discharge the performance of, or may refuse to or otherwise not enforce the Loan Documents, or any part thereof, with respect to the other Borrowers;

(ii) release the other Borrowers or grant other indulgences to the other Borrowers in respect thereof; or

(iii) release or substitute any guarantor, if any, of the Obligations, or enforce, exchange, release, or waive any security for the Obligations or any guaranty of the Obligations, or any portion thereof.

(g) Foothill shall have the right to seek recourse against each Borrower to the fullest extent provided for herein, and no election by Foothill to proceed in one form of action or proceeding, or against any party, or on any obligation, shall constitute a waiver of Foothill's right to proceed in any other form of action or proceeding



or against other parties unless Foothill has expressly waived such right in writing. Specifically, but without limiting the generality of the foregoing, no action or proceeding by Foothill under the Loan Documents shall serve to diminish the liability of any Borrower thereunder except to the extent that Foothill finally and unconditionally shall have realized indefeasible payment by such action or proceeding.

(h) The Obligations shall not be considered indefeasibly paid for purposes of this Section 11.4 unless and until all payments to Foothill are no longer

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subject to any right on the part of any person, including any Borrower, any Borrower as a debtor in possession, or any trustee (whether appointed pursuant to 11 U.S.C., or otherwise) of any Borrower's assets to invalidate or set aside such payments or to seek to recoup the amount of such payments or any portion thereof, or to declare same to be fraudulent or preferential. Upon such full and final performance and indefeasible payment of the Obligations, Foothill shall have no obligation whatsoever to transfer or assign its interest in the Loan Documents to any Borrower. In the event that, for any reason, any portion of such payments to Foothill is set aside or restored, whether voluntarily or involuntarily, after the making thereof, then the obligation intended to be satisfied thereby shall be revived and continued in full force and effect as if said payment or payments had not been made, and each Borrower shall be liable for the full amount Foothill is required to repay plus any and all costs and expenses (including attorneys' fees and attorneys' fees incurred pursuant to 11 U.S.C.) paid by Foothill in connection therewith.

Borrowers and each of them warrant and agree that each of the waivers and consents set forth herein are made after consultation with legal counsel and with full knowledge of their significance and consequences, with the understanding that events giving rise to any defense or fight waived may diminish, destroy or otherwise adversely affect rights which Borrowers otherwise may have against other Borrowers, the Lender Group or others, or against Collateral. If any of the waivers or consents herein are determined to be contrary to any applicable law or public policy, such waivers and consents shall be effective to the maximum extent permitted by law.

## 12. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, or telefacsimile to Borrower or to Foothill, as the case may be, at its address set forth below:

If to Borrowers: c/o ALLIED HEALTHCARE PRODUCTS, INC.  
1720 Sublette Avenue  
St. Louis, Missouri 63110  
Attn: Vice President Finance  
Fax No. 314.771.0650

with copies TO: GREENSFELDER, HEMKER & GALE P.C.  
2000 Equitable Building  
10 South Broadway  
St. Louis, Missouri 63102  
ATTN: Vincent J. Garozzo, Esq.  
Fax No. 314.241.3237

IF TO FOOTHILL: FOOTHILL CAPITAL CORPORATION  
11111 Santa Monica Boulevard  
Suite 1500  
Los Angeles, California 90025-3333  
Attn: Business Finance Division Manager  
Fax No. 310.478.9788

with copies TO: BUCHALTER, NEMER, FIELDS & YOUNGER  
601 South Figueroa, Suite 2400  
Los Angeles, California 90017  
Attn: Robert C. Colton, Esq.  
Fax No. 213.896.0400

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12, other than

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notices by Foothill in connection with Sections 9504 or 9505 of the Code, shall be deemed received on the earlier of the date of actual receipt or 3 days after the deposit thereof in the mail. Each Borrower acknowledges and agrees that notices sent by Foothill in connection with Sections 9504 or 9505 of the Code shall be deemed sent when deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or other similar method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN AN ANOTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA OR, AT THE SOLE OPTION OF-FOOTI4ffLL, IN ANY OTHER

COURT IN WHICH FOOTHILL SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH BORROWER AND FOOTHILL WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION !3.EACH BORROWER AND

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FOOTHILL HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH BORROWER AND FOOTHILL REPRESENTS THAT THEY HAVE REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. DESTRUCTION OF BORROWERS' DOCUMENTS.

All documents, schedules, invoices, agings, or other papers delivered to Foothill may be destroyed or otherwise disposed of by Foothill four months after they are delivered to or received by Foothill, unless Borrowers request, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrowers' expense, for their return.

15. GENERAL PROVISIONS.

15.1 EFFECTIVENESS. This Agreement shall be binding and deemed effective when executed by Borrowers and Foothill.

15.2 SUCCESSORS AND ASSIGNS. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that no Borrower may assign this Agreement or any rights or

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duties hereunder without Foothill's prior written consent and any prohibited assignment shall be absolutely void. No consent to an assignment by Foothill shall release the assigning Borrower from its Obligations. Foothill may assign this Agreement and its rights and duties hereunder and no consent or approval by Borrowers is required in connection with any such assignment. Foothill reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in Foothill's rights and benefits hereunder. In connection with any such assignment or participation, Foothill may disclose all documents and information which Foothill now or hereafter may have relating to any Borrower or any Borrower's business. To the extent that Foothill assigns its rights and obligations hereunder to a third Person, Foothill thereafter shall be released from such assigned obligations to

Borrowers and such assignment shall effect a novation between Borrowers and such third Person.

15.3 SECTION HEADINGS. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

15.4 INTERPRETATION. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Foothill or Borrowers, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

15.5 SEVERABILITY OF PROVISIONS. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

15.6 AMENDMENTS IN WRITING. This Agreement can only be amended by a writing signed by both Foothill and Borrowers.

15.7 COUNTERPARTS; TELEFACSIMILE EXECUTION. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

15.8 REVIVAL AND REINSTATEMENT OF OBLIGATIONS. If the incurrence or payment of the Obligations by any Borrower or any guarantor of the Obligations or the transfer by either or both of such parties to Foothill of any property of either or both of such parties should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfers), and if Foothill is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Foothill is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of Foothill related thereto, the liability of Borrowers or such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

15.9 INTEGRATION. This Agreement, certain supplemental letters delivered concurrently herewith, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in Los Angeles, California.

ALLIED HEALTHCARE PRODUCTS, INC.,  
a Delaware corporation

By Uma Nandan Aggarwal  
Title: President and Chief Executive Officer

B&F MEDICAL PRODUCTS, INC.,  
a Delaware corporation

By Uma Nandan Aggarwal  
Title: President and Chief Executive Officer

HOSPITAL SYSTEMS, INC.,  
a California corporation

By Uma Nandan Aggarwal  
Title: President and Chief Executive Officer

LIFE SUPPORT PRODUCTS, INC.,  
a California corporation

By Uma Nandan Aggarwal  
Title: President and Chief Executive Officer

FOOTHILL," CAPITAL CORPORATION,  
a California corporation

By Christopher J Coutu  
Title: Vice President

See Schedule 6.12

Schedule P-!

Liens on the Sublette real property and related fixtures as evidenced by that certain (i) Deed of Trust between Parent, Joseph Hipskind, as Trustee and LaSalle National Bank dated August 7, 1998 and (ii) UCC fixture filing attached hereto, securing that certain \$5,000,000 Promissory Note made by Parent in favor of LaSalle National Bank.



Schedule P-I

Real Property Owned:

-----

Kinderhook Road  
Stuyvesant Falls, NY 12174

1421 North Expressway Drive  
Toledo, OH 43608

52 Gradolph Street  
Toledo, OH 43608

Schedule 5.8  
DUE ORGANIZATION AND QUALIFICATION; SUBSIDIARIES

Allied Healthcare Products, Inc., a Delaware corporation, owns 100% of the issued and outstanding stock of the following corporations:

B&F Medical Products, Inc., a Delaware corporation with 100,000 shares of common stock, par value \$. 01 (the "Common Stock"), authorized and 1,000 shares of Common Stock issued and outstanding.

Hospital Systems, Inc., a California corporation with 100,000 shares of common stock, no par value (the "Common Stock"), authorized and 100 shares of Common Stock issued and outstanding.

Life Support Products, Inc., a California corporation with 3,000,000 shares of stock authorized consisting of 2,571,367 shares of common stock, no par value (the "Common Stock"), with 934,403 shares of Common Stock issued and outstanding and 428,633 shares of Series A preferred stock, no par value (the "Preferred Stock") with no shares of Preferred Stock issued and outstanding.

Omni-Tech Medical, Inc., a Kansas corporation ("Omni-Tech") with 100,000 shares of common stock, par value of \$1.00 (the "Common Stock") authorized and 100,000 shares of Common Stock issued and outstanding. Omni-Tech has no material assets and is a dormant corporation.

SCHEDULE 5.10,  
MATERIAL PROCEEDINGS

Product liability claims are asserted against the Borrowers from time to time for various injuries alleged to have resulted from defects in the manufacture and/or design of a Borrower's products. Product liability claims are covered by the Borrowers comprehensive general liability insurance policies, subject to certain deductible amounts. The Borrowers establish reserves for such deductible amounts, which they believe to be adequate based on their previous claims experience.

From time to time, the Borrowers are the subject of legal proceedings, including proceedings other than product liability claims, such as claims involving employee matters and similar claims. There are no material claims currently pending which could have a material adverse affect.

The following is a list of pending and potential litigation:

I. HOSPITAL PRODUCTS DIVISION.

A. Hammer v. Allied. Mist-O-Gen  
-----

Jurisdiction: Circuit Court of Illinois, Will Co.  
Date of incident: October 20, 1995  
Case file date: October 15, 1996  
Product involved: Mist-O-Gen TAB 25 Tubing Dryer  
Case type: Personal injury

B. Gibbons v. The Port Hope and District Hospital. et al.  
-----

Jurisdiction: Ontario (Canada) General Division  
Date of incident: April 23, 1996  
Case file date: April 21, 1997  
Date of service: June 12, 1997  
Product involved: Extractor  
Case type: Wrongful Death

II. PENDING LITIGATION

D. Dubkoff. et al. v. Northcoast Rehabilitation Hospital. et al.  
-----

Jurisdiction: Superior Court for State of California,  
Contra Costa County

Date of incident: June 15, 1996 .  
Date of service: November 3, 1997  
Product involved: Bear 3 Adult Volume Ventilator  
Case type: Wrongful Death

B.

David Shamel v. Allied Healthcare Products. et al.  
-----

Jurisdiction: District Court of Travis County, Texas  
Date of incident: June 14, 1996  
Date of service: July 3, 1998  
Product involved: Oxygen Regulator  
Case type: Personal Injury

Michael Bush v. Allied Healthcare Products. et al.  
-----

Jurisdiction: District Court of Travis County, Texas  
Date of incident: June 14, 1996  
Date of service: July 3, 1998  
Product involved: Oxygen Regulator  
Case type: Personal Injury

John N. Steck, Jret ux v. Praxair. et al.  
-----

Jurisdiction: Court of Common Pleas,  
Allegheny County Pennsylvania  
Date of incident: April 4, 1997  
Date of service: April 9, 1998  
Product involved: Oxygen Regulator  
Case type: Personal Injury

III. POTENTIAL LITIGATION - VENTILATION PRODUCTS DIVISION

A. Betty Ellis  
-----

Date of incident: March 22, 1997  
Product involved: BEAR 2  
Case type: Wrongful Death

B. Laurano  
-----

Date of incident: December 22, 1993  
Product involved: Unknown Bear product  
Case type: Personal Injury

C. Mary- Lou Demerly  
-----

Date of incident: November 8, 1996  
Case type: Wrongful Termination

IV. POTENTIAL LITIGATION

A. JWP Bankruptcy. This case involves an insolvent installer alleging  
-----  
Allied owes approximately \$94,000.00 arising out of an equipment  
transaction around the Fall of 1996. We are in the process of gathering  
the necessary documentation to show we have paid these bills by  
credits.

B. Roy Williams. Firefighter in Broward County, Florida who was burned  
-----  
in an oxygen cylinder fire this Spring. They will allege, among other  
things, a defective oxygen regulator. No suit has been filed.

C. Mike Szyrba. Firefighter in the Chicagoland area burned in an  
-----  
oxygen cylinder fire in 1996. They will allege a defective regulator.

The items set forth on this Schedule 5.10 would not, if adversely decided,  
individually or collectively cause a Material Adverse Change to Borrower.

SCHEDULE 5.13 EMPLOYEE BENEFITS

None.

SCHEDULE 6.12  
LOCATION OF INVENTORY AND EQUIPMENT

Location of Parent's Inventory:

-----  
1720 Sublette Avenue  
St. Louis, Missouri 63110

Location of Life Support's Inventory:

-----  
1720 Sublette Avenue  
St. Louis, Missouri 63110

Locations of B&F's Inventory:

-----  
1421 Expressway Drive North  
Toledo, OH 43608

52 Gradolph Street  
Toledo, OH 43608

Location of Hospital System's Inventory:

-----  
5301 Adeline Street  
Oakland, CA 94608-3196

Other Locations of Inventory:

-----  
Kinderhook Road  
Stuyvesant Falls, NY 12174

Deroyal Industries  
1601 Hwy 33, South  
New Tazwell, TN 37825

COMPLIANCE CERTIFICATE  
(Amended and Restated Loan and Security Agreement Section 6.3)

Date \_\_\_\_\_, 199\_\_

Foothill Capital Corporation  
11111 Santa Monica Boulevard  
Suite 1500  
Los Angeles, CA 90025-3333  
Attention:\_\_\_\_\_

RE: Amended and Restated Loan and Security Agreement, dated as of September 1, 1998 (the "Agreement") by and between FOOTHILL CAPITAL CORPORATION ("Lender") on the one hand and ALLIED HEALTHCARE PRODUCTS, INC. ("Parent") and certain of its subsidiaries (jointly "Borrowers") on the other hand.

Dear \_\_\_\_\_:

In accordance with Section 6.3 of the Agreement, this letter shall serve as certification to Lender that to the best of my knowledge: (i) all financial statements have been prepared in accordance with GAAP and fairly represent the financial condition of Parent (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments), (ii) the representations and warranties of Borrowers set forth in the Agreement and other Loan Documents are true and correct in all material respects on and as of the date of this certification (except to the extent that such representations and warranties relate solely to an earlier date), (iii) Parent is in compliance with the financial covenants set forth in Section 7.20 of the Agreement, and (iv) on the date of delivery of this certificate to Lender there does not exist any condition or event that constitutes a Default or Event of Default. Such certification is made as of the fiscal month ending \_\_\_\_\_, 199\_\_.

Sincerely,

ALLIED HEALTHCARE PRODUCTS, INC.

By:\_\_\_\_\_

Vice-President Finance



Allied manufactures and sells its products under a variety of well-known and respected brand names, including:

Gomco sets the industry standard in portable suction equipment for hospitals.

Life Support Products is a market leader in respiratory care and trauma products for emergency medical operations.

Chemetron's respiratory care and medical gas construction products command a major share of the hospital and medical facility market.

Timeter is recognized as one of the most respected brand names in quality medical gas flowmeters and calibration equipment.

B&F manufactures a wide range of disposable respiratory care products for the home care market.

Schuco produces portable suction equipment and nebulizers used in home and alternate care settings.

ALLIED HEALTHCARE PRODUCTS, INC.  
1720 Sublette Avenue  
St. Louis, Missouri 63110  
(314) 771-2400  
Fax: (314) 771-0650

Building  
ON THE

BASICS

ALLIED HEALTHCARE PRODUCTS, INC.  
1998 Annual Report  
-----

#### CORPORATE PROFILE

Allied Healthcare Products is a leading manufacturer of medical gas construction equipment, respiratory care products, emergency medical equipment and home health care products. The company's products are utilized in a wide range of medical settings, including emergency medical situations, hospital and sub-acute care treatment, and home health care.

Allied's medical gas construction systems include in-wall components for delivering medical gases throughout the hospital, and central station pumps and compressors for supplying vacuum and medical air. The company also manufactures headwalls, which are pre-fabricated with piping and electrical components to speed renovations and provide a decorative look for patient rooms and intensive care units.

Allied also offers a broad range of products used in respiratory care, including large volume compressors, transport ventilators and calibrators, humidifiers, oxygen concentrators, nebulizers, and a complete line of disposable respiratory products.

The company's emergency medical products include respiratory and resuscitation products, trauma and patient handling equipment, and related items for ambulance companies, fire departments and emergency medical system volunteer organizations.

Allied's well-respected brand names include Chemetron, Gomco, Timeter, Oxequip, Life Support Products, B&F Medical, Schuco, Hospital Systems and Omni-Tech Medical.

#### Financial Highlights

For years ended June 30,	1998	1997	1996
<b>OPERATING RESULTS</b>			
Net sales . . . . .	\$96,467	\$118,118	\$120,123
Operating income . . . . .	6,503	1,843	8,124
Income (loss) before income taxes and extraordinary loss . . . . .	2,153	(5,949)	3,300
Net income (loss) . . . . .	(7,396)	(4,521)	1,827
Net income (loss) as a % of sales.	(7.7)%	(3.8)%	1.5%
<b>FINANCIAL POSITION</b>			
Working capital . . . . .	\$21,308	\$ 18,743	\$ 38,030
Total assets . . . . .	80,180	126,343	136,760
Total debt . . . . .	18,415	46,932	52,882
Shareholders' equity . . . . .	52,037	59,365	63,886
Current ratio . . . . .	2.67:1	1.57:1	2.69:1
<b>PER SHARE DATA</b>			
Net income (loss) . . . . .	\$ (0.95)	\$ (0.58)	\$ 0.25
Book value . . . . .	\$ 6.67	\$ 7.61	\$ 8.19

#### ANNUAL MEETING

The Annual Meeting of Shareholders of Allied Healthcare Products, Inc. will take place on Monday, November 16, 1998,

at 10 a.m. Central Time, at The Daniele Hotel,  
 216 N. Meramec, Clayton, Missouri 63105.  
 TRANSFER AND DIVIDEND DISBURSING AGENT  
 American Stock Transfer and Trust Company  
 New York, New York  
 INDEPENDENT ACCOUNTANTS  
 PricewaterhouseCoopers, LLP  
 St. Louis, Missouri  
 LEGAL COUNSEL  
 Kodner, Watkins, Muchnick & Dunne, LC  
 St. Louis, Missouri  
 INVESTOR RELATIONS  
 Tom Goyda  
 Shandwick International  
 St. Louis, Missouri  
 (314) 552-6724  
 COMMON STOCK INFORMATION  
 The common stock is traded on the Nasdaq National Market under the symbol AHPI.

1998	HIGH	LOW
September quarter	\$7 71/48	\$ 6 31/48
December quarter.	8 11/42	7 11/44
March quarter . .	8	6 71/416
June quarter. . .	6 11/42	4 11/44

1997	HIGH	LOW
September quarter	\$10 11/44	\$6 11/44
December quarter.	7 31/44	6 31/48
March quarter . .	9 11/44	7
June quarter. . .	7 11/48	5 31/48

Allied Healthcare Products, Inc. began trading on the Nasdaq National Market under the symbol AHPI on January 14, 1992, following its initial public offering. As of September 18, 1998, there were 266 shareholders of record.

DIRECTORS  
 DENNIS W. SHEEHAN  
 Chairman of the Board  
 Allied Healthcare Products, Inc.  
 St. Louis, Missouri  
 Retired Chairman, President and  
 Chief Executive Officer  
 AXIA Incorporated  
 UMA NANDAN AGGARWAL  
 President and Chief Executive Officer  
 Allied Healthcare Products, Inc.  
 St. Louis, Missouri  
 DAVID A. GEE  
 President Emeritus  
 The Jewish Hospital  
 St. Louis, Missouri  
 JAMES B. HICKEY, JR.  
 President and Chief Executive Officer  
 Angeion Corporation  
 Minneapolis, Minnesota  
 ROBERT E. LEFTON, PH.D.  
 President and Chief Executive Officer  
 Psychological Associates  
 St. Louis, Missouri  
 WILLIAM A. PECK, M.D.  
 Vice Chancellor of Medical Affairs  
 Washington University  
 St. Louis, Missouri  
 JOHN D. WEIL  
 President  
 Clayton Management Company  
 St. Louis, Missouri  
 OFFICERS  
 UMA NANDAN AGGARWAL  
 President and Chief Executive Officer  
 DAVID A. GRABOWSKI  
 Vice President, Sales and Marketing  
 GABRIEL S. KOHN  
 Vice President, Engineering

FORM 10-K

INVESTOR RELATIONS  
 Allied Healthcare Products, Inc.  
 1720 Sublette Avenue  
 St. Louis, Missouri 63110  
 (314) 771-2400  
 Fax: (314) 771-0650

Dear Shareholders:

Allied Healthcare Products accomplished a number of key objectives in fiscal 1998 which will significantly improve the company's financial and operating

picture as we move into fiscal 1999. The company cured its liquidity problems and also broke a string of seven consecutive quarterly losses, reporting a small profit in the third quarter.

Despite disappointments with the results for the fourth quarter and the year, we continue to focus on our turnaround efforts and on rebuilding sales momentum as we strive to return Allied to sustained profitability.

#### 1998 Achievements

Nineteen ninety-eight was a year when we did make significant headway, with accomplishments including:

**Strengthening the Balance Sheet**-Following the refinancing of our bank debt in August 1997, the company sold its Bear Medical and BiCore ventilation products divisions in October and used the cash proceeds to pay down outstanding debt. Aggregate indebtedness at year-end was \$18.4 million, a decrease of \$28.5 million compared with debt of \$46.9 million at the end of fiscal 1997. We also reevaluated the carrying costs of all of Allied's remaining businesses and took a \$9.8 million charge primarily for the write-down of goodwill. In addition, we added to our reserves for inventories and receivables.

**Asset Management**-We reduced base business (excluding Bear Medical and BiCore in both periods) inventories and receivables by \$4.7 million during the fiscal year, while also improving our inventory mix and the quality of our receivables.

**Reducing Costs**-Due to the dramatic reduction in debt, we have seen a significant decrease in interest expense. At the same time, our selling, general and administrative costs as a percentage of sales have declined thanks to our cost cutting and productivity improvement efforts. Recently announced plans to relocate our B&F division's production to our existing St. Louis facility in October 1998 are expected to save us more than \$1.0 million in additional annual operating costs.

**Quality and Customer Service**-Investments in improving product quality resulted in our St. Louis facility earning both the ISO 9001 and CE certifications. In addition, better inventory management has led to improved stocking of fast-moving items, and our customers have noticed improved shipping times and overall service.

**New Product Development**-Revitalized product development and enhancement efforts have resulted in the introduction of several new products over the past year. These new products and several additional introductions planned for fiscal 1999 will help Allied reestablish itself as an innovator in its market niches.

#### 1998 Financial Performance

Revenues for the year ended June 30, 1998 were \$96.5 million, down 18.3 percent from \$118.1 million the prior year. Allied reported a net loss of \$7.4 million, or 95 cents per diluted share, for fiscal 1998 compared with a net loss of \$4.5 million, or 58 cents per diluted share, for the full year in 1997. Results for fiscal 1998 include a number of special items, including a \$12.8 million gain on the sale of Bear Medical and BiCore and the \$9.8 million write-down of goodwill, and a \$9.0 million provision for income taxes reflecting the effects of these transactions.

Excluding sales from Bear Medical and BiCore in both years, revenues for the company's base businesses declined 3.0 percent due to several factors. First, the overall domestic market for health care products remained sluggish. Declining Medicare reimbursements, a milder cold and flu season, and a drop in new hospital construction hurt sales of Allied's home care, respiratory care and construction products. In addition, our refusal to accept unprofitable business resulted in a significant drop in the sale of aluminum cylinders. Finally, the weakness in a number of Asian economies affected our sales in that region of the world.

#### Board Transition

During 1998, we reduced the size of our board as two new directors joined and three directors left due to other demands on their time. We welcome John Weil, president of Clayton Management Co., and Jim Hickey, president and CEO of Angeion Corp., and look forward to their contributions. At the same time, we bid farewell to Samuel Hamacher, James Janning and Donald Nickelson and thank them for their service over the years.

The 1999 fiscal year is shaping up to be a pivotal one at Allied Healthcare Products. In fiscal 1998, we established a firm financial foundation. Our debt has gone down significantly; our assets are under better control; and our costs have been reduced. We have also improved product quality and customer service, and regained product development momentum. We are very excited about this progress, and must now build on this solid base to improve sales and produce stronger results in 1999 and the years ahead.

Sincerely,

/S/ UMA NANDAN AGGARWAL	/S/ DENNIS W. SHEEHAN
UMA NANDAN AGGARWAL	DENNIS W. SHEEHAN
President and Chief Executive Officer	Chairman

BALANCE SHEET IMPROVEMENT

-----  
Allied's focus on better management of its assets - principally accounts

receivable and inventories - paid strong dividends in fiscal 1998. Base business accounts receivable levels declined by \$1.7 million overall (see accompanying chart), and accounts were more current at the end of fiscal 1998 than they were in the prior year. This trend is even more significant in light of the fact that the industry as a whole experienced deterioration in this category.

Base business inventory levels overall decreased by \$3.0 million (see accompanying chart), but the story behind the inventory level decrease shows even more positive trends. That's because the company improved its inventory mix, so that more high-volume goods are in stock for quick sales and shipping, and fewer low-volume and out-of-date products are on the shelves accumulating carrying costs.

The sale of Bear Medical and BiCore, and reductions in working capital needs, have also enabled Allied to dramatically lower its long-term debt and improve its debt-to-equity ratio, as shown in the accompanying chart.

#### QUALITY & CUSTOMER SERVICE

Allied's efforts to raise the caliber of its manufacturing and customer service operations to world-class standards were rewarded when the company's St. Louis facility earned the ISO 9001 certification, as well as the CE certification for certain products shipped to Europe. This success came about as a result of an intensive period of hard work on the part of all of Allied's St. Louis employees.

A new line of Disposable Bag Valve Mask Resuscitators (the DBMR 570 Series),

from

Life Support Products, offers additional features based on the needs of emergency medical personnel and a lower price that reflects today's cost-conscious health care system.

As a result of Allied's focus on quality and customer service in 1998, the company is moving into fiscal 1999 on firmer footing in the marketplace. Customers have recognized that Allied is dedicated to manufacturing quality products. In addition, efforts to ensure off-the-shelf delivery of high-demand merchandise will lead to more satisfied customers. Moving production of the B&F and Schuco lines to St. Louis in October 1998 will also enable Allied to improve quality and customer service for its home care lines.

#### PROFITABILITY

The most important task facing Allied going forward is to build on the solid foundation established in fiscal 1998 to return to consistent profitability in 1999. The company has made progress, posting its first quarterly profit in nearly two years for the third quarter of fiscal 1998.

The company's revenue base will be significantly lower due to the sale of the Bear Medical and BiCore businesses. However, on a pro forma basis Allied's base business generated fiscal 1998 gross profit \$200,000 higher than the prior year on a revenue decrease of \$2.6 million, due to improved pricing and product mix. Selling, general and administrative expenses declined by \$4.3 million, and the company generated income from operations of \$1.6 million compared to a loss from operations of \$2.9 million in fiscal 1997. In addition, dramatically lower interest costs have further reduced Allied's break even point heading into fiscal 1999.

Coming soon from Chemetron, a new

Medical Gas Manifold that provides fully automated delivery of medical gases. Featuring electronic controls and a simplified design, the unit offers nearly double the flow of Allied's current manifolds at a lower cost.

#### PRODUCTS

Allied regained its new product momentum during fiscal 1998 by releasing a series of new products. The company's new Respical, PocketCap, Connect2 and Disposable Bag Valve Mask Resuscitators have met with solid marketplace acceptance. In the fourth quarter of fiscal 1998, these products generated a total of more than \$700,000 in new sales for Allied. In the coming year, Allied plans to retain its product development momentum and roll out additional products.

Some of Allied's recent product introductions and plans for the first half of the year are outlined in the accompanying table:

The new PocketCap portable CO2 monitor,  
from Allied's Life Support Products division,  
provides emergency medical personnel with  
an affordable, compact and reliable unit to  
confirm tracheal intubation.

Companies owned by Allied Healthcare Products, Inc. as follows:  
Parent Co./Allied Healthcare Products, Inc.  
B&F Medical Products, Inc.  
Life Support Products  
Hospital Systems, Inc.  
Omni-Tech Medical, Inc.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 33-99960, 33-86019, 33-45147, 33-45146 and 333-16489) of Allied Healthcare Products, Inc. of our report dated August 7, 1998, except for Note 14 which is as of September 8, 1998, appearing in the 1998 Annual Report to Shareholders of Allied Healthcare Products, Inc. on Form 10-K (wh/ch report and consolidated financial statements are included herein). We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page S-1 of this Form 10-K.

/S/ PricewaterhouseCoopers LLP  
-----  
PricewaterhouseCoopers LLP

St. Louis, Missouri  
September 21, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of the Chief Executive Officer and Chief Financial Officer of Allied Healthcare Products, Inc. as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ Dennis W. Sheehan  
-----  
Dennis W. Sheehan

Date: August 25, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of the Chief Executive Officer and Chief Financial Officer of Allied Healthcare Products, Inc. as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ Dr. William Peck  
-----  
Dr. William Peck

Date: August 24, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of the Chief Executive Officer and Chief Financial Officer of Allied Healthcare Products, Inc. as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ Robert E. Lefton  
-----  
Robert E. Lefton

Date: August 31, 1998



POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of the Chief Executive Officer and Chief Financial Officer of Allied Healthcare Products, Inc. as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ James B. Hickley, Jr.

-----  
James B. Hickley, Jr.

Date: August 26, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of the Chief Executive Officer and Chief Financial Officer of Allied Healthcare Products, Inc. as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ John Weil

-----  
John Weil

Date: August 31, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of the Chief Executive Officer and Chief Financial Officer of Allied Healthcare Products, Inc. as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ Uma Aggarwal

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Uma Aggarwal

Date: August 25, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of the Chief Executive Officer and Chief Financial Officer of Allied Healthcare Products, Inc. as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1998 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ David A. Gee

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David A. Gee

Date: August 24, 1998



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