

ALLIED MOTION TECHNOLOGIES INC
Form 10-Q
August 06, 2015
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015

Commission File Number

0-04041

ALLIED MOTION TECHNOLOGIES INC.

(Exact name of Registrant as Specified in Its Charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-0518115
(I.R.S. Employer
Identification No.)

495 Commerce Drive, Suite 3

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

Amherst, New York 14228

(Address of Principal Executive offices, including zip code)

(716) 242-8634

(Registrant's Telephone Number, Including Area Code)

(Former Address, if Changed Since Last Report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ninety (90) days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of Shares of the only class of Common Stock outstanding: 9,290,895 as of August 6, 2015

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
<u>Item 1.</u>	Financial Statements
	<u>Condensed Consolidated Balance Sheets - Unaudited</u> 1
	<u>Condensed Consolidated Statements of Operations and Comprehensive - Unaudited</u> 2
	<u>Condensed Consolidated Statements of Cash Flows - Unaudited</u> 3
	<u>Notes to Condensed Consolidated Financial Statements - Unaudited</u> 4
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results Of Operations</u> 15
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 22
<u>Item 4.</u>	<u>Controls and Procedures</u> 23
PART II. <u>OTHER INFORMATION</u>	
<u>Item 1A.</u>	<u>Risk Factors</u> 25
<u>Item 5.</u>	<u>Other Information</u> 25
<u>Item 6.</u>	<u>Exhibits</u> 25

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$ 11,336	\$ 13,113
Trade receivables, net of allowance for doubtful accounts of \$615 and \$367 at June 30, 2015 and December 31, 2014, respectively	32,571	27,745
Inventories, net	25,998	25,371
Deferred income taxes	1,388	1,888
Prepaid expenses and other assets	3,277	2,667
Total Current Assets	74,570	70,784
Property, plant and equipment, net	36,173	37,041
Deferred income taxes	2,515	2,723
Intangible assets, net	31,327	32,791
Goodwill	17,840	18,303
Other long term assets	4,395	3,998
Total Assets	\$ 166,820	\$ 165,640
Liabilities and Stockholders Equity		
Current Liabilities:		
Debt obligations	9,884	7,723
Accounts payable	16,754	15,510
Accrued liabilities	9,861	12,330
Income taxes payable	785	393
Total Current Liabilities	37,284	35,956
Long-term debt	63,375	67,125
Deferred income taxes	1,129	1,299
Deferred compensation arrangements	2,788	2,167
Pension and post-retirement obligations	3,078	3,142
Total Liabilities	107,654	109,689
Commitments and Contingencies		
Stockholders Equity:		
Common stock, no par value, authorized 50,000 shares; 9,291 and 9,213 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	26,329	25,129
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	42,141	36,505
Accumulated other comprehensive income (loss)	(9,304)	(5,683)
Total Stockholders Equity	59,166	55,951
Total Liabilities and Stockholders Equity	\$ 166,820	\$ 165,640

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Revenues	\$ 60,479	\$ 62,069	\$ 120,059	\$ 122,504
Cost of goods sold	42,492	43,501	84,572	86,844
Gross margin	17,987	18,568	35,487	35,660
Operating costs and expenses:				
Selling	2,063	2,232	4,271	4,342
General and administrative	5,822	6,709	11,375	12,925
Engineering and development	3,707	3,472	7,153	6,989
Amortization of intangible assets	660	670	1,322	1,348
Total operating costs and expenses	12,252	13,083	24,121	25,604
Operating income	5,735	5,485	11,366	10,056
Other expense (income):				
Interest expense	1,511	1,649	3,026	3,287
Other (expense) income, net	(19)	53	(285)	(299)
Total other expense, net	1,492	1,702	2,741	2,988
Income before income taxes	4,243	3,783	8,625	7,068
Provision for income taxes	(1,118)	(1,090)	(2,524)	(2,227)
Net income	\$ 3,125	\$ 2,693	\$ 6,101	\$ 4,841
Basic earnings per share:				
Earnings per share	\$ 0.34	\$ 0.29	\$ 0.66	\$ 0.53
Basic weighted average common shares	9,264	9,152	9,225	9,136
Diluted earnings per share:				
Earnings per share	\$ 0.34	\$ 0.29	\$ 0.66	\$ 0.53
Diluted weighted average common shares	9,264	9,152	9,225	9,136
Net income	\$ 3,125	\$ 2,693	\$ 6,101	\$ 4,841
Foreign currency translation adjustment	917	(332)	(3,562)	(325)
Change in accumulated income (loss) on derivatives	41	(89)	(59)	(98)
Comprehensive income	\$ 4,083	\$ 2,272	\$ 2,480	\$ 4,418

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the six months ended	
	2015	2014
	June 30,	
Cash Flows From Operating Activities:		
Net income	\$ 6,101	\$ 4,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,665	3,481
Deferred income taxes	555	575
Stock compensation expense	926	768
Other	269	1,465
Changes in operating assets and liabilities:		
Trade receivables	(5,975)	(4,979)
Inventories, net	(1,514)	(1,488)
Prepaid expenses and other assets	(666)	593
Accounts payable	1,757	1,173
Accrued liabilities	(1,519)	(71)
Net cash provided by operating activities	3,599	6,358
Cash Flows From Investing Activities:		
Purchase of property and equipment	(2,708)	(1,571)
Proceeds related to working capital adjustment on acquisition		1,399
Net cash used in investing activities	(2,708)	(172)
Cash Flows From Financing Activities:		
Borrowings on lines-of-credit, net	1,398	(2,591)
Principal payments of long-term debt	(3,000)	(2,500)
Dividends paid to stockholders	(465)	(499)
Stock transactions under employee benefit stock plans	223	304
Net cash used in financing activities	(1,844)	(5,286)
Effect of foreign exchange rate changes on cash	(824)	(83)
Net (decrease) increase in cash and cash equivalents	(1,777)	817
Cash and cash equivalents at beginning of period	13,113	10,171
Cash and cash equivalents at end of period	\$ 11,336	\$ 10,988

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

1. BASIS OF PREPARATION AND PRESENTATION

Allied Motion Technologies Inc. (Allied Motion or the Company) is engaged in the business of designing, manufacturing and selling motion control solutions, which include integrated system solutions as well as individual motion control products, to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion, automotive control, medical, and aerospace and defense markets.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using end of period exchange rates. Changes in reported amounts of assets and liabilities of foreign subsidiaries that occur as a result of changes in exchange rates between foreign subsidiaries functional currencies and the U.S. dollar are included in foreign currency translation adjustment. Foreign currency translation adjustment is included in accumulated other comprehensive income, a component of stockholders' equity in the accompanying condensed consolidated balance sheets. Revenue and expense transactions use an average rate prevailing during the month of the related transaction. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency of each Technology Unit (TU) are included in the results of operations as incurred.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and include all adjustments which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures herein are adequate to make the information presented not misleading. The financial data for the interim periods may not necessarily be indicative of results to be expected for the year.

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2014 that was previously filed by the Company.

Reclassification

Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2015 presentation.

2. INVENTORIES

Inventories include costs of materials, direct labor and manufacturing overhead, and are stated at the lower of cost (first-in, first-out basis) or market, as follows (in thousands):

	June 30, 2015	December 31, 2014
Parts and raw materials	\$ 23,220	\$ 21,573
Work-in-process	2,953	2,924
Finished goods	3,369	4,403
	29,542	28,900
Less reserves	(3,544)	(3,529)
Inventories, net	\$ 25,998	\$ 25,371

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is classified as follows (in thousands):

	June 30, 2015		December 31, 2014
Land	\$ 974	\$	996
Building and improvements	9,487		9,324
Machinery, equipment, tools and dies	37,275		37,426
Furniture, fixtures and other	7,913		6,778
	55,649		54,524
Less accumulated depreciation	(19,476)		(17,483)
Property, plant and equipment, net	\$ 36,173	\$	37,041

Depreciation expense was approximately \$1,198 and \$1,123 for the quarters ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 and 2014, depreciation expense was \$2,343 and \$2,133, respectively.

4. GOODWILL

The change in the carrying amount of goodwill for the quarter ended June 30, 2015 and year ended December 31, 2014 is as follows (in thousands):

	June 30, 2015		December 31, 2014
Beginning balance	\$ 18,303	\$	20,233
Acquisition adjustments			(1,223)
Effect of foreign currency translation	(463)		(707)
Ending balance	\$ 17,840	\$	18,303

5. INTANGIBLE ASSETS

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

Intangible assets on the Company's condensed consolidated balance sheets consist of the following (in thousands):

	Life	Gross Amount	June 30, 2015 Accumulated amortization	Net Book Value	Gross Amount	December 31, 2014 Accumulated amortization	Net Book Value
Customer lists	8 - 15 years	\$ 34,184	\$ (6,742)	\$ 27,442	\$ 34,379	\$ (5,801)	\$ 28,578
Trade name	10 years	4,775	(1,601)	3,174	4,775	(1,409)	3,366
Design and technologies	8 - 10 years	2,224	(1,532)	692	2,425	(1,598)	827
Patents		24	(5)	19	24	(4)	20
Total		\$ 41,207	\$ (9,880)	\$ 31,327	\$ 41,603	\$ (8,812)	\$ 32,791

Amortization expense for intangible assets was \$660 and \$670 for the quarters ending June 30, 2015 and 2014, respectively; and \$1,322 and \$1,348 for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Estimated future intangible asset amortization expense as of June 30, 2015 is as follows (in thousands):

	Estimated Amortization Expense
Remainder of 2015	\$ 1,323
2016	2,645
2017	2,645
2018	2,645
2019	2,645
Thereafter	19,424
Total estimated amortization expense	\$ 31,327

6. STOCK-BASED COMPENSATION

Stock Incentive Plans

The Company's Stock Incentive Plans provide for the granting of stock awards, including restricted stock, stock options and stock appreciation rights, to employees and non-employees, including directors of the Company.

Restricted Stock

For the six months ended June 30, 2015, 74,714 shares of unvested restricted stock were awarded at a weighted average market value of \$27.59. Of the restricted shares granted, 41,792 shares have performance based vesting conditions. The value of the shares is amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of unvested restricted stock are forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

The following is a summary of restricted stock activity for the six months ended June 30, 2015:

	Number of shares
Outstanding at beginning of period	487,678
Awarded	74,714
Vested	(140,465)
Forfeited	(6,700)
Outstanding at end of period	415,227

Compensation expense, net of forfeitures of \$502 and \$388 was recorded for the three months ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 and 2014, stock compensation expense, net of forfeitures, of \$926 and \$768 was recorded, respectively.

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Compensation and fringe benefits	\$ 6,676	\$ 9,696
Warranty reserve	761	786
Other accrued expenses	2,424	1,848
	\$ 9,861	\$ 12,330

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

8. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

		June 30, 2015		December 31, 2014
Current Borrowings				
Revolving Credit Facility	\$	1,000	\$	
China Credit Facility (6.4% at June 30, 2015)		1,759		1,348
Term Loan, current portion, (2.2% at June 30, 2015) (1)		7,125		6,375
Current borrowings	\$	9,884	\$	7,723
Long-term Debt				
Term Loan, noncurrent (2.2% at June 30, 2015) (1)	\$	33,375	\$	37,125
Subordinated Notes (14.5%, 13% Cash, 1.5% PIK)		30,000		30,000
Long-term debt	\$	63,375	\$	67,125

(1) The effective rate of the Term Loan including the impact of the related hedges is 2.65%.

Credit Agreement

The Company's Credit Agreement provides for a \$15,000 five-year revolving credit facility and a \$50,000 five-year term loan (collectively the Senior Credit Facilities).

Borrowings under the Senior Credit Facilities are subject to terms defined in the Credit Agreement. Borrowings bear interest at either the Base Rate plus a margin of 0.25% to 2.00% (currently 1.50%) or the Eurocurrency Rate plus a margin of 1.25% to 3.00% (currently 2.0%), in each case depending on the Company's ratio of total funded indebtedness to Consolidated EBITDA (the Total Leverage Ratio).

Principal installments are payable on the Term Loan in varying percentages quarterly through September 30, 2018 with a balloon payment at maturity. The Senior Credit Facilities are secured by substantially all of the Company's assets. The average outstanding borrowings for 2015 for the Senior Credit Facilities were \$42,600. At June 30, 2015, there was approximately \$14,000 available under the Senior Credit Facilities.

The Credit Agreement contains certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. The Company was in compliance with all covenants at June 30, 2015.

Senior Subordinated Notes

Under the Company's Note Agreement, the Company sold \$30,000 of 14.50% Senior Subordinated Notes due October 18, 2019 (the Notes) to Prudential Capital Partners IV, L.P. and its affiliates in a private placement. The interest rate on the Notes is 14.50% with 13.00% payable in cash and 1.50% payable in-kind, quarterly in arrears and the outstanding principal amount of the Notes, together with any accrued and unpaid interest is due on October 18, 2019. The Company may prepay the Notes at any time after October 18, 2016, in whole or in part, at 100% of the principal amount. The Notes are unsecured obligations of the Company and are fully and unconditionally guaranteed by certain of the Company's subsidiaries.

Other

The Company has a China Credit Facility that provides credit of approximately \$1,970 (Chinese Renminbi (RMB) 12,000). The China Facility is used for working capital and capital equipment needs at the Company's China operations, and will mature in November, 2017. The average balance for 2015 was \$1,660 (RMB 10,100). At June 30, 2015, there was approximately \$210 (RMB 1,290) available under the facility.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Maturities of long-term debt as of June 30, 2015 are as follows (in thousands):

	Total
Remainder of 2015	\$ 6,134
2016	8,219
2017	10,374
2018	18,532
2019	30,000
Total	\$ 73,259

9. FAIR VALUE

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date.

The guidance establishes a framework for measuring fair value which utilizes observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Preference is given to observable inputs. These two types of inputs create the following three-level fair value hierarchy:

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable.
- Level 3: Significant inputs to the valuation model that are unobservable.

The Company's financial assets and liabilities include cash and cash equivalents, accounts receivable, debt obligations, accounts payable, and accrued liabilities. The carrying amounts reported in the condensed consolidated balance sheets for these assets approximate fair value because of the immediate or short-term maturities of these financial instruments.

The following table presents the Company's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, respectively, by level within the fair value hierarchy (in thousands):

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

	June 30, 2015		
	Level 1	Level 2	Level 3
Assets			
Pension Plan Assets	\$ 5,124	\$	\$
Other long term assets	2,783		
Interest rate swaps		(61)	

	December 31, 2014		
	Level 1	Level 2	Level 3
Assets			
Pension Plan Assets	\$ 5,095	\$	\$
Other long term assets	2,162		
Interest rate swaps		(2)	

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During October 2013, the Company entered into two Interest Rate Swaps with a combined notional of \$25,000 (representing 50% of the Term Loan balance at that time) that amortize quarterly to a notional of \$6,673 at maturity. The notional amount changes over time as loan payments are made. As of June 30, 2015 the amount hedged was \$21,000.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the second quarter of 2015, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. There was no hedge ineffectiveness recorded in the Company's earnings during the three and six months ended June 30, 2015 and June 30, 2014, respectively.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates that an additional \$138 will be reclassified as an increase to interest expense over the next year.

Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of June 30, 2015 (in thousands):

Derivative Instrument	Balance Sheet Location	Fair Value	
		June 30, 2015	December 31, 2014
Interest Rate Swaps	Accrued liabilities	\$ (61)	\$ (2)
	Total Liabilities	\$ (61)	\$ (2)

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

The effect of the Company's derivative financial instruments on the condensed consolidated statements of income and comprehensive income is as follows (in thousands):

Derivative Instruments	Net deferral in OCI of derivatives (effective portion)							
	For the three months ended June 30,			For the six months ended June 30,				
	2015	2014		2015	2014			
Interest Rate Swaps	\$	(9)	\$	(148)	\$	(160)	\$	(216)

Statement of earnings classification	Net reclassification from AOCI into income (effective portion)							
	For the three months ended June 30,			For the six months ended June 30,				
	2015	2014		2015	2014			
Interest expense	\$	(50)	\$	58	\$	(101)	\$	116

Statement of earnings classification	Amount recognized in income (ineffective portion and amount excluded from effectiveness testing)			
	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Other (expense)	\$		\$	

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

11. INCOME TAXES

The income tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is made. There is a potential for volatility of the effective tax rate due to several factors, including changes in the mix of the pre-tax income and the jurisdictions to which it relates, changes in tax laws and foreign tax holidays, settlements with taxing authorities and foreign currency fluctuations.

The Company has net operating loss and tax credit carryforwards in certain foreign jurisdictions expiring in 2015 through 2017. The amount of related deferred tax assets considered realizable is subject to adjustment if estimates of future taxable income are changed. During 2015 and 2014, the Company updated its estimates regarding future taxable income in foreign jurisdictions, and changed its estimates of the related valuation allowance on the deferred tax assets. The estimate of the effective tax rate was updated accordingly. During the quarter ended June 30, 2015, the Company recorded a discrete tax benefit of \$104 for the effect of a change in valuation allowance due to a change in judgement about the realizability of the related deferred tax asset in future years.

The effective income tax rate as a percentage of income before income taxes was 26.3% and 29.3% for the three and six months ended June 30, 2015, respectively and 28.8% and 31.5% for the three and six months ended June 30, 2014, respectively. The effective tax rate for the three and six months of 2015 and the three and six months of 2014 is lower than the statutory rate primarily due to differences in state and foreign tax rates and changes in the estimated valuation allowance. The effective tax rate for the three and six months of 2015 is lower than that for 2014 primarily due to changes in the estimated valuation allowance.

12. COMMITMENTS AND CONTINGENCIES

Warranty

The Company offers warranty coverage for its products. The length of the warranty period for its products varies significantly based on the product being sold. The Company estimates the costs of repairing products under warranty based on the historical average cost of the repairs. The assumptions used to estimate warranty accruals are reevaluated periodically in light of actual experience and, when appropriate, the accruals are adjusted. Estimated warranty costs are recorded at the time of sale of the related product, and are considered a cost of sale. Changes in the Company's reserve for product warranty claims during 2015 and 2014 were as follows (in thousands):

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

	June 30, 2015		December 31, 2014
Warranty reserve at beginning of the year	\$	786	\$ 629
Provision		26	234
Warranty expenditures		(32)	(40)
Effect of foreign currency translation		(19)	(37)
Warranty reserve at end of the period	\$	761	\$ 786

Operating Leases

The Company is party to various operating leases for buildings, equipment and software. Estimated future operating lease expense is as follows (in thousands):

	Lease Expense
Remainder of 2015	\$ 815
2016	1,776
2017	1,242
2018	1,055
2019	726
Thereafter	2,362
Total	\$ 7,976

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Litigation

The Company is involved in certain actions that have arisen out of the ordinary course of business. Management believes that resolution of the actions will not have a significant adverse effect on the Company's consolidated financial position or results of operations.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated Other Comprehensive Income for the three months ended June 30, 2015 and 2014 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At March 31, 2015	\$ (853)	\$ (102)	\$ (9,307)	\$ (10,262)
Unrealized loss on cash flow hedges		(9)		(9)
Amounts reclassified from AOCI		50		50
Foreign currency translation gain			917	917
At June 30, 2015	\$ (853)	\$ (61)	\$ (8,390)	\$ (9,304)

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At March 31, 2014	\$ (190)	\$ 32	\$ 780	\$ 622
Unrealized loss on cash flow hedges		(148)		(148)
Amounts reclassified from AOCI		59		59
Foreign currency translation loss			(332)	(332)
At June 30, 2014	\$ (190)	\$ (57)	\$ 448	\$ 201

Accumulated Other Comprehensive Income for the six months ended June 30, 2015 and 2014 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2014	\$ (853)	\$ (2)	\$ (4,828)	\$ (5,683)

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

Unrealized loss on cash flow hedges			(160)		(160)
Amounts reclassified from AOCI			101		101
Foreign currency translation loss				(3,562)	(3,562)
At June 30, 2015	\$	(853)	\$	(61)	\$
				(8,390)	\$
					(9,304)

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2013	\$ (190)	\$ 41	\$ 773	\$ 624
Unrealized loss on cash flow hedges		(215)		(215)
Amounts reclassified from AOCI		117		117
Foreign currency translation loss			(325)	(325)
At June 30, 2014	\$ (190)	\$ (57)	\$ 448	\$ 201

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

The realized (gain) loss relating to the Company's interest rate swap hedges were reclassified from Accumulated Other Comprehensive Income and included in Interest Expense in the Condensed Consolidated Statements of Operations and Comprehensive Income.

14. PENSION AND POSTRETIREMENT PLANS

The expenses that the Company records for its pension and other postretirement benefit pension plans depend on factors such as changes in market interest rates, the value of plan assets, mortality assumptions and health care trend rates. Significant unfavorable changes in these factors would increase its expenses. The Company's pension plan assets consist primarily of equity and fixed income securities. If the performance of investments in the plan does not meet the Company's assumptions, the excess obligation may increase and the Company may have to record additional costs and/or contribute additional funds to the pension plan. An increase in pension expenses and contributions could decrease the Company's cash available to pay its outstanding obligations as well as impact net income.

The Company's postretirement plan is unfunded. Expense is recorded as employees render the services necessary to earn the benefits. The expenses are based on estimates including health care cost increases, retirement and mortality. Actual results may vary materially from estimates which could result in an increase to the Company's expense and a decrease in its net income.

Pension Plan

Motor Products - Owosso has a defined benefit pension plan covering substantially all of its hourly union employees hired prior to April 10, 2002. The benefits are based on years of service, the employee's compensation during the last three years of employment, and accumulated employee contributions.

Components of net periodic pension expense included in the condensed consolidated statements of operations and comprehensive income for the three and six months ending June 30, 2015 and 2014 are as follows (in thousands):

	For the three months ended		For the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Service cost	\$ 27	\$ 21	\$ 53	\$ 42
Interest cost	68	66	136	133
Expected return on assets	(82)	(85)	(163)	(170)

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

Amortization of net loss		48		11		95		22
Net periodic pension expense	\$	61	\$	13	\$	121	\$	27

The Company expects to contribute approximately \$166 to the Pension Plan during 2015. For the three and six months ended June 30, 2015 there were \$35 and \$95, respectively of cash contributions made to the plan. Benefits expected to be paid from the Pension Plan during 2015 are \$309. For the three and six months ended June 30, 2015 there were benefit payments paid to participants of \$70 and \$140, respectively.

Post Retirement Welfare Plan

Motor Products-Owosso provides postretirement medical insurance and life insurance benefits to current and former employees hired before January 1, 1994 who retire from Motor Products. Employees who retire after January 1, 2005 must have twenty or more years of continuous service in order to be eligible for retiree medical benefits. Partial contributions from retirees are required for the medical insurance benefits. The Company's portion of the medical insurance premiums is funded from the general assets of the Company. The Company recognizes the expected cost of providing such post-retirement benefits during employees' active service periods.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Components of net periodic postretirement benefit income included in the condensed consolidated statements of operations and comprehensive income for the quarters ending June 30, 2015 and 2014 are as follows (in thousands):

	For the three months ended		For the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Service cost	\$ 2	\$ 2	\$ 5	\$ 4
Interest cost	13	14	25	29
Amortization of net gain	(18)	(19)	(36)	(39)
Amortization of prior service cost	(3)	(3)	(6)	(6)
Net postretirement benefit	\$ (6)	\$ (6)	\$ (12)	\$ (12)

Benefit payments for the Post Retirement Welfare Plan during 2015 are expected to be \$51.

15. DIVIDENDS PER SHARE

The Company declared and paid a quarterly dividend of \$0.025 per share in the each of the first and second quarters of 2015 and 2014. Total dividends paid in the first six months of 2015 and 2014 were \$465 and \$499, respectively.

16. SEGMENT INFORMATION

ASC Topic Segment Reporting requires disclosure of operating segments, which as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company operates in one segment for the manufacture and marketing of motion control products for original equipment manufacturers and end user applications. In accordance with the Segment Reporting Topic of the ASC, the Company's chief operating decision maker has been identified as the Chief Executive Officer and President, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under Segment Reporting due to their similar customer base and similarities in: economic characteristics; nature of products and services; and

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by Segment Reporting can be found in the accompanying condensed consolidated financial statements and within this note.

The Company's wholly owned foreign subsidiaries, located in The Netherlands, Sweden, China, Portugal and Mexico are included in the accompanying condensed consolidated financial statements.

Financial information related to the foreign subsidiaries is summarized below (in thousands):

	For the three months ended and as of June 30,		For the six months ended and as of June 30,	
	2015	2014	2015	2014
Revenues derived from foreign subsidiaries	\$ 20,791	\$ 22,065	\$ 39,732	\$ 42,417

Identifiable assets were \$58,611 and \$57,386 as of June 30, 2015 and December 31, 2014, respectively.

Revenues derived from foreign subsidiaries and identifiable assets outside of the United States are primarily attributable to Europe.

Table of Contents

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Sales to customers outside of the United States by all subsidiaries were \$21,714 and \$22,285 during the quarters ended June 30, 2015 and 2014, respectively; and \$41,459 and \$43,915 for the six months ended June 30, 2015 and 2014, respectively.

During the three and six months ended June 30, 2015, two customers accounted for 34% of total revenues and 32% of trade receivables. During the three and six months ended June 30, 2014, three customers accounted for 33% of total revenues and 42% of trade receivables.

17. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

Effective January 1, 2015, we adopted Accounting Standards Update (ASU) No. 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* which eliminates from GAAP the concept of extraordinary items. However, the presentation and disclosure guidance for items that are unusual in nature or infrequent in occurrence was retained. We adopted the updated guidance prospectively. The adoption of this update concerns presentation and disclosure only as it relates to the Company's condensed consolidated financial statements.

Effective January 1, 2015, we adopted ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. To qualify as a discontinued operation the standard requires a disposal to represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The standard also expands the disclosures for discontinued operations and requires new disclosures related to individually material dispositions that do not qualify as discontinued operations. The standard is effective prospectively for fiscal years beginning after December 15, 2014. The significance of this guidance for the Company is dependent on any qualifying dispositions or disposals.

Recently issued accounting pronouncements

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. The standard applies to inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of the standard at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in ASU 2015-11 more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The standard is effective for fiscal years beginning after December 15, 2016. ASU 2015-11 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. ASU 2015-03 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance will be effective for the Company beginning in the first quarter of fiscal year 2018 using one of two prescribed retrospective methods. Early adoption is not permitted. The Company has not yet selected a transition method, or determined the effect of the standard on its ongoing financial reporting.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

All statements contained herein that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word believe, anticipate, expect, project, intend, will continue, will likely result, should or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results of the Company to differ materially from the forward-looking statements. The risks and uncertainties include those associated with the present economic circumstances in the United States and throughout Europe and Asia, general business and economic conditions in the Company's motion markets, introduction of new technologies, products and competitors, the ability to protect the Company's intellectual property, the ability of the Company to sustain, manage or forecast its growth and product acceptance, success of new corporate strategies and implementation of defined critical issues designed for growth and improvement in profits, the continued success of the Company's customers to allow the Company to realize revenues from its order backlog and to support the Company's expected delivery schedules, the continued viability of the Company's customers and their ability to adapt to changing technology and product demand, the loss of significant customers or enforceability of the Company's contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise, the ability of the Company to meet the technical specifications of its customers, the continued availability of parts and components, increased competition and changes in competitor responses to the Company's products and services, changes in government regulations, availability of financing, the ability of the Company's lenders and financial institutions to provide additional funds if needed for operations or for making future acquisitions or the ability of the Company to obtain alternate financing if present sources of financing are terminated, the ability to attract and retain qualified personnel who can design new applications and products for the motion industry, the ability of the Company to identify and consummate favorable acquisitions to support external growth and new technology, the ability of the Company to successfully integrate an acquired business into the Company's business model without substantial costs, delays, or problems, the ability of the Company to establish low cost regional manufacturing and component sourcing capabilities, the ability of the Company to control costs, including relocation costs, for the purpose of improving profitability and the additional risk factors discussed under Item 1A. Risk Factors in Part II of this report. The Company's ability to compete in this market depends upon its capacity to anticipate the need for new products, and to continue to design and market those products to meet customers' needs in a competitive world. Actual results, events and performance may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements as a prediction of actual results. The Company has no obligation or intent to release publicly any revisions to any forward looking statements, whether as a result of new information, future events, or otherwise.

New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The Company's expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis; however, the Company makes no assurance that expectations, beliefs or projections will be achieved.

Amounts in thousands, except per share data

2nd Quarter Overview

The Company delivered earnings per share of \$0.34 for second quarter 2015 compared to \$0.29 per share for second quarter 2014 with a 3% decline in revenues. The strength of the U.S. dollar against foreign currencies continued to have an impact on the reported results of the second quarter as well as for the year. Without the strengthening of the US dollar, revenues for the second quarter of 2015 would have increased 5% and fully diluted earnings per share would have increased 30% compared to the same quarter in 2014, as measured in constant currency. Year to date, revenues would have increased 6% and fully diluted earnings per share would have increased 39% as compared to the same period in 2014.

For the second quarter 2015, we experienced growth in our Aerospace and Defense, Medical and Electronics markets. Our Vehicle market was flat, and our Industrial and Distribution markets were down. Our pipeline of new opportunities continues to expand with an increasing number offered as multi-product solutions driven through our Solution Centers. As we move forward into the future, we believe the long term success of our Company will be further enhanced by executing our strategy and leveraging our full capabilities to design innovative Motion Solutions That Change the Game and meet the current and emerging needs of our customers in our served markets.

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

Table of Contents

Revenues for the quarter ended June 30, 2015 decreased 3% from June 30, 2014. The overall decrease in revenue was due to a 5% volume increase, offset by an 8% unfavorable currency impact.

The strengthening of the U.S. dollar against foreign currencies during the second quarter of 2015 also continued to impact reported bookings when compared to the prior year. Bookings for the quarter ended June 30, 2015 of \$64,523 were 2% higher compared to June 30, 2014 bookings of \$63,474. The increase in bookings is comprised of 10% from volume increases offset by 8% related to foreign currency. Backlog as of June 30, 2015 was \$75,605 compared to \$75,065 as of December 31, 2014, respectively.

From a Cash Flow perspective, our debt net of cash position increased by \$188 to \$61,923 at June 30, 2015 from December 31, 2014. We declared and paid a dividend of \$0.025 per share pursuant to our quarterly dividend program during the second quarter of 2015. Dividends to shareholders for the trailing twelve months were \$0.10 per share, or a dividend payout ratio of 6% when compared to the earnings per share of \$1.64.

Operating Results

Quarter Ended June 30, 2015 compared to Quarter Ended June 30, 2014

(in thousands)	For the quarter ended June 30,		Increase (decrease)	
	2015	2014	\$	%
Revenues	\$ 60,479	\$ 62,069	\$ (1,590)	(3)%
Cost of products sold	42,492	43,501	(1,009)	(2)%
Gross margin	17,987	18,568	(581)	(3)%
Gross margin percentage	30%	30%		
Operating costs and expenses:				
Selling	2,063	2,232	(169)	(8)%
General and administrative	5,822	6,709	(887)	(13)%
Engineering and development	3,707	3,472	235	7%
Amortization of intangible assets	660	670	(10)	(1)%
Total operating costs and expenses	12,252	13,083	(831)	(6)%
Operating income	5,735	5,485	250	5%
Interest expense	1,511	1,649	(138)	(8)%
Other income	(19)	53	(72)	(136)%
Total other expense (income)	1,492	1,702	(210)	(12)%
Income before income taxes	4,243	3,783	460	12%
Provision for income taxes	(1,118)	(1,090)	(28)	3%
Net Income	\$ 3,125	\$ 2,693	\$ 432	16%

NET INCOME: Net income increased in 2015 from 2014 primarily due to increased volume offset by unfavorable currency exchange. Pre-tax net income increased 25% due to volume offset by unfavorable foreign currency exchange of 13%.

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

EBITDA AND ADJUSTED EBITDA: EBITDA was \$7,612 for the second quarter of 2015 compared to \$7,225 for the same quarter last year. Adjusted EBITDA was \$8,114 and \$7,613 for the second quarter of 2015 and 2014, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense and certain other items. Refer to information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA and adjusted EBITDA.

REVENUES: For the quarter, we experienced growth in our Aerospace and Defense, Medical and Electronics markets. Our Vehicle market was flat, and our Industrial and Distribution markets were down.

Table of Contents

The 3% decrease in sales in the second quarter of 2015 is primarily due to foreign currency. 64% of our sales for the quarter were to US customers with the remaining 36% of our sales to customers primarily in Europe, Canada and Asia. The 3% decrease in sales in the second quarter of 2015 reflected a 5% volume increase offset by an 8% unfavorable currency impact.

ORDER BACKLOG: Bookings for the quarter ended June 30, 2015 were \$64,523 compared to last year's bookings of \$63,474. Backlog as of June 30, 2015 was \$75,605 compared to \$80,777 as of June 30, 2014.

GROSS MARGIN: Gross margin as a percentage of revenues was 30% for the quarters ended June 30, 2015 and 2014.

SELLING EXPENSES: Selling expenses decreased in the second quarter of 2015 compared to the same period in 2014. Selling expenses as a percentage of revenues were 3% and 4% in the second quarter of 2015 and 2014, respectively.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses declined by 13% in the second quarter 2015 from the second quarter 2014 due to reserves made in 2014 related to a pricing dispute that was settled in the fourth quarter of 2014 along with reduced expenditures in 2015 for incentive compensation, consulting costs, company meetings and recruiting. As a percentage of revenues, general and administrative expenses decreased to 10% for the period ended June 30, 2015 compared to 11% for the same period in 2014.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 7% in the second quarter of 2015 compared to the same quarter last year. A development project at one of our European locations was only in the start-up phase in the second quarter of 2014. In 2015 there have been additional costs incurred for consultants, prototypes, tooling, etc. As a percentage of revenues, engineering and development expenses were 6% for both the second quarter of 2015 and 2014.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets expense was comparable between the second quarters of 2015 and 2014. The slight decline is the result of foreign currency impacts on amortization at our foreign locations.

INCOME TAXES: The effective income tax rate as a percentage of income before income taxes was 26.3% and 28.8% in the second quarter 2015 and 2014, respectively. The effective tax rate for the second quarter of 2015 and 2014 is lower than the statutory rate primarily due to differences in state and foreign tax rates and changes in the estimated valuation allowance.

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

Table of Contents

Six Months Ended June 30, 2015 compared to Six Months Ended June 30, 2014

(in thousands)	For the six months ended June 30,		Increase (decrease)	
	2015	2014	\$	%
Revenues	\$ 120,059	\$ 122,504	\$ (2,445)	(2)%
Cost of products sold	84,572	86,844	(2,272)	(3)%
Gross margin	35,487	35,660	(173)	(0)%
Gross margin percentage	30%	29%		
Operating costs and expenses:				
Selling	4,271	4,342	(71)	(2)%
General and administrative	11,375	12,925	(1,550)	(12)%
Engineering and development	7,153	6,989	164	2%
Amortization of intangible assets	1,322	1,348	(26)	(2)%
Total operating costs and expenses	24,121	25,604	(1,483)	(6)%
Operating income	11,366	10,056	1,310	13%
Interest expense	3,026	3,287	(261)	(8)%
Other income	(285)	(299)	14	(5)%
Total other expense (income)	2,741	2,988	(247)	(8)%
Income before income taxes	8,625	7,068	1,557	22%
Provision for income taxes	(2,524)	(2,227)	(297)	13%
Net Income	\$ 6,101	\$ 4,841	\$ 1,260	26%

NET INCOME: Net income increased in 2015 from 2014 primarily due to increased volume offset by unfavorable currency exchange. Pre-tax net income increased 36% due to volume offset by unfavorable foreign currency exchange of 14%.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$15,316 for 2015 compared to \$13,836 for 2014. Adjusted EBITDA was \$16,242 and \$14,604 for 2015 and 2014, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense and certain other items. Refer to information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA and adjusted EBITDA.

REVENUES: For the year to date, we experienced growth in our Aerospace and Defense, Medical and Electronics markets. Our Vehicle market was flat, while our Industrial and Distribution markets were down.

The 2% decrease in sales in 2015 is primarily due to foreign currency. 65% of our sales for 2015 were to US customers with the remaining 35% of our sales to customers primarily in Europe, Canada and Asia. The overall decrease in revenue was due to a 6% volume increase, offset by an 8% unfavorable currency impact.

ORDER BACKLOG: Bookings 2015 were \$122,666 compared to last year's bookings of \$127,868. The decrease in bookings of 4% was due to a 4% volume increase, offset by an 8% currency impact. As noted above, backlog as of June 30, 2015 was \$75,605 compared to \$80,777 as of June 30, 2014.

GROSS MARGIN: Gross margin as a percentage of revenues was 30% and 29% for 2015 and 2014, respectively. The increase in margin is primarily due to changes in sales mix (increased portion of sales of higher margin business offset partially by a decreased proportion of sales in lower margin business).

SELLING EXPENSES: Selling expenses for 2015 were flat with the same period of 2014. Selling expenses as a percentage of revenues were 4% in 2015 and 2014, respectively.

Table of Contents

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses decreased by 12% in 2015 from 2014 due to reserves made in 2014 related to a pricing dispute that was settled in the fourth quarter of 2014. Also, 2015 expenditures for consulting, relocation and company meetings have been lower than in 2014. As a percentage of revenues, general and administrative expenses decreased to 9% for 2015 compared to 11% for 2014.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses were relatively flat during 2015 compared to 2014. As a percentage of revenues, engineering and development expenses on a year to date basis were 6% for both 2015 and 2014.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets expense was comparable in 2015 and 2014.

INCOME TAXES: The year to date effective income tax rate as a percentage of income before income taxes was 29.3% and 31.5% in 2015 and 2014, respectively. The year to date effective tax rate for 2015 and 2014 is lower than the statutory rate primarily due to differences in state and foreign tax rates and changes in the estimated valuation allowance.

Non-GAAP Measures

EBITDA and Adjusted EBITDA are provided for information purposes only and are not measures of financial performance under generally accepted accounting principles.

Management believes the presentation of these financial measures reflecting non-GAAP adjustments provides important supplemental information in evaluating the operating results of the Company as distinct from results that include items that are not indicative of ongoing operating results; in particular, those charges and credits that are not directly related to operating unit performance, and that are not a helpful measure of the performance of our underlying business particularly in light of their unpredictable nature. This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for net income determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. In addition, supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to net income determined in accordance with GAAP.

The Company believes EBITDA is often a useful measure of a Company's operating performance and is a significant basis used by the Company's management to measure the operating performance of the Company's business because EBITDA excludes charges for depreciation, amortization and interest expense that have resulted from our debt financings, as well as our provision for income tax expense. EBITDA is frequently used as one of the bases for comparing businesses in the Company's industry.

The Company also believes that Adjusted EBITDA provides helpful information about the operating performance of its business. Adjusted EBITDA excludes stock compensation expense, as well as certain income or expenses which are not indicative of the ongoing performance of

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

the Company. EBITDA and Adjusted EBITDA do not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-Q

Table of Contents

The Company's calculation of EBITDA and Adjusted EBITDA for the three months ended June 30, 2015 and 2014 is as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Net income as reported	\$ 3,125	\$ 2,693	\$ 6,101	\$ 4,841
Interest expense	1,511	1,649	3,026	3,287
Provision for income tax	1,118	1,090	2,524	2,227
Depreciation and amortization	1,858	1,793	3,665	3,481
EBITDA	7,612	7,225	15,316	13,836
Stock compensation expense	502	388	926	768
Adjusted EBITDA	\$ 8,114	\$ 7,613	\$ 16,242	\$ 14,604

Constant Currency Presentation

The Company believes constant currency information provides valuable supplemental information that facilitates period-to-period comparisons of the company's business performance. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates for entities reporting in currencies other than US dollars. Constant currency results are calculated by translating current period results in local currency using the prior year's currency conversion rate.

	For the three months ended June 30, 2015			For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	\$ in thousands	% increase (decrease) compared to prior year amounts	\$ in thousands	\$ in thousands	% increase (decrease) compared to prior year amounts	\$ in thousands	\$ in thousands	% increase (decrease) compared to prior year amounts	\$ in thousands
Revenues									
2015 revenues, as reported	\$ 60,479	-3%	\$ 62,069	\$ 120,059	-2%	\$ 122,504			
Currency impact	5,031	8%		9,407	8%				
2015 revenues, at 2014 exchange rates	\$ 65,510	5%	\$ 62,069	\$ 129,466	6%	\$ 122,504			
Net income									
2015 net income, as reported	\$ 3,125	16%	\$ 2,693	\$ 6,101	26%	\$ 4,841			
Currency impact	366	14%		677	14%				
2015 net income, at 2014 exchange rates	\$ 3,491	30%	\$ 2,693	\$ 6,778	40%	\$ 4,841			
Earnings per share									
2015 earnings per share, as reported	\$ 0.34	16%	\$ 0.29	\$ 0.66	25%	\$ 0.53			
Currency impact	0.04	14%		0.07	14%				
2015 earnings per share, at 2014 exchange rates	\$ 0.38	30%	\$ 0.29	\$ 0.73	39%	\$ 0.53			

Table of Contents

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents decreased by \$1,777, to a balance of \$11,336 at June 30, 2015 from December 31, 2014.

During the first six months of 2015, operations provided \$3,599 in cash compared to \$6,358 of cash provided during the same period in 2014. The decrease in cash provided is primarily due to an increase in working capital needs, primarily accrued liabilities and trade receivables. The increased use of cash for accrued liabilities in 2015 is primarily related to higher incentive compensation for 2014 paid out in 2015 compared to 2013 amounts paid in 2014.

Net cash used in investing activities was \$2,708 for 2015 compared to \$172 for 2014. The increase in cash used is primarily due to the receipt of a \$1,434 purchase price adjustment related to the Globe acquisition during the second quarter of 2014. During 2015, purchases of property and equipment were \$2,708 compared to \$1,571 for 2014.

Net cash used in financing activities was \$1,844 for 2015 compared to \$5,286 for 2014.

During the six months ended June 30, 2015, we made payments of \$3,000 for our Term Loan obligation, and we had \$1,000 of borrowings on our Revolving Credit Facility. At June 30, 2015, we had \$71,500 in obligations under the Credit Agreement and the Note Agreement. Refer to Note 6 of the *Unaudited Notes to Condensed Consolidated Financial Statements* for additional information regarding the Credit and Note Agreements.

The Credit Agreement contains certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. The Company was in compliance with all covenants at June 30, 2015.

As of June 30, 2015, the amount available to borrow under the Credit Agreement was \$14,000.

The average China Facility balance for year to date 2015 was \$1,660 (RMB 10,100). There were \$410 (2,400 RMB) of additional borrowings during 2015. At June 30, 2015, there was approximately \$210 (RMB 1,290) available under the facility.

During the quarter ended June 30, 2015, the Company paid dividends of \$0.025 per share. The Company's working capital, capital expenditure and dividend requirements are expected to be funded from cash provided by operations and amounts available under the Credit Agreement.

Contractual Obligations

The following table summarizes contractual obligations and borrowings as of June 30, 2015 and the timing and effect that such commitments are expected to have on our liquidity and capital requirements in future periods. We expect to fund other commitments primarily with operating cash flows generated in the normal course of business.

	Total	Payments Due by Period *			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating leases	\$ 7,976	\$ 1,703	\$ 2,657	\$ 1,496	\$ 2,120
Debt Obligations (1)	73,259	9,884	20,029	43,346	
Interest on Debt (2)	21,816	5,315	9,893	6,608	
Total	\$ 103,051	\$ 16,902	\$ 32,579	\$ 51,450	\$ 2,120

(1) Amounts represent our debt obligations as of June 30, 2015. For more information on our debt obligations, refer to Note 8 of the *Notes to Condensed Consolidated Financial Statements* included in this Report under Item 1.

(2) Amounts represent the estimated interest payments based on the principal amounts and applicable interest rates on the debt at June 30, 2015.

Table of Contents

Critical Accounting Policies

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company's significant accounting policies are discussed in Note 1 in the *Annual Report on Form 10-K* for the year ended December 31, 2014. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance is based on historical experience and judgments based on current economic and customer specific factors. Significant judgments are made by management in connection with establishing the Company's customers' ability to pay at the time of shipment. Despite this assessment, from time to time, the Company's customers are unable to meet their payment obligations. The Company continues to monitor customers' credit worthiness, and use judgment in establishing the estimated amounts of customer receivables which may not be collected. A significant change in the liquidity or financial position of the Company's customers could have a material adverse impact on the collectability of accounts receivable and future operating results.

Inventory is valued at the lower of cost or market. The Company monitors and forecasts expected inventory needs based on sales forecasts. Inventory is written down or written off when it becomes obsolete or when it is deemed excess. These determinations involve the exercise of significant judgment by management. If actual market conditions are significantly different from those projected by management, the recorded reserve may be adjusted, and such adjustments may have a significant impact on the Company's results of operations. Demand for the Company's products can fluctuate significantly, and in the past the Company has recorded substantial charges for inventory obsolescence.

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts recorded in the consolidated financial statements, and for operating loss and tax credit carryforwards. Realization of the recorded deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdiction in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and operating loss carryforwards. A valuation allowance is provided to the extent that management deems it more likely than not that the net deferred tax assets will not be realized. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed.

The Company provides pension and postretirement benefits for certain domestic retirees and records the cost of the obligations based on estimates. The net periodic costs are recognized as employees render the services necessary to earn the benefits. Several assumptions are used to calculate the expense and liability related to the plans including the discount rate, the expected rate of return on plan assets, the future rate of compensation increases and health care cost increases. The discount rate is selected based on a bond pricing model that relates to the projected future cash flows of benefit obligations. Actuarial assumptions used are based on demographic factors such as retirement and mortality. Actual results could vary materially from the Company's actuarial assumptions, which may have an impact on the amount of reported expense or liability for pension or postretirement benefits.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Foreign Currency

We have foreign operations in The Netherlands, Sweden, China, Portugal, Canada and Mexico, which expose the Company to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Swedish Krona, Chinese Yuan Renminbi, Canadian dollar and Mexican pesos, respectively. We continuously evaluate our foreign currency risk and will take action from time to time in order to best mitigate these risks. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have had an impact of approximately \$2,200 on our second quarter sales and \$3,800 on our year to date sales. This amount is not indicative of the hypothetical net earnings

Table of Contents

impact due to partially offsetting impacts on cost of sales and operating expenses in those currencies. We estimate that foreign currency exchange rate fluctuations during the three and six months ended June 30, 2015 decreased sales in comparison to the same periods in 2014 by approximately \$5,000 and \$9,400, respectively.

We translate all assets and liabilities of our foreign operations, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the Condensed Consolidated Financial Statements as Comprehensive Income. The translation adjustment was a gain of approximately \$920 for the second quarter 2015 and a loss of \$3,560 for the year to date 2015. The translation adjustment was a loss of \$324 for the second quarter 2014 and a loss of \$317 for the year to date 2014. Translation adjustments are not adjusted for income taxes as they relate to permanent investments in our foreign subsidiaries. Net foreign currency transaction gains and losses included in Other income, net amounted to a loss of \$44 and \$81 for the second quarter of 2015 and 2014, respectively. For the year to date 2015, a \$148 gain has been recognized in Other income, net compared to a \$40 loss for 2014. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency net assets would have had an impact of approximately \$4,200 on our foreign net assets as of June 30, 2015.

Interest Rates

Interest rates on our Credit Facility are based on the Base Rate plus a margin of 0.25% to 2.00% (currently 1.50%) or the Eurocurrency Rate plus a margin of 1.25% to 3.00% (currently 2.0%). The Company uses interest rate derivatives to add stability to interest expense and to manage its exposure to interest rate movements. The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During October 2013, the Company entered into two Interest Rate Swaps with a combined notional of \$25,000 that amortize quarterly to a notional of \$6,673 at maturity. This swap is accounted for as a cash flow hedge. Refer to Note 7 of the *Unaudited Notes to Condensed Consolidated Financial Statements* for information about our derivative financial instruments.

As of June 30, 2015, we had \$42,000 outstanding under the Term Loan, of which \$21,000 million is currently being hedged. Refer to Note 6 of the *Notes to Condensed Consolidated Financial Statements* for additional information about our outstanding debt. A hypothetical one percentage point (100 basis points) change in the Base Rate on the \$21,000 of unhedged floating rate debt outstanding at June 30, 2015 would have an impact of approximately \$50 on our interest expense.

Item 4. Controls and Procedures

Conclusion regarding the effectiveness of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal accounting officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of June 30, 2015. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate to

allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on management's evaluation of our disclosure controls and procedures as of June 30, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

During the three months ended June 30, 2015, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Transition of enterprise resource planning system

During the first quarter of 2015, the Company completed the process of installing an Enterprise Resource Planning (ERP) system at one of its locations the U.S. and one in Sweden as part of a phased implementation schedule. During the second quarter of 2015, the Company completed the process of installing an ERP system at one of its locations in China. The implementation of this ERP system involves changes in the Company s procedures for internal control over financial reporting. The Company follows a system implementation life cycle process that requires significant pre-implementation planning, design and testing. The Company also conducted and will continue to conduct extensive post-implementation monitoring and process modifications to ensure that internal controls over financial reporting are designed and operating effectively. The Company has not experienced any significant difficulties to date in connection with the implementation or the operation of this ERP system.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in the Company's Form 10-Q for the quarterly period ended March 31, 2015. For a full description of these risk factors, please refer to Item 1A. Risk Factors in the March 2015 Quarterly Report on Form 10-Q which are incorporated herein by reference and made a part hereof.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

10.1 Amended and Restated Credit Agreement, dated as of April 29, 2015, among Allied Motion Technologies Inc. and Allied Motion Technologies B.V., as borrowers, Bank of America, N.A., as administrative agent, HSBC Bank USA, National Association, as syndication agent and the lenders party. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2015).

10.2 Amendment No. 2 to Note Agreement dated as of June 22, 2015, among Allied Motion Technologies Inc. and the purchasers of the notes party thereto (filed herewith).

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from Allied Motion Technologies Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and comprehensive income, (iii) condensed consolidated statements of cash flows and (iv) the notes to the consolidated financial statements.

Table of Contents

SIGNATURES

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

DATE: August 6, 2015

ALLIED MOTION TECHNOLOGIES INC.
By: /s/ Robert P. Maida
Robert P. Maida
Chief Financial Officer