

ALLIED MOTION TECHNOLOGIES INC

Form 10-Q

May 15, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**Form 10-Q**

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

**For the quarterly period ended March 31, 2014**

**Commission File Number**

**0-04041**

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**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.)

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**455 Commerce Drive, Suite 4**

**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 ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☒

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

Number of Shares of the only class of Common Stock outstanding: 9,241,301 as of May 15, 2014



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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

(Unaudited)

|   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
| <b>Assets</b>   |                   |                      |
| Current Assets:   |                   |                      |
| Cash and cash equivalents   | \$ 9,718          | \$ 10,171            |
| Trade receivables, net of allowance for doubtful accounts of \$860 and \$802 at March 31, 2014 and December 31, 2013, respectively                        | 33,267            | 27,123               |
| Inventories, net  | 24,283            | 24,430               |
| Deferred income taxes   | 2,438             | 2,961                |
| Prepaid expenses and other assets   | 2,842             | 2,602                |
| Total Current Assets  | 72,548            | 67,287               |
| Property, plant and equipment, net  | 37,870            | 40,111               |
| Deferred income taxes   | 3,246             | 3,246                |
| Intangible assets, net  | 34,542            | 35,222               |
| Goodwill  | 19,434            | 20,233               |
| Other long term assets  | 4,152             | 4,878                |
| Total Assets  | \$ 171,792        | \$ 170,977           |
| <b>Liabilities and Stockholders' Equity</b>   |                   |                      |
| Current Liabilities:  |                   |                      |
| Debt obligations  | 14,547            | 14,145               |
| Accounts payable  | 16,907            | 15,478               |
| Accrued liabilities   | 9,619             | 9,898                |
| Income taxes payable  | 2,146             | 2,729                |
| Total Current Liabilities   | 43,219            | 42,250               |
| Long-term debt  | 72,000            | 73,500               |
| Deferred income taxes   | 1,716             | 2,327                |
| Deferred compensation arrangements  | 2,062             | 2,599                |
| Pension and post-retirement obligations   | 2,224             | 2,298                |
| Total Liabilities   | 121,221           | 122,974              |
| Commitments and Contingencies   |                   |                      |
| Stockholders' Equity:   |                   |                      |
| Common stock, no par value, authorized 50,000 shares; 9,241 and 9,091 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively | 24,464            | 23,771               |
| Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding   |                   |                      |
| Retained earnings   | 25,485            | 23,608               |
| Accumulated other comprehensive income (loss)   | 622               | 624                  |
| Total Stockholders' Equity  | 50,571            | 48,003               |
| Total Liabilities and Stockholders' Equity  | \$ 171,792        | \$ 170,977           |

See accompanying notes to condensed consolidated financial statements.



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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In Thousands, except per share data)

(Unaudited)

|   | For the three months ended |                   |
|---|----------------------------|-------------------|
|   | March 31,<br>2014          | March 31,<br>2013 |
| Revenues                                  | \$ 60,435                  | \$ 25,143         |
| Cost of goods sold                        | 43,343                     | 17,620            |
| Gross margin                              | 17,092                     | 7,523             |
| Operating costs and expenses:             |                            |                   |
| Selling                                   | 2,110                      | 1,293             |
| General and administrative                | 6,216                      | 2,942             |
| Engineering and development               | 3,517                      | 1,747             |
| Amortization of intangible assets         | 678                        | 84                |
| Total operating costs and expenses        | 12,521                     | 6,066             |
| Operating income                          | 4,571                      | 1,457             |
| Other expense (income):                   |                            |                   |
| Interest expense                          | 1,638                      | 9                 |
| Other (income) expense, net               | (352)                      | 36                |
| Total other expense, net                  | 1,286                      | 45                |
| Income before income taxes                | 3,285                      | 1,412             |
| Provision for income taxes                | (1,137)                    | (452)             |
| Net income                                | \$ 2,148                   | \$ 960            |
| Foreign currency translation adjustment   | 7                          | (460)             |
| Change in accumulated loss on derivatives | (9)                        |                   |
| Comprehensive income                      | \$ 2,146                   | \$ 500            |
| Basic earnings per share:                 |                            |                   |
| Earnings per share                        | \$ 0.24                    | \$ 0.11           |
| Basic weighted average common shares      | 9,130                      | 8,733             |
| Diluted earnings per share:               |                            |                   |
| Earnings per share                        | \$ 0.24                    | \$ 0.11           |
| Diluted weighted average common shares    | 9,130                      | 8,733             |

See accompanying notes to condensed consolidated financial statements.

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

|   | For the three months ended |                   |
|---|----------------------------|-------------------|
|   | March 31<br>2014           | March 31,<br>2013 |
| <b>Cash Flows From Operating Activities:</b>                                      |                            |                   |
| Net income  | \$ 2,148                   | \$ 960            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |                   |
| Depreciation and amortization   | 1,688                      | 413               |
| Deferred income taxes   | 537                        | 49                |
| Stock compensation expense  | 379                        | 224               |
| Other   | 1,467                      | 32                |
| Changes in operating assets and liabilities:                                      |                            |                   |
| Trade receivables   | (6,446)                    | (2,043)           |
| Inventories, net  | (57)                       | 608               |
| Prepaid expenses and other assets   | 101                        | (357)             |
| Accounts payable  | 1,431                      | (93)              |
| Accrued liabilities   | (1,440)                    | (924)             |
| Net cash used in operating activities   | (192)                      | (1,131)           |
| <b>Cash Flows From Investing Activities:</b>                                      |                            |                   |
| Proceeds related to working capital adjustment on acquisition                     | 1,434                      |                   |
| Purchase of property and equipment  | (584)                      | (298)             |
| Net cash provided by (used in) investing activities                               | 850                        | (298)             |
| <b>Cash Flows From Financing Activities:</b>                                      |                            |                   |
| Borrowings on lines-of-credit, net  | 164                        |                   |
| Principal payments of long-term debt  | (1,250)                    |                   |
| Dividends paid to stockholders  | (271)                      | (210)             |
| Stock transactions under employee benefit stock plans                             | 304                        | 403               |
| Net cash (used in) provided by financing activities                               | (1,053)                    | 193               |
| Effect of foreign exchange rate changes on cash                                   | (58)                       | (72)              |
| Net decrease in cash and cash equivalents   | (453)                      | (1,308)           |
| Cash and cash equivalents at beginning of period                                  | 10,171                     | 9,728             |
| Cash and cash equivalents at end of period  | \$ 9,718                   | \$ 8,420          |

See accompanying notes to condensed consolidated financial statements.



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**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.

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It is suggested that the accompanying condensed consolidated interim 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, 2013 that was previously filed by the Company.

### 2. ACQUISITIONS

On October 18, 2013, the Company acquired Globe Motors, Inc., a Delaware corporation ( Globe Motors or Globe ) from Safran USA, Inc. (the Seller ), for approximately \$90,000 in cash.

Globe Motors is headquartered in Dayton, Ohio, and has manufacturing facilities located in the U.S, Portugal and Mexico. The initial purchase price of \$90,000 was comprised of \$4,300 cash paid at closing, as well as funds acquired from the new Credit Agreement and Senior Subordinated Notes. During the first quarter of 2014, the Company received \$1,434 from the Seller for a working capital adjustment, reducing the purchase price to \$88,566.

The Company accounted for the acquisition pursuant to ASC 805, Business Combinations. The purchase price allocation is subject to further adjustment upon finalization of the opening balance sheet.

Table of Contents**ALLIED MOTION TECHNOLOGIES INC.****UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except share and per share data)**

The preliminary purchase price allocated to the underlying net assets based on fair value as of the acquisition date is as follows (in thousands):

|                                   | <b>March 31,<br/>2014</b> |
|-----------------------------------|---------------------------|
| Trade receivables, net            | \$ 16,567                 |
| Inventories, net                  | 11,142                    |
| Prepaid expenses and other assets | 2,860                     |
| Property, plant and equipment     | 28,286                    |
| Amortizable intangible assets     | 33,530                    |
| Goodwill                          | 13,418                    |
| Accounts payable                  | (10,622)                  |
| Accrued liabilities               | (6,615)                   |
| Net purchase price                | \$ 88,566                 |

The purchase price allocation excludes any cash on hand and any debt of Globe Motors. The purchase price allocation has been revised to reflect an updated valuation of property, plant and equipment, adjustments to income taxes and the offsetting adjustments to goodwill.

The intangible assets acquired consist of customer lists and a tradename, which are being amortized over 15 and 10 years, respectively. Goodwill generated in the acquisition is related to the assembled workforce, synergies between Allied Motion's other Technology Units (TUs) and Globe Motors that will occur as a result of the combined engineering knowledge, the ability of each of the TUs to integrate each other's products into more fully integrated system solutions and Allied Motion's ability to utilize Globe's management knowledge in providing complementary product offerings to the Company's customers.

***Pro forma Condensed Combined Financial Information (Unaudited)***

The following presents the Company's unaudited pro forma financial information for the quarter ended March 31, 2013 giving effect to the acquisition of Globe Motors as if it had occurred at January 1, 2013. Included in the pro forma information is: the additional depreciation and amortization resulting from the valuation of amortizable tangible and intangible assets; interest on borrowings made by the Company; amortization of deferred finance costs incurred to issue the borrowings; removal of acquisition related transaction costs; removal of certain costs for which Allied Motion would be indemnified by the seller and stock compensation expense related to shares issued to certain executives of Allied Motion as a result of the acquisition.

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For the quarter ended  
March 31, 2013

|                              |    |        |
|------------------------------|----|--------|
| Revenues                     | \$ | 50,439 |
| Net income                   | \$ | 1,089  |
| Diluted net income per share | \$ | 0.12   |

The pro forma adjustments do not reflect adjustments for anticipated operating efficiencies that the Company expects to achieve as a result of this acquisition. The pro forma financial information is for informational purposes only and does not purport to present what the Company's results would actually have been had these transactions actually occurred on the dates presented or to project the combined company's results of operations or financial position for any future period.

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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):

|                         | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-------------------------|---------------------------|------------------------------|
| Parts and raw materials | \$ 20,279                 | \$ 20,649                    |
| Work-in-process         | 3,506                     | 3,369                        |
| Finished goods          | 4,502                     | 4,350                        |
|                         | 28,287                    | 28,368                       |
| Less reserves           | (4,004)                   | (3,938)                      |
| Inventories, net        | \$ 24,283                 | \$ 24,430                    |

**4. PROPERTY, PLANT AND EQUIPMENT**

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

|                                      | <b>March 31,<br/>2014</b> | <b>December 31<br/>2013</b> |
|--------------------------------------|---------------------------|-----------------------------|
| Land                                 | \$ 654                    | \$ 654                      |
| Building and improvements            | 9,879                     | 9,748                       |
| Machinery, equipment, tools and dies | 38,201                    | 40,237                      |
| Furniture, fixtures and other        | 4,936                     | 4,544                       |
|                                      | 53,670                    | 55,183                      |
| Less accumulated depreciation        | (15,800)                  | (15,072)                    |
| Property, plant and equipment, net   | \$ 37,870                 | \$ 40,111                   |

Depreciation expense was approximately \$1,010 and \$329 for the quarters ended March 31, 2014 and 2013, respectively.

**5. GOODWILL**

The change in the carrying amount of goodwill for the quarter ended March 31, 2014 is as follows (in thousands):

|  |    | <b>March 31,<br/>2014</b> |
|--|----|---------------------------|
| Beginning balance                      | \$ | 20,233                    |
| Acquisition adjustments                |    | (792)                     |
| Effect of foreign currency translation |    | (7)                       |
| Ending balance                         | \$ | 19,434                    |

The acquisition adjustments relate to revisions in the purchase price allocation for Globe for changes to the value assigned to property, plant and equipment and the tax effect of the changes in value (Note 2).

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(in thousands, except share and per share data)

**6. INTANGIBLE ASSETS**

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

|                         |              |                     | <b>March 31, 2014</b>           |                       |                     | <b>December 31, 2013</b>        |                       |
|-------------------------|--------------|---------------------|---------------------------------|-----------------------|---------------------|---------------------------------|-----------------------|
|                         | <b>Life</b>  | <b>Gross Amount</b> | <b>Accumulated amortization</b> | <b>Net Book Value</b> | <b>Gross Amount</b> | <b>Accumulated amortization</b> | <b>Net Book Value</b> |
| Customer lists          | 8 - 15 years | \$ 34,163           | \$ (4,352)                      | \$ 29,811             | \$ 34,166           | \$ (3,821)                      | \$ 30,345             |
| Trade name              | 10 years     | 4,775               | (1,118)                         | 3,657                 | 4,775               | (1,012)                         | 3,763                 |
| Design and technologies | 8 - 10 years | 2,728               | (1,675)                         | 1,053                 | 2,730               | (1,637)                         | 1,093                 |
| Patents                 |              | 24                  | (3)                             | 21                    | 24                  | (3)                             | 21                    |
| <b>Total</b>            |              | <b>\$ 41,690</b>    | <b>\$ (7,148)</b>               | <b>\$ 34,542</b>      | <b>\$ 41,695</b>    | <b>\$ (6,473)</b>               | <b>\$ 35,222</b>      |

Amortization expense for intangible assets was \$678 and \$84 for the quarters ending March 31, 2014 and 2013, respectively.

**7. 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 three months ended March 31, 2014, 156,696 shares of unvested restricted stock were awarded at a market value of \$11.18. Of the restricted shares granted, 80,591 shares have performance based vesting conditions. The value of the shares is amortized to compensation

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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 three months ended March 31, 2014:

|                                    | <b>Number of<br/>Shares</b> |
|------------------------------------|-----------------------------|
| Outstanding at beginning of period | 520,195                     |
| Awarded                            | 156,696                     |
| Forfeited                          | (34,944)                    |
| Vested                             | (96,339)                    |
| Outstanding at end of period       | 545,608                     |

For the quarters ended March 31, 2014 and 2013, stock compensation expense, net of forfeitures, of \$379 and \$224 was recorded, respectively.



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Debt obligations consisted of the following (in thousands):

|  | <b>March 31,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--|---------------------------|------------------------------|
| <b>Current Borrowings</b>                            |                           |                              |
| Revolving Credit Facility (2.7% at March 31, 2014)   | \$ 7,725                  | \$ 7,725                     |
| China Credit Facility (6.3% at March 31, 2014)       | 1,322                     | 1,170                        |
| Term Loan, current portion, (2.7% at March 31, 2014) |                           |                              |
| (1)  | 5,500                     | 5,250                        |
| Current borrowings                                   | \$ 14,547                 | \$ 14,145                    |
| <b>Long-term Debt</b>                                |                           |                              |
| Term Loan, noncurrent (2.7% at March 31, 2014) (1)   | \$ 42,000                 | \$ 43,500                    |
| Subordinated Notes (14.5%, 13% Cash, 1.5% PIK)       | 30,000                    | 30,000                       |
| Long-term debt                                       | \$ 72,000                 | \$ 73,500                    |

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(1) The effective rate of the Term Loan including the impact of the related hedges is 3.14%.

**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 2.50%), in each case depending on the Company's ratio of total funded indebtedness to Consolidated EBITDA (the Total Leverage Ratio).

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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 2014 for the Senior Credit Facilities were \$56,100. At March 31, 2014, there was approximately \$7,300 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 March 31, 2014.

### 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 also has a Credit Facility in China providing credit of approximately \$1,540 (Chinese Renminbi ( "RMB ") 9,500). This facility is used for working capital and capital equipment needs at the Company's China operations, and will mature in October 2014. The average balance for 2014 was \$1,330 (RMB 8,100). At March 31, 2014, there was approximately \$200 (RMB 1,400) available under the facility.

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**ALLIED MOTION TECHNOLOGIES INC.**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except share and per share data)**

**9. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company did not use derivative contracts prior to the acquisition of Globe Motors, Inc. in October, 2013.

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 that amortize quarterly to a notional of \$6,673 at maturity.

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 first quarter of 2014, 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 months ended March 31, 2014.

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 \$216 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 March 31, 2014 (in thousands):

| Derivative Instrument | Balance Sheet Location | March 31, 2014<br>Fair Value |
|-----------------------|------------------------|------------------------------|
|-----------------------|------------------------|------------------------------|

| For the quarter ended March 31, 2014 |  | For the quarter ended March 31, 2014 |  | For the quarter ended March 31, 2014 |  |
|--------------------------------------|--|--------------------------------------|--|--------------------------------------|--|
| Derivative Instruments               | Net deferral in OCI of derivatives (effective portion) | Statement of earnings classification | Net reclassification from AOCI into income (effective portion) | Statement of earnings classification | Amount recognized in income (ineffective portion and amount excluded from effectiveness testing) |
| Interest Rate Swaps                  | \$ (68)  | Interest expense                     | \$ (58)  | Other (expense)                      | \$   |

The Company declared and paid a quarterly dividend of \$0.025 per share in the first quarter of 2014 and 2013. Total dividends paid in the first three months of 2014 and 2013 were \$271 and \$210, respectively.

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**ALLIED MOTION TECHNOLOGIES INC.**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except share and per share data)**

**11. 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 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, Canada, Asia, Portugal and Mexico are included in the accompanying condensed consolidated financial statements.

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

|  |    | <b>For the three months ended<br/>and as of March 31,</b> |             |
|--|----|---|-------------|
|  |    | <b>2014</b>   | <b>2013</b> |
| Revenues derived from foreign subsidiaries | \$ | 19,288  | \$ 11,093   |
| Identifiable assets as of March 31,        |    | 58,497  | 27,174      |

Sales to customers outside of the United States by all subsidiaries were \$21,891 and \$12,305 during the quarters ended March 31, 2014 and 2013, respectively.

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During the three months ended March 31, 2014, three customers accounted for 33% of total revenues and 43% of trade receivables. During the three months ended March 31, 2013, no single customer accounted for more than 10% of total revenues or trade receivables.

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**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, 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 region manufacturing and component sourcing capabilities, and the ability of the Company to control costs, including relocation costs, for the purpose of improving profitability. 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**

**1st Quarter Overview**

Revenues for the quarter ended March 31, 2014 more than doubled results from first quarter of 2013, increasing by 140%. The increase is due to higher sales in vehicle and aerospace and defense markets resulting from the acquisition of Globe Motors, Inc. ( Globe ) during the fourth quarter of 2013. Sales to Customers both inside and outside of the U.S. increased.

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Bookings for the quarter ended March 31, 2014 were \$64,394 compared to March 31, 2013 bookings of \$20,974. Backlog as of March 31, 2014 was \$79,686 compared to \$75,599 as of December 31, 2013, respectively.

From a Cash Flow perspective, our cash net of debt position increased by \$645 from December 31, 2013. We also declared and paid a dividend of \$0.025 per share pursuant to our quarterly dividend program during the first quarter 2014. Dividends to shareholders for the trailing twelve months were \$0.10 per share, or a dividend payout ratio of 18% when compared to the earnings per share of \$0.57.



Table of Contents**Operating Results*****Quarter Ended March 31, 2014 compared to Quarter Ended March 31, 2013***

| (in thousands)                     | For the quarter ended<br>March 31, |           | Increase<br>(decrease) |      |
|------------------------------------|------------------------------------|-----------|------------------------|------|
|                                    | 2014                               | 2013      | \$                     | %    |
| Revenues                           | \$ 60,435                          | \$ 25,143 | \$ 35,292              | 140% |
| Cost of products sold              | 43,343                             | 17,620    | 25,723                 | 146% |
| Gross margin                       | 17,092                             | 7,523     | 9,569                  | 127% |
| Gross margin percentage            | 28%                                | 30%       |                        |      |
| Operating costs and expenses:      |                                    |           |                        |      |
| Selling                            | 2,110                              | 1,293     | 817                    | 63%  |
| General and administrative         | 6,216                              | 2,942     | 3,274                  | 111% |
| Engineering and development        | 3,517                              | 1,747     | 1,770                  | 101% |
| Amortization of intangible assets  | 678                                | 84        | 594                    | 707% |
| Total operating costs and expenses | 12,521                             | 6,066     | 6,455                  | 106% |
| Operating income                   | 4,571                              | 1,457     | 3,114                  | 214% |
| Interest expense                   | 1,638                              | 9         | 1,629                  |      |
| Other income                       | (352)                              | 36        | (388)                  |      |
| Total other expense (income)       | 1,286                              | 45        | 1,241                  |      |
| Income before income taxes         | 3,285                              | 1,412     | 1,873                  | 133% |
| Provision for income taxes         | (1,137)                            | (452)     | (685)                  | 152% |
| Net Income                         | \$ 2,148                           | \$ 960    | \$ 1,188               | 124% |

NET INCOME: Net income increased from 2013 to 2014 primarily due to increased profit contribution from the Globe acquisition. Globe is included in our results as of October 18, 2013.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$6,611 for the first quarter of 2014 compared to \$1,834 for the same quarter last year. Adjusted EBITDA was \$6,990 and \$2,131 for the first quarter of 2014 and 2013, 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 nonrecurring items. See information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA and adjusted EBITDA.

REVENUES: Overall, the Company experienced revenue increases in all of our markets, most significantly in the vehicle and aerospace and defense markets.

The 140% increase in sales in the first quarter of 2014 is primarily due to the acquisition of Globe and consists of significant additions to our vehicle and aerospace and defense markets. The increase is comprised of a 200% increase in sales to US customers and a 78% increase in sales to non-US customers. 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. Of the increase in revenues, 139% was due to an increase in sales volume for the quarter and 1% was due to the dollar weakening against the foreign currencies where we do business, primarily the Euro and the Swedish Krona.

**ORDER BACKLOG:** Bookings for the quarter ended March 31, 2014 were \$64,394 compared to last year's bookings of \$20,974. Backlog as of March 31, 2014 was \$79,686 compared to \$28,020 as of March 31, 2013. The increases in both bookings and backlog in 2014 is primarily the result of the acquisition of Globe.

**GROSS MARGIN:** Gross margin as a percentage of revenues was 28% and 30% for the quarters ended March 31, 2014 and 2013, respectively. The decline in margin is primarily due to the acquisition of Globe along with changes in sales mix (increased portion of sales of lower margin business offset partially by a decreased proportion of sales in higher margin business).

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**SELLING EXPENSES:** Selling expenses increased in the first quarter of 2014 with the addition of Globe. However, selling expenses as a percentage of revenues were 3% and 5% in the first quarter of 2014 and 2013, respectively.

**GENERAL AND ADMINISTRATIVE EXPENSES:** General and administrative expenses increased by 111% in the first quarter 2014 from the first quarter 2013 due to the addition of Globe, combined with increased incentive compensation. As a percentage of revenues, general and administrative expenses decreased to 10% for the period ended March 31, 2014 compared to 12% for the same period in 2013.

**ENGINEERING AND DEVELOPMENT EXPENSES:** Engineering and development expenses increased by 101% in the first quarter of 2014 compared to the same quarter last year due to the addition of Globe. As a percentage of revenues, engineering and development expenses were 6% and 7% for the first quarter of 2014 and 2013, respectively.

**AMORTIZATION OF INTANGIBLE ASSETS:** Amortization of intangible assets expense was \$678 in the quarter ended March 31, 2014 compared to \$84 for the same quarter last year. The increase is the result of amortization for Globe's intangible assets.

**INCOME TAXES:** The effective income tax rate as a percentage of income before income taxes was 35% and 32% for the quarters ended March 31, 2014 and 2013, respectively. The effective rate is higher than the same quarter of last year primarily due to the effect on deferred taxes of a statutory rate reduction in a foreign jurisdiction and increased domestic income that is taxed at higher rates.

**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 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.

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The Company's calculation of EBITDA and Adjusted EBITDA for the three months ended March 31, 2014 and 2013 is as follows (in thousands):

|                               | For the three months ended |       |      |       |
|-------------------------------|----------------------------|-------|------|-------|
|                               | March 31,                  |       |      |       |
|                               | 2014                       |       | 2013 |       |
| Net income as reported        | \$                         | 2,148 | \$   | 960   |
| Interest expense              |                            | 1,638 |      | 9     |
| Provision for income tax      |                            | 1,137 |      | 452   |
| Depreciation and amortization |                            | 1,688 |      | 413   |
| EBITDA                        |                            | 6,611 |      | 1,834 |
| Stock compensation expense    |                            | 379   |      | 224   |
| Adjusted EBITDA               | \$                         | 6,990 | \$   | 2,058 |

## Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents increased by \$1,298, to a balance of \$9,718 at March 31, 2014 from March 31, 2013. During the first three months of 2014, operations used \$192 in cash compared to \$1,131 of cash used for the same period of 2013. The decrease in cash used is primarily due to the higher level of earnings, partially offset by an increase in working capital.

Net cash provided by investing activities was \$850 for the first quarter of 2014 compared to \$298 of cash used for the first quarter of 2013. The increase is due to cash received for a \$1,434 purchase price adjustment related to the Globe acquisition. In the three months ended March 31, 2014, purchases of property and equipment were \$584 compared to \$298 for the same period of last year.

Net cash used for financing activities was \$1,053 for the three months ended March 31, 2014 compared to cash provided of \$193 for the same period last year. The decrease in 2014 is due to payments on our long-term debt.

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 March 31, 2014.

As of March 31, 2014, the amount available to borrow under the Company's various lines-of-credit was approximately \$7,300.

During the three months ended March 31, 2014, 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.

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, 2013. 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

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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.

Table of Contents**Item 4. Controls and Procedures**

The Company's controls and procedures include those designed to ensure that material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of management, the Company's chief executive officer and chief financial officer evaluated the effectiveness of the Company's disclosure controls and procedures designed to ensure that information is recorded, processed, summarized and reported in a timely manner as required by Exchange Act reports such as this Form 10-Q and concluded that as of the end of the Company's most recent fiscal quarter they are effective.

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2014 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II.****OTHER INFORMATION****Item 5. Other Information**

The Company held its annual stockholders' meeting on May 13, 2014. At the annual meeting, the stockholders of the Company (i) elected the six director nominees, (ii) approved, on an advisory basis, the compensation awarded to the Company's Named Executive Officers for 2013, (iii) and ratified the appointment of EKS&H LLLP as the Company's independent registered public accounting firm for the 2014 fiscal year.

The results of the voting for the six director nominees were as follows:

| Nominee             | For       | Against | Abstentions | Broker Non-votes |
|---------------------|-----------|---------|-------------|------------------|
| Richard D. Federico | 5,207,251 | 53,921  | 7,430       | 3,239,184        |
| S.R. Heath          | 4,845,037 | 415,454 | 8,111       | 3,239,184        |
| Gerald J. Laber     | 5,206,165 | 55,110  | 7,327       | 3,239,184        |
| Richard D. Smith    | 4,822,378 | 438,794 | 7,430       | 3,239,184        |
| James J. Tanous     | 5,187,386 | 72,879  | 8,337       | 3,239,184        |
| Richard S. Warzala  | 5,201,681 | 59,417  | 7,504       | 3,239,184        |

The results for the advisory vote on executive compensation for 2013 were as follows:

| For       | Against | Abstentions | Broker Non-Votes |
|-----------|---------|-------------|------------------|
| 5,111,743 | 88,392  | 68,927      | 3,239,184        |



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The results of the voting for the ratification of EKS&H as the Company's independent registered public accounting firm for the 2014 fiscal year were as follows:

| For       | Against | Abstentions |
|-----------|---------|-------------|
| 8,455,302 | 28,720  | 23,764      |

### **Item 6. Exhibits**

(a) Exhibits

10.1 Compensation Program for Non-Employee Directors (Incorporated by reference to the Company's Form 8-K filed February 19, 2014).

10.2 Amended and Restated Non-Employee Director Stock in Lieu of Cash Retainer Plan (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.

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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 March 31, 2014, 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.\*

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\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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: May 15, 2014

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