

ALLIED MOTION TECHNOLOGIES INC

Form 10-K

March 13, 2017

[Table of Contents](#)

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

Washington, D.C. 20549

**Form 10-K**

(Mark One)

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from      to

Commission file number: **0-04041**

**ALLIED MOTION TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

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

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

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

**495 Commerce Drive, Amherst, New York**  
(Address of principal executive offices)

**14228**  
(Zip Code)

Registrant's telephone number, including area code: **(716) 242-8634**

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, no par value Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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):

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

The aggregate market value of voting stock held by non-affiliates of the Registrant, computed by reference to the average bid and asked prices of such stock as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$151,420,321.

Number of shares of the only class of Common Stock outstanding: 9,374,311 as of March 13, 2017

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated into Part III.

---

Table of Contents

**Table of Contents**

	<b>Page</b>
<u>PART I.</u>	
<u>Item 1.</u> <u>Business</u>	3
<u>Item 1A.</u> <u>Risk Factors</u>	8
<u>Item 2.</u> <u>Properties</u>	14
<u>Item 3.</u> <u>Legal Proceedings</u>	14
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	15
<u>PART II.</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	15
<u>Item 6.</u> <u>Selected Financial Data</u>	17
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 7A.</u> <u>Qualitative and Quantitative Disclosures About Market Risk</u>	29
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	31
<u>Report of Independent Registered Public Accounting Firm</u>	31
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants and Financial Disclosure</u>	56
<u>Item 9A.</u> <u>Controls and Procedures</u>	56
<u>Item 9B.</u> <u>Other Information</u>	56
<u>PART III.</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	57
<u>Item 11.</u> <u>Executive Compensation</u>	57
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	57
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	57
<u>Item 14.</u> <u>Principal Accountant Fees and Services</u>	57
<u>PART IV.</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	57
<u>Signatures</u>	60

Table of Contents

**Disclosure Regarding Forward-Looking Statements**

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 to differ materially from the expected results described in the forward looking statements. 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. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. 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. Certain of these factors, risks and uncertainties are discussed in the sections of this report entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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.

**PART I**

**All dollar amounts are in thousands except share and per share amounts.**

**Item 1. Business.**

**Description of the Business**

Allied Motion Technologies Inc. (Allied Motion or the Company) is a global company that designs, manufactures and sells precision and specialty motion control components and systems used in a broad range of industries within our major served markets, which include Vehicle, Medical, Aerospace & Defense, Electronics and Industrial. We are focused exclusively on motion control applications and are known worldwide for our expertise in electro-magnetic, mechanical and electronic motion technology. Our products and solutions support a wide variety of applications in these markets and include brush and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gear motors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, and other associated motion control-related products.

Our growth strategy is focused on becoming the motion solution leader in our selected target markets by leveraging our technology/know how to develop integrated precision motion solutions that utilize multiple Allied Motion technologies to change the game by enhancing and optimizing

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

the operation, performance and efficiency of our customers' products and manufacturing equipment. Our goal is to grow sales with a larger base of customers, new applications and technologies, and increased market share globally and within our targeted markets.

We design and develop our products within our Technology Units and can manufacture these products in various facilities located in the United States, Canada, Mexico, Europe and Asia. We also operate *Allied Motion Solution Centers* that apply all Allied Motion products to create integrated motion control solutions for our customers. We sell our products and solutions globally to a broad spectrum of customers through our own direct sales force and authorized manufacturers' representatives and distributors. Our customers include end users and original equipment manufacturers (OEMs).

Allied Motion was established in 1962 under the laws of Colorado and operates in the United States, Canada, Mexico, Europe and Asia. We are headquartered in Amherst, New York and the mailing address of our corporate headquarters is 495 Commerce Drive, Suite 3, Amherst, New York 14228. The telephone number at this location is (716) 242-8634. Our website is [www.alliedmotion.com](http://www.alliedmotion.com). We trade under the ticker symbol AMOT on the NASDAQ exchange.

Table of Contents

**Markets and Applications**

Our products and solutions are applied broadly to support a wide range of applications several served markets. Examples of applications in these markets that use Allied Motion components and systems include the following:

Vehicle: electronic power steering and drive-by-wire applications to electrically replace, or provide power-assist, to a variety of mechanical linkages, traction / drive systems and pumps, automated and remotely guided power steering systems, various high performance vehicle applications, actuation systems (e.g., lifts, slide-outs, covers, etc.), HVAC systems, solutions to improve energy efficiency of vehicles while idling and alternative fuel systems such as LPG, fuel cell and hybrid vehicles. Vehicle types include off- and on-road construction and agricultural equipment; trucks, buses, boats, utility, recreational (e.g., RVs, ATVs (all-terrain vehicles)), specialty automotive, automated and remotely guided vehicles, etc.

Medical: surgical robots, prosthetics, electric powered surgical hand pieces, programmable pumps to meter and administer infusions associated with chemotherapy, pain control and antibiotics, nuclear imaging systems, radiology equipment, automated pharmacy dispensing equipment, kidney dialysis equipment, respiratory ventilators, heart pumps, and patient handling equipment (e.g., wheel chairs, scooters, stair lifts, patient lifts, transport tables and hospital beds, etc.).

Aerospace & Defense: inertial guided missiles, mid-range smart munitions systems, weapons systems on armed personnel carriers, unmanned vehicles, security and access control, camera systems, door access control, airport screening and scanning devices, etc.

Electronics and Industrial: products are used in the handling, inspection, and testing of components and final products such as PCs, gaming equipment and cell phones, high definition printers, tunable lasers and spectrum analyzers for the fiber optic industry, test and processing equipment for the semiconductor manufacturing industry, factory automation, specialty equipment, material handling equipment, commercial grade floor polishers and cleaners, commercial building equipment such as welders, cable pullers and assembly tools, etc.

**Sales, Support and Technology Units**

Allied Motion's One Team approach to the market is realized through the close collaboration of our Solution Centers and Technology Units (TUs) working together with our sales organization to provide innovative motion solutions and create value for our customers.

**Allied Motion Sales Organization:** Our sales organization is evolving with the goal of becoming the best sales and service force in our industry. Through our One Team approach for providing motion control solutions and components that best address our customers' needs, we are broadening the knowledge and skills of our direct sales force, while creating sales and service support in our Solution Centers. This enables the entire sales organization to be capable of selling globally all products designed, developed and produced by Allied Motion. Currently, our primary channels to market include our direct sales force and external authorized Sales Representatives, Agents and Distributors that provide field coverage in Asia, Europe, Canada, Israel and the Americas. While the majority of our sales are directly to OEMs, we are working to expand our market reach through Distribution channels.

**Allied Motion Solution Centers:** We have Solution Centers in China, Europe and North America that enable the design and sale of individual products as well as integrated motion control systems that utilize multiple Allied Motion products. In addition to providing sales and applications support, the solution center function may include final assembly, integration and test, as required, to support customers within their geographic region.

*China Solution Center* Changzhou, China

*European Solution Center* Stockholm, Sweden

*North American Solution Center* - Amherst, New York, USA



Table of Contents

**Allied Motion Technology Units:** Technology Units (TUs) are where products are designed and developed, and in some cases, also produced.

The locations of the TUs along with support facilities, including a brief description and capabilities at each, are as follows:

*Allied Motion Controls    Global Electronic Motion Control Design and Development Unit.*

- Designs, develops and manufactures advanced electronic motion control products including integrated power electronics, digital controls and network communications for motor control and power conversion to support Allied Motion's broad range of motors.
- Locations include: Amherst, NY, USA; Oakville, Ontario, Canada; Dordrecht, Netherlands; Ferndown, England; and Stockholm, Sweden.

*Allied Motion Dordrecht*

- Designs and manufactures fractional horsepower brushless DC motors with or without integrated electronics and coreless DC motors.
- The products are used in a wide variety of medical, industrial and commercial aviation applications, such as dialysis equipment, industrial ink jet printers, cash dispensers, bar code readers, laser scanning equipment, fuel injection systems, HVAC actuators, waste water treatment, dosing systems for the medical industry, textile manufacturing and document handling equipment.

*Allied Motion Owosso*

- Designs and manufactures highly engineered fractional horsepower permanent magnet DC and brushless DC motors serving a wide range of original equipment applications.

- The motors are used in mobile HVAC systems, actuation systems, and specialty and general purpose pumps in a variety of markets including trucks, buses, boats, RVs, off-road vehicles, health, fitness, medical and industrial equipment.

*Allied Motion Tulsa*

- Designs, manufactures and markets high performance brushless DC motors, including servo motors, frameless motors, torque motors, high speed (60,000 RPM+) slotless motors, high resolution encoders and motor/encoder assemblies.
- Markets served include medical equipment, semiconductor, industrial, and aerospace and defense.

*Allied Motion Watertown*

- Designs and manufactures gearing solutions in both stand-alone and integrated gearing/motor configurations for the commercial and industrial equipment, healthcare, medical and non-automotive transportation markets.
- The component products are sold primarily to original equipment manufacturers (OEMs) for use in their end products.

*Allied Motion Globe Motors (Dayton OH, Dothan AL, Reynosa Mexico and Porto Portugal)*

- Designs, manufactures, and markets precision, fractional and sub-fractional horsepower motors and motorized solutions including integrated drives, controls, gearing and feedback devices.
- Markets served include aerospace and defense, automotive, distribution, electronics, industrial and medical.

Table of Contents

*Allied Motion Heidrive (Kelheim Germany, Mrakov Czech Republic)*

- On January 12, 2016 we acquired all of the outstanding stock of Heidrive GmbH, a drive technology and engineering company for 20,000 (approximately US \$22,000). Refer to Note 2, Acquisitions, of the notes to the consolidated financial statements is contained in Item 8 of this report.
- Designs and manufactures customized, innovative synchronous motion systems for highly demanding applications from medical technology and robotics to cargo aviation and building technologies, as well as various commercial applications.
- Its products include a variety of motors, gears and electronic controls.

**Segment Information**

We operate in one segment for the design and manufacture of motion control products, marketed to original equipment manufacturers and end users. Segment information, including sales from external customers, assets by segment, and long-lived assets by geographic area, as set forth in Note 11, *Segment Information*, of the notes to the consolidated financial statements is contained in Item 8 of this report.

**Competitive Environment**

Our products and solutions are sold into a global market with a large and diverse group of competitors that vary by product, geography, industry and application. We believe the motion control market is highly fragmented with many competitors, some of which are substantially larger and have greater resources than Allied Motion. We believe our competitive advantages include our electro-magnetic, mechanical and electronic motion control expertise, the breadth of our motor technologies and of our ability to integrate these technologies with our encoders, gearing, power electronics, digital control technologies and network/feedback communications capabilities, as well as our global presence. Unlike many of our competitors, we are unique in our ability to provide custom-engineered motion control solutions that integrate the products we manufacture such as embedded or external electrical control solutions with our motors. We compete on technological capabilities, quality, reliability, service responsiveness, delivery speed and price. Our competitors include Ametek, Fortive Corporation, Parker Hannifin Corporation and other smaller competitors.

**Availability of Parts and Raw Materials**

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

All parts and raw materials used by the Company are in adequate supply. No significant parts or raw materials are acquired from a single source or for which an alternate source is not also available.

### **Patents, Trademarks, Licenses, Franchises and Concessions**

We hold a number of patents and trademarks for components manufactured by our various subsidiaries, and we have several patents pending on new products recently developed, which are considered to be of major significance.

### **Working Capital Items**

We currently maintain inventory levels adequate for our short-term needs based upon present levels of production. We consider the component parts of our different product lines to be readily available and current suppliers to be reliable and capable of satisfying anticipated needs.

### **Major Customers**

During 2014, 2015 and 2016, the Company's total annual revenues increased significantly as a result of both sales to customers of businesses acquired by the Company during that period and from increased sales to a number of existing customers of the Company, with five customers accounting for approximately 35% of the Company's total revenue during 2016, and 40% during 2015 and 2014.

Table of Contents

**Sales Backlog**

Backlog as of December 31, 2016 was \$78,602 compared with \$70,999 as of December 31, 2015. The time to convert the majority of backlog to sales is approximately three to four months. Given the short product lead times, we do not believe that the amount of our backlog of orders is a reliable indication of our future sales. We may on occasion receive multi-year orders from customers for product to be delivered on demand over that time frame. There can be no assurance that the Company's backlog from these customers will be converted into revenue.

**Engineering and Development Activities**

Our engineering and development (E&D) activities are for the development of new products, enhancement of the functionality, effectiveness and reliability of current products, to redesign products to reduce the cost of manufacturing of products or to expand the types of applications for which our products and solutions can be used. Our expenditures on engineering and development for the years ended December 31, 2016 and 2015 were \$16,170 and \$14,229, respectively, or 7% and 6% of sales, respectively. We believe E&D is critical to our success and expect to continue to invest at least at these levels in the future. Of these expenditures, no material amounts were charged directly to customers, although we do record non-recurring engineering charges to certain customers for custom engineering required to develop products that meet the customer's specifications.

**Environmental Issues**

No significant pollution or other types of hazardous emission result from the Company's operations and it is not anticipated that our operations will be materially affected by Federal, State or local provisions concerning environmental controls. Our costs of complying with environmental, health and safety requirements have not been material.

We do not believe that existing or pending climate change legislation, regulation, or international treaties or accords are reasonably likely to have a material effect in the foreseeable future on our business or markets that we serve, nor on our results of operations, capital expenditures or financial position. We will continue to monitor emerging developments in this area.

**International Operations**

Our operations outside the United States are conducted through wholly-owned foreign subsidiaries and are located primarily in Europe and Asia. Our international operations are subject to the usual risks inherent in international trade, including currency fluctuations, local government contracting regulations, local governmental restrictions on foreign investment and repatriation of profits, exchange controls, regulation of the import and distribution of foreign goods, as well as changing economic and social conditions in countries in which our operations are conducted. The information required by this item is set forth in Note 11, *Segment Information*, of the notes to consolidated financial statements contained in Item 8 of this report.

## Employees

At December 31, 2016, we employed approximately 1,220 full-time employees worldwide. Of those, approximately 47% are located in North America, 45% are located in Europe and the balance are located in China and the rest of the world.

## Available Information

The Company maintains a website at [www.alliedmotion.com](http://www.alliedmotion.com). We make available, free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

We have adopted a Code of Ethics for our chief executive officer and president and senior financial officers regarding their obligations in the conduct of Company affairs. We have also adopted a Code of Ethics and Business Conduct that is applicable to all directors, officers and employees. The Codes are available on our website. We intend to disclose on our website any amendment to, or waiver of, the Codes that would otherwise be required to be disclosed under the rules of the SEC and the Nasdaq Global Market. A copy of both Codes is also available in print to any stockholder upon written request addressed to Allied Motion Technologies Inc., 495 Commerce Drive, Suite 3, Amherst, NY 14228-2313, Attention: Secretary.

Table of Contents

**Item 1A. Risk Factors**

In the ordinary course of our business, we face various strategic, operating, compliance and financial risks. These risks could have a material impact on our business, reputation, financial condition or results of operations. Our most significant risks are set forth below and elsewhere in this Report. These risk factors should be considered in addition to our cautionary comments concerning forward-looking statements in this Report, including statements related to markets for our products and trends in our business that involve a number of risks and uncertainties.

**Our operating results could fluctuate significantly.**

Our quarterly and annual operating results are affected by a wide variety of factors that could materially adversely affect revenues and profitability, including: the timing of customer orders and the deferral or cancellation of orders previously received, the level of orders received which can be shipped in a quarter, fulfilling backlog on a timely basis, competitive pressures on selling prices, changes in the mix of products sold, the timing of investments in engineering and development, development of and response to new technologies, and delays in new product qualifications.

As a result of the foregoing and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis which could materially and adversely affect our business, financial condition, operating results and stock price.

**Our growth could suffer if the markets into which we sell our products and services decline, do not grow as anticipated or experience cyclical.**

Our growth depends in part on the growth of the markets which we serve. Any decline or lower than expected growth in our served markets could diminish demand for our products and services, which would adversely affect our financial statements. Certain of our businesses operate in industries that may experience periodic, cyclical downturns. Demand for our products and services is also sensitive to changes in customer order patterns, which may be affected by announced price changes, changes in incentive programs, new product introductions and customer inventory levels. Any of these factors could adversely affect our growth and results of operations in any given period.

**Our business operations may be adversely affected by information systems interruptions, intrusions or new software implementations.**

We are dependent on various information technologies throughout our company to administer, store and support multiple business activities. Disruptions or cybersecurity attacks, such as unauthorized access, malicious software and other intrusions may lead to exposure of proprietary and confidential information as well as potential data corruption. Any intrusion may cause operational stoppages, diminished competitive advantages through reputational damages and increased operational costs. We are committed to a multi-year enterprise resource planning system implementation along with the standardization of our business systems. This endeavor will occupy additional resources, diverting attention from other operational activities, and may cause our information systems to not perform as expected. While we expect to invest significant resources throughout the planning and project management process, unanticipated delays could occur.

**If we do not respond to changes in technology, our products may become obsolete and we may experience a loss of customers and lower revenues.**

We sell our products to customers in several industries that experience rapid technological changes, new product introductions and evolving industry standards. Without the timely introduction of new products and enhancements, our products and services will likely become technologically obsolete over time and we may lose a significant number of our customers. Our product development efforts may be affected by a number of factors, including our ability to anticipate customer needs, allocate our research and development funding, innovate and develop new products, differentiate our offerings and commercialize new technologies, secure intellectual property protection for our product and manufacture products in a cost effective manner. We would be harmed if we did not meet customer requirements and expectations. Our inability, for technological or other reasons, to successfully develop and introduce new and innovative products could result in a loss of customers and lower revenues.

**We face competition that could harm our business and we may be unable to compete successfully against new entrants and established companies with greater resources.**

Competition in connection with the manufacturing of our products may intensify in the future. The market for our technologies is competitive and subject to rapid technological change. We compete globally on the basis of product performance, customer



Table of Contents

service, availability, reliability, productivity and price. Our competitors may be larger and may have greater financial, operational, economies of scale, personnel, sales, technical and marketing resources than us. Certain of our competitors also may pursue aggressive pricing or product strategies that may cause us to reduce the prices we charge for our original equipment and aftermarket products and services or lose sales. These actions may lead to reduced revenues, lower margins and/or a decline in market share, any of which may adversely affect our business, financial condition and results of operations.

**We intend to develop new products and expand into new markets, which may not be successful and could harm our operating results.**

We intend to expand into new markets and develop new and modified products based on our existing technologies and engineering capabilities, including the continued expansion of our Motion Control Systems. These efforts have required and will continue to require us to make substantial investments, including significant research, development and engineering expenditures and capital expenditures for new, expanded or improved manufacturing facilities. Specific risks in connection with expanding into new products and markets include: longer product development cycles, the inability to transfer our quality standards and technology into new products, and the failure of our customers to accept the new or modified products.

**Our competitiveness depends on successfully executing our growth initiatives and our globalization strategies.**

We continue to invest in initiatives to support future growth, such as the creation of an effective corporate structure, implementation of our enterprise resource planning system, launch of a new integrated website, implementation of a structured approach to identify target markets, and the expansion of our Allied Systematic Tools. The failure to achieve our objectives on these initiatives could have an adverse effect on our operating results and financial condition. Our globalization strategy includes localization of our products and services to be closer to our customers and identified growth opportunities. Localization of our products and services includes expanding our capabilities, including supply chain and sourcing activities, product design, manufacturing, engineering, marketing and sales and support. These activities expose us to risks, including those related to political and economic uncertainties, transportation delays, labor market disruptions and challenges to protect our intellectual property.

**We depend heavily on a limited number of customers, and if we lose any of them or they reduce their business with us, we would lose a substantial portion of our revenues.**

A significant portion of our revenues and trade receivables are concentrated with a small group of customers. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, often resulting in the allocation of risk to us as the supplier. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, if a customer is acquired by one of our competitors or if a key customer suffers financial hardship, our operating results would likely be harmed.

**Our inability to adequately enforce and protect our intellectual property or defend against assertions of infringement could prevent or restrict our ability to compete.**

We rely on patents, trademarks and proprietary knowledge and technology, both internally developed and acquired, in order to maintain a competitive advantage. Our inability to defend against the unauthorized use of these rights and assets could have an adverse effect on our results of operations and financial condition. Litigation may be necessary to protect our intellectual property rights or defend against claims of infringement. This litigation could result in significant costs and divert our management's focus away from operations.

**Increased healthcare, pension and other costs under the Company's benefit plans could adversely affect the Company's financial condition and results of operations.**

We provide health benefits to many of its employees and the costs to provide such benefits continue to increase annually. The amount of any increase or decrease in the cost of Company-sponsored health plans will depend on a number of different factors including new governmental regulations mandating types of coverage and reporting and other requirements.

We also sponsor defined benefit pension, defined contribution pension, and other postretirement benefit plans. Our costs to provide such benefits generally continue to increase annually. We use actuarial valuations to determine the Company's benefit obligations for certain benefit plans, which require the use of significant estimates, including the discount rate, expected long-term rate of return on plan assets, mortality rates and the rates of increase in compensation and health care costs. Changes

Table of Contents

to these significant estimates could increase the cost of these plans, which could also have a material adverse effect on the Company's financial condition and results of operations.

**If we are unable to attract and retain qualified personnel, our ability to operate and grow our company will be in jeopardy.**

We are required to hire and retain skilled employees at all levels of our operations in a market where such qualified employees are in high demand and are subject to receiving competing offers. We believe that there is, and will continue to be, competition for qualified personnel in our industry, and there is no assurance that we will be able to attract or retain the personnel necessary for the management and development of our business. The inability to attract or retain employees currently or in the future may have a material adverse effect on our business.

**Our future success depends in part on the continued service of our engineering and technical personnel and our ability to identify, hire and retain personnel.**

Our success will depend in large part upon our ability to attract, train, retain and motivate highly skilled employees. There is currently aggressive competition for employees who have experience in technology and engineering. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development and growth of our business or to replace personnel who may leave our employ in the future. The failure to retain and recruit key technical personnel could cause additional expense, potentially reduce the efficiency of our operations and could harm our business.

**We rely on suppliers to provide equipment, components and services, which creates certain risks and uncertainties that may adversely affect our business.**

Our business requires that we buy equipment, components and services. Our reliance on suppliers involves certain risks, including poor quality or an insecure supply chain, which could adversely affect the reliability and reputation of our products; changes in the cost of these purchases due to inflation, exchange rates, or other factors; shortages of components, commodities or other materials, which could adversely affect our manufacturing efficiencies and ability to make timely delivery.

Any of these uncertainties could adversely affect our profitability and ability to compete. The effect of unavailability or delivery delays would be more severe if associated with our higher volume and more profitable products. Even where substitute sources of supply are available, qualifying the alternate suppliers and establishing reliable supplies could cost more or could result in delays and a loss of sales.

**Our operating results depend in part on our ability to contain or reduce costs. There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure.**

Our efforts to maintain and improve profitability depend in part on our ability to reduce the costs of materials, components, supplies and labor, including establishing production capabilities at our low cost regional subcontractors. While the failure of any single cost containment effort by itself would most likely not significantly impact our results, we cannot give any assurances that we will be successful in implementing cost reductions and maintaining a competitive cost structure.

There is substantial price competition in our industry, and our success and profitability will depend on our ability to maintain a competitive cost and price structure. We may have to reduce prices in the future to remain competitive. Also, our future profitability will depend in part upon our ability to continue to improve our manufacturing efficiencies and maintain a cost structure that will enable us to offer competitive prices. Our inability to maintain a competitive cost structure could have a material adverse effect on our business, financial condition and results of operations.

**Our profits may decline if the price of raw materials continues to rise and we cannot recover the increases from our customers.**

We use various raw materials, such as copper, steel and zinc, in our manufacturing operations. The prices of these raw materials have been subject to volatility. As a result of price increases, we have implemented price surcharges to our customers; however, we may be unable to collect surcharges without suffering reductions in unit volume, revenue and operating income. There can be no assurance that we will be able to fully recover the price increases through surcharges in a timely manner.

Table of Contents

**We face the challenge of accurately aligning our capacity with our demand.**

We can experience capacity constraints and longer lead times for certain products in times of growing demand while we can also experience idle capacity as economies slow or demand for certain products decline. Accurately forecasting our expected volumes and appropriately adjusting our capacity have been, and will continue to be, important factors in determining our results of operations. We cannot guarantee that we will be able to increase manufacturing capacity to a level that meets demand for our products, which could prevent us from meeting increased customer demand and could harm our business. However, if we overestimate our demand and overbuild our capacity, we may have significantly underutilized assets and we may experience reduced margins. If we do not accurately align our manufacturing capabilities with demand it could have a material adverse effect on our results of operations.

**The manufacture of many of our products is a highly exacting and complex process, and if we directly or indirectly encounter problems manufacturing products, our reputation, business and financial statements could suffer.**

The manufacture of many of our products is an exacting and complex process. Problems may arise during manufacturing for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials, natural disasters and environmental factors, and if not discovered before the product is released to market could result in recalls and product liability exposure. Because of the time required to develop and maintain manufacturing facilities, an alternative manufacturer may not be available on a timely basis to replace such production capacity. Any of these manufacturing problems could result in significant costs and liability, as well as negative publicity and damage to our reputation that could reduce demand for our products.

**Quality problems with our products could harm our reputation, erode our competitive advantage and could result in warranty claims and additional costs.**

Quality is important to us and our customers, and our products are held to high quality and performance standards. In the event our products fail to meet these standards, our reputation could be harmed, which could damage our competitive advantage, causing us to lose customers and resulting in lower revenues. We generally allow customers to return defective or damaged products for credit, replacement or exchange. We generally warrant that our products will meet customer specifications and will be free from defects in materials and workmanship. We reserve for our exposure to warranty claims based upon recent historical experience and other specific information as it becomes available. However, these reserves may not be adequate to cover future warranty claims and additional warranty costs or inventory write-offs may be incurred which could harm our operating results.

**We may explore additional acquisitions that complement, enhance or expand our business. We may not be able to complete these transactions, and, if completed, we may experience operational and financial risks in connection with our acquisitions that may materially adversely affect our business, financial condition and operating results.**

Our future growth may be a function, in part, of acquisitions. We may have difficulty finding these opportunities, or if we do identify these opportunities, we may not be able to complete the transactions for reasons including a failure to secure financing.

To the extent that we are able to complete the transactions, we will face the operational and financial risks commonly encountered with this type of a strategy. These risks include the challenge of integrating acquired businesses while managing the ongoing operations of each business, the challenge of combining the business cultures of each company, and the need to retain key personnel of our existing business and the acquired business. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the acquired business and our existing business. Members of our senior management may be required to devote considerable amounts of time to the integration process, which will decrease the time they will have to manage our businesses, service existing customers, attract new customers and develop new products. If our senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could be adversely affected.

Future acquisitions could result in debt, dilution, liabilities, increased interest expense, restructuring charges and amortization expenses related to intangible assets. In addition, any acquired business, technology, service or product could under-perform relative to our expectations and the price that we paid for it, or not perform in accordance with our anticipated timetable.

Table of Contents

**Our international sales and operations are subject to a variety of economic, market and financial risks and costs that could affect our profitability and operating results.**

We do business around the world and are continuing our strategy of global expansion. Our international sales are primarily to customers in Europe, Canada and Asia. In addition, our manufacturing operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-U.S. markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; imposition of trade or foreign exchange restrictions, including in the U.S.; trade protection measures such as the imposition of or increase in tariffs and other trade barriers, including in the U.S.; unexpected changes in regulatory requirements, including in the U.S., prevalence of corruption in certain countries; enforcement of contract and intellectual property rights and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings. In addition, we are affected by changes in foreign currency exchange rates, inflation rates and interest rates.

**Foreign currency exchange rates may adversely affect our financial statements.**

Sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar and may adversely affect our financial statements. Increased strength of the U.S. dollar increases the effective price of our products sold in U.S. dollars into other countries, which may require us to lower our prices or adversely affect sales to the extent we do not increase local currency prices. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products and services we purchase overseas. Sales and expenses of our non-U.S. businesses are also translated into U.S. dollars for reporting purposes and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects. The Company also faces exchange rate risk from its investments in subsidiaries owned and operated in foreign countries.

**Our international operations expose us to legal and regulatory risks, which could have a material effect on our business.**

Our profitability and international operations are, and will continue to be, subject to risks relating to changes in foreign legal and regulatory requirements. In addition, our international operations are governed by various U.S. laws and regulations, including Foreign Corrupt Practices Act and other similar laws that prohibit us and our business partners from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities and could negatively affect our business, reputation, operating results and financial condition.

We are required to comply with various import laws and export control and economic sanctions laws, which may affect our transactions with certain customers, business partners and other persons and dealings between our employees and subsidiaries. In certain circumstances, export control and economic sanctions regulations or embargos may prohibit the export of certain products, services and technologies. In other circumstances, we may be required to obtain an export license before exporting the controlled item. Compliance with the various import laws that apply to our businesses can restrict our access to, and increase the cost of obtaining, certain products and at times can interrupt our supply of imported inventory.

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

In addition to government regulations regarding sale and export, we are subject to other regulations regarding our products. For example, the U.S. Securities and Exchange Commission has adopted disclosure rules for companies that use conflict minerals in their products, with substantial supply chain verification requirements in the event that the materials come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These new rules and verification requirements will impose additional costs on us and on our suppliers, and may limit the sources or increase the cost of materials used in our products. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers that could place us at a competitive disadvantage, and our reputation may be harmed.

**Our indebtedness may limit our operations and our use of our cash flow, and any failure to comply with the covenants that apply to our indebtedness could adversely affect our liquidity and financial statements.**

Our ability to service our indebtedness depends on our financial performance, which is affected by prevailing economic conditions and financial, business, regulatory and other factors. Some of these factors are beyond our control. Our debt level and related debt service obligations can have negative consequences, including requiring us to dedicate significant cash flow from operations to the payment of principal and interest on our debt, which reduces the funds we have available for other purposes such as acquisitions and capital investment; reducing our flexibility in planning for or reacting to changes in our business and market conditions; and exposing us to interest rate risk since a portion of our debt obligations are at variable rates.



Table of Contents

In addition, certain of our indebtedness will have significant outstanding principal balances on their maturity dates, commonly known as balloon payments. Therefore, we will likely need to refinance at least a portion of our outstanding debt as it matures. We may incur significantly more debt in the future, particularly to finance acquisitions, and there can be no assurance that our cost of funding will not substantially increase.

Our existing credit agreements contain, and any future debt agreements we may enter into may contain, certain financial tests and other covenants that limit our ability to incur indebtedness, acquire other businesses and impose various other restrictions. If we breach any of the covenants and do not obtain a waiver from the lenders, the outstanding indebtedness could be declared immediately due and payable. If we are unable to obtain sufficient capital in the future, we may have to curtail our capital expenditures and other expenses. Any such actions could have a material adverse effect on our business, financial condition, results of operations and liquidity.

**Economic and credit market uncertainty could interrupt our access to capital markets, borrowings, or financial transactions to hedge certain risks, which could adversely affect our financial condition.**

To date, we have been able to access debt and equity financing that has allowed us to make investments in growth opportunities and fund working capital requirements. In addition, we enter into financial transactions to hedge certain risks, including foreign exchange and interest rate risk. Our continued access to capital markets, the stability of our lenders and their willingness to support our needs, and the stability of the parties to our financial transactions that hedge risks are essential for us to meet our current and long-term obligations, fund operations, and fund our strategic initiatives. An interruption in our access to external financing or financial transactions to hedge risk could affect our business prospects and financial condition.

**We may never realize the full value of our intangible assets, which represent a significant portion of our total assets.**

These intangible assets consist primarily of goodwill, customer lists, trade names and patented technology arising from our acquisitions. Goodwill is not amortized, but is tested annually or upon the occurrence of certain events which indicate that the assets may be impaired. Definite lived intangible assets are amortized over their estimated useful lives and are tested for impairment upon the occurrence of certain events which indicate that the assets may be impaired. We may not receive the recorded value for our intangible assets if we sell or liquidate our business or assets. In addition, intangible assets with definite lives will continue to be amortized. Amortization expenses relating to these intangible assets will continue to reduce our future earnings.

**Failure of our internal control over financial reporting could limit our ability to report our financial results accurately and timely or prevent fraud.**

We believe that effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. If we are unable to detect or correct any issues in the design or operating effectiveness of internal controls over financial reporting or fail to prevent fraud, current and potential customers and shareholders could lose confidence in our financial reporting, which could harm our business and the trading price of our stock.

**Unforeseen exposure to additional income tax liabilities may affect our operating results.**

Our distribution of taxable income is subject to domestic tax and, as a result of our significant manufacturing and sales presence in foreign countries, foreign tax. Our effective tax rate may be affected by shifts in our mix of earnings in countries with varying statutory tax rates, changes in reinvested foreign earnings, alterations to tax regulations or interpretations and outcomes of any audits performed on previous tax returns.

**We are subject to a variety of litigation and other legal and regulatory proceedings in the course of our business that could adversely affect our financial statements.**

We are subject to a variety of litigation and other legal and regulatory proceedings incidental to our business, including claims for damages arising out of the use of products or services and claims relating to intellectual property matters, employment matters, tax matters, commercial disputes, competition and sales and trading practices, environmental matters, personal injury, insurance coverage and acquisition matters, as well as regulatory investigations or enforcement. We may also become subject to lawsuits as a result of past or future acquisitions or as a result of liabilities retained from, or representations, warranties or indemnities provided in connection with, divested businesses. These lawsuits may include claims for compensatory damages, punitive and consequential damages and/or injunctive relief. The defense of these lawsuits may divert our management's attention, we may incur significant expenses in defending these lawsuits and we may be required to pay damage awards or settlements or become subject to equitable remedies that could adversely affect our operations and financial statements.

Table of Contents

Moreover, any insurance or indemnification rights that we may have may be insufficient or unavailable to protect us against such losses. We estimate loss contingencies and establish reserves based on our assessment where liability is deemed probable and reasonably estimable given the facts and circumstances known to us at a particular point in time. Subsequent developments may affect our assessment and estimates of the loss contingencies recorded as liabilities. We cannot guarantee that our liabilities in connection with litigation and other legal and regulatory proceedings will not exceed our estimates or adversely affect our financial statements and reputation.

**Our business is subject to environmental regulations that could be costly to comply with.**

Federal, state and local regulations impose various environmental controls on the manufacturing, transportation, storage, use and disposal of batteries and hazardous chemicals and other materials used in, and hazardous waste produced by the manufacturing of our products. Conditions relating to our historical operations may require expenditures for clean-up in the future and changes in environmental laws and regulations may impose costly compliance requirements on us or otherwise subject us to future liabilities. Additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our products or restricting disposal or transportation of our products may be imposed that may result in higher costs or lower operating results. In addition, we cannot predict the effect that additional or modified environmental regulations may have on us or our customers.

**We face the potential harms of natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.**

Natural disasters, pandemics, acts or threats of war or terrorism, international conflicts, political instability, and the actions taken by governments could cause damage to or disrupt our business operations, our suppliers or our customers, and could create economic instability. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products or make it difficult or impossible for us to deliver products.

**Item 2. Properties.**

As of December 31, 2016, the Company occupies facilities as follows:

Description / Use	Location	Approximate Square Footage	Owned Or Leased
Corporate headquarters	Amherst, New York	6,000	Leased
Office and manufacturing facility	Amherst, New York	6,000	Leased
Office and manufacturing facility	Changzhou, China	30,000	Leased
Office	Dayton, Ohio	29,000	Owned
Office and manufacturing facility	Dayton, Ohio	25,000	Leased
Office and manufacturing facility	Dordrecht, The Netherlands	32,000	Leased
Office and manufacturing facility	Dothan, Alabama	88,000	Owned
Office	Ferndown, Great Britain	1,000	Leased

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

Office and manufacturing facilities (2)	Kelheim, Germany	154,000	Leased
Office and manufacturing facility	Mrakov, Czech Republic	42,000	Leased
Office and manufacturing facility	Owosso, Michigan	85,000	Owned
Office and manufacturing facility	Porto, Portugal	52,000	Owned
Office and manufacturing facility	Reynosa, Mexico	50,000	Leased
Office and manufacturing facility	Stockholm, Sweden	20,000	Leased
Office and manufacturing facility	Tulsa, Oklahoma	30,000	Leased
Office and manufacturing facility	Watertown, New York	107,000	Owned

The Company's management believes the above-described facilities are adequate to meet the Company's current and foreseeable needs. Most of the manufacturing facilities described above are operating at less than full capacity.

**Item 3. Legal Proceedings.**

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.

Table of Contents**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Allied Motion's common stock is listed on the Nasdaq Global Market System and trades under the symbol AMOT. The number of holders of record as reported by the Company's transfer agent of the Company's common stock as of the close of business on March 10, 2017 was 351. The following table sets forth, for the periods indicated, the high and low prices of the Company's common stock as reported by Nasdaq, and the per share dividends paid by the Company during each quarter.

Year ended December 31, 2016	Price Range				Dividends
	High	Low	High	Low	
Fourth Quarter	\$ 23.86	\$ 15.54			\$ 0.025
Third Quarter	\$ 24.00	\$ 18.16			\$ 0.025
Second Quarter	\$ 24.60	\$ 16.85			\$ 0.025
First Quarter	\$ 25.93	\$ 15.46			\$ 0.025

Year ended December 31, 2015	Price Range				Dividends
	High	Low	High	Low	
Fourth Quarter	\$ 27.70	\$ 17.20			\$ 0.025
Third Quarter	\$ 23.04	\$ 16.02			\$ 0.025
Second Quarter	\$ 42.63	\$ 20.28			\$ 0.025
First Quarter	\$ 35.00	\$ 18.36			\$ 0.025

**Equity Compensation Plan Information**

The following table shows the equity compensation plan information of the Company at December 31, 2016:

Plan category	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	727,107



Table of Contents

***Performance Graph***

The following performance graph and tables reflect the five year change in the Company's cumulative total stockholder return on Common Stock as compared with the cumulative total return of the NASDAQ Stock Market Index and the NASDAQ Electrical and Industrial Apparatus Index for a \$100 investment made on December 31, 2011, including reinvestment of any dividends.

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Allied Motion Technologies	\$ 100.00	\$ 119.20	\$ 228.33	\$ 438.04	\$ 486.62	\$ 399.92
NASDAQ (U.S.)	\$ 100.00	\$ 117.45	\$ 164.57	\$ 188.84	\$ 201.98	\$ 219.89
S&P Electrical Components & Equipment	\$ 100.00	\$ 122.77	\$ 170.38	\$ 158.53	\$ 134.48	\$ 162.32





Table of Contents**Item 6. Selected Financial Data.**

For a more detailed discussion of 2014 through 2016, refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data of this report.

Dollars in thousands, except share data		2016 (1)		2015		2014		2013 (2)		2012	
Results from Operations											
Revenues		\$	245,893	\$	232,434	\$	249,682	\$	125,502	\$	101,968
Net income			9,078		11,074		13,860		3,953		5,397
Diluted earnings per share		\$	1.00	\$	1.20	\$	1.51	\$	0.45	\$	0.63
Year-End Financial Position											
Cash and cash equivalents (3)		\$	15,483	\$	21,278	\$	13,113	\$	8,371	\$	9,728
Working capital			50,987		39,931		34,828		25,037		25,958
Total assets			179,919		162,147		165,640		170,977		60,967
Short term debt			936		9,860		7,723		14,145		397
Long term debt			70,483		57,518		67,125		73,500		
Shareholders' equity			72,286		64,597		55,951		48,003		42,152
Shareholders' equity per common share outstanding		\$	7.71	\$	6.96	\$	6.07	\$	5.28	\$	4.88
Supplemental Financial Data											
Capital expenditures		\$	5,188	\$	4,730	\$	4,046	\$	3,087	\$	2,597
Depreciation expense			6,545		4,822		4,553		2,088		1,250
Engineering and development			16,170		14,229		13,881		7,931		6,060
Interest expense			6,449		6,023		6,435		1,445		13
Intangible amortization			3,204		2,644		2,714		825		548
Twelve month backlog (4)			78,602		70,999		75,065		75,599		32,915
Ratios											
Net return on sales			3.7%		4.8%		5.6%		3.1%		5.3%
Return on shareholders' equity			13.3%		18.4%		26.7%		8.8%		13.8%
Current ratio			3.1		2.2		2.0		1.6		3.2
Net debt to capitalization (5)			44%		42%		52%		62%		0%

(1) Includes the effect of the Heidrive acquisition in the first quarter of 2016.

(2) Includes the effect of the Globe acquisition in the fourth quarter of 2013.

(3) Amounts for 2013 exclude restricted cash of \$1,800.

(4) Twelve-month backlog is defined as confirmed orders for which the customer has provided a release and delivery date.

(5) Net debt is total debt less cash and cash equivalents. Capitalization is the sum of net debt and shareholders' equity.

Table of Contents

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Overview**

We are a global company that designs, manufactures and sells precision and specialty motion control components and systems used in a broad range of industries. Our target markets include Vehicle, Medical, Aerospace & Defense, Electronics and Industrial. We are headquartered in Amherst, NY, and have operations in the United States, Canada, Mexico, Europe and Asia. We are known worldwide for our expertise in electro-magnetic, mechanical and electronic motion technology. We sell component and integrated motion control solutions to end customers and original equipment manufacturers ( OEMs ) through our own direct sales force and authorized manufacturers' representatives and distributors. Our products include brush and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, and other motion control-related products.

**Financial Overview**

Highlights for our fiscal year ended December 31, 2016, include:

- Revenue was \$245,893 compared with \$232,434 in 2015. Growth in medical and aerospace and defense markets were partially offset by softness in the vehicle market. Sales to U.S. customers were 54% of total sales for the year compared with 66% for 2015, with the balance of sales to customers primarily in Europe, Canada and Asia.
- Gross profit was \$73,004 for 2016, a 6.2% increase from \$68,772 in 2015. As a percentage of revenue, gross margin improved 10 basis points to 29.7% primarily due to product mix.
- Operating income was \$18,883, or 7.7% of revenue, for 2016 compared with \$20,930, or 9% of revenue, for 2015.
- Net income was \$9,078, or \$1.00 per diluted share, compared with \$11,074, or \$1.20 per diluted share, for 2015.
- Bookings were \$250,369 for 2016 compared with \$231,940 for 2015. Backlog as of December 31, 2016 was \$78,602, an increase from \$70,999 at year end 2015.

- The Company secured a new senior revolving credit facility of \$125,000. The new facility was used to redeem the \$30,000, 14.5% senior subordinated notes due in 2019 and repay \$40,500 outstanding on the Company's previously existing revolving credit facility and term loan. Our debt, net of cash, increased by \$9,836 to \$55,936 at December 31, 2016 from year end 2015.
- We declared and paid a dividend of \$0.025 per share pursuant to our quarterly dividend program during each quarter of 2016. Dividends to shareholders for 2016 were \$0.10 per diluted share, or a dividend payout ratio of 10%, when compared with the earnings per share of \$1.00.

The Company's sales for the year ending 2016 were 6% higher than in the prior year. Our market position in our medical, electronics and aerospace and defense markets has grown with the addition of Heidrive to our Company portfolio. While several applications within our vehicle market were relatively stable, the softness in the off road vehicle industry combined with certain customer challenges is masking successes with new application wins we experienced in 2016. We also continue to make excellent progress in our strategic market based multi-product development solutions, which are being well received by our customers during the early stages of the product release cycle.

Earnings were \$1,996 lower in 2016 compared to the prior year, which reflects higher operating costs associated with the Heidrive acquisition, increased engineering and development spending and continued investments to expand the *One Allied* organization to drive greater efficiency and support accelerated growth.

We continue to take a long-term view of our business and believe that our infrastructure changes and the collaborative organization we are building to advance our multi-product solutions offering is working. We are confident that our strategy to be a unique, customer-focused, leading supplier of complete precision motion solutions to our target markets will enable us to take market share and gain greater scale over the next five years.

### **Our Strategy**

Our growth strategy is focused on becoming the motion solution leader in our selected target markets by further developing our products and services platform to utilize multiple Allied Motion technologies to create increased value solutions for our

Table of Contents

customers. Our strategy further defines Allied Motion as being a *technology/know-how* driven company and to be successful, we continue to invest in our areas of excellence.

We have set growth targets for our Company and we will align and focus our resources to meet those targets. First and foremost, we invest in our people as we believe that attracting and retaining the right people is the most important element in our strategy. We also will continue to invest in applied and design engineering resources.

Strategic focus means that we will take action to address the critical issues that we believe are necessary to meet the stated long-term goals and objectives of the Company. The majority of the critical issues are focused on growth initiatives for the Company.

One of these growth initiatives includes product line platform development to meet the emerging needs of our selected target markets. Our platform development emphasizes a combination of our technologies to create increased value solutions for our customers. The emphasis with new opportunities has evolved from being an individual component provider to becoming a solutions provider whereby the new opportunities utilize **multiple** of Allied Motion technologies in a system solution approach. We believe this approach will allow us to provide increased value to our customers and improved margins for our Company. Our strong financial condition, along with Allied Systematic Tools ( AST ) continuous improvement initiatives in quality, delivery, and cost allow us to have a positive outlook for the continued long term growth of our Company.

**Outlook for 2017**

In 2017, we will continue to focus on leveraging the growth synergies provided by the Heidrive acquisition in January 2016 to expand our business in our served markets. With strong cash flows and an improved debt position, we will continue to evaluate and pursue strategic acquisitions to enhance our growth opportunities in the future. In addition, we will continue to execute the ongoing critical issues as defined by our strategy, developed in 2013. The critical issues from that strategy include:

- 1) Creating an effective corporate structure to leverage the resources and capabilities of the combined entity.
- 2) Continue implementing our new ERP system to provide the infrastructure necessary to support the planned growth of the Company. We estimate the ERP system implementation to be completed during 2018.
- 3) Plan and implement a structured approach to identify the requirements of our target markets and to create and implement solutions to ensure we meet the requirements of those markets

- 4) Through the continued enhancement and development of our Operational Effectiveness Team, implement AST to drive continuous improvement in all areas of our business.

*Completed critical issues:* We successfully launched a new and integrated website in 2016 to better meet the needs of our current business environment.

Allied Motion is an applied technology/know-how motion company, and to grow, we will continue to invest in the technical resources to ensure we can move forward with our mantra to *create motion solutions that change the game* and to meet the emerging needs of our customers in our served market segments. In support of our sales efforts, we have three Solution Centers (United States, Europe and Asia) that are providing the support required to sell multi-technology solutions. We have a number of new multi-product motion control solution wins that will be ramping up during 2017 and a very active pipeline of new opportunities where our integrated solution capability has provided us with a competitive advantage. We anticipate that our investment in these key resources will help drive our growth now and in the future and we plan to continue investing in these resources during 2017. We further expect this shift from a component supplier to a more complete solutions provider, along with the application of AST, to drive margin improvement.

Our global production footprint provides us with the opportunity to be a good value proposition and supplier for global companies who require support around the world. We will continue to evaluate and find areas to leverage our current manufacturing and sales footprint to drive sales and improve efficiencies.

Further development and promotion of our parent brand, Allied Motion, will continue in 2017. A global structure has been defined and we intend to use that to our advantage in the marketplace.

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 of Item 8, Financial Statements and Supplementary Data of this report. 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:

***Revenue Recognition***

The Company derives revenues from the sale of products and services. See Note 1, *Business and Summary of Significant Accounting Policies - Revenue Recognition* to the Company's consolidated financial statements for a description of the Company's revenue recognition policies. Although most of the Company's sales agreements contain standard terms and conditions, certain agreements non-standard terms and conditions. As a result, judgment is sometimes required to determine the appropriate accounting. If the Company's judgments regarding revenue recognition prove incorrect, the Company's revenues in particular periods may be adversely affected.

See Note 1, *Business and Summary of Significant Accounting Policies - Recently Issued Accounting Pronouncements* to the Company's consolidated financial statements for a description of the new revenue standard, ASU 2014-09, *Revenue from Contracts with Customers* that will be effective for interim and annual reporting periods beginning January 1, 2018.

***Allowance for Doubtful Accounts***

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.

See Note 1, *Business and Summary of Significant Accounting Policies - Accounts Receivable*, of our consolidated financial statements for information regarding trade accounts receivable and the allowance for doubtful accounts.

***Inventory Valuation***

Inventories include material, direct labor and related manufacturing overhead, and are stated at the lower of cost or market determined on a first-in, first-out basis. We record inventory when we take delivery and title to the product according to the terms of each supply agreement. 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.

See Note 1, *Business and Summary of Significant Accounting Policies - Inventories*, of our consolidated financial statements for information regarding inventory valuation as well as excess and obsolete inventory provisions.



Table of Contents

***Income Taxes***

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.

We regularly assess our ability to realize our deferred tax assets. Assessments of the realization of deferred tax assets require that management consider all available evidence, both positive and negative, and make significant judgments about many factors, including the amount and likelihood of future taxable income. 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.

See Note 1, *Business and Summary of Significant Accounting Policies – Income Taxes*, of our consolidated financial statements for information on how we record current and deferred income taxes, valuation allowances and the realization of uncertain tax positions.

See Note 8, *Income Taxes*, of our consolidated financial statements for information regarding income tax expense as well as the valuation of our deferred income taxes.

***Goodwill***

As of December 31, 2016, we had \$27,522 of goodwill related to various business acquisitions. We perform impairment tests on goodwill on an annual basis during the fourth quarter of each fiscal year, or on an interim basis if events or circumstances indicate that it is more likely than not that impairment has occurred. Goodwill is potentially impaired if the carrying value of the reporting unit that contains the goodwill exceeds its estimated fair value.

Goodwill is evaluated for impairment by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. If it is determined, based on qualitative factors, that the fair value of the reporting unit may be more likely than not less than carrying amount, or if significant adverse changes in the Company's future financial performance occur that could materially impact fair value, a quantitative goodwill impairment test would be required.

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

The fair value of our reporting unit is generally determined using a combination of an income approach, which estimates fair value based upon future discounted cash flows and a market approach which uses published market prices for analysis. We completed our annual goodwill impairment test in the fourth quarter of 2016 and concluded no impairment of goodwill exists, as our goodwill reporting unit had a calculated fair value in excess of carrying value of greater than 25%.

Although goodwill is not currently impaired, there can be no assurance that future impairments will not occur. Significant negative industry or economic trends, disruptions to our business, failure to achieve the revenue and cost synergies expected from our acquisitions, or other unexpected significant changes in the use of certain assets could all have a negative effect on fair values in the future.

See Note 1, *Business and Summary of Significant Accounting Policies – Goodwill*, of our consolidated financial statements for information on how we record goodwill and impairment charges.

See Note 3, *Goodwill*, of our consolidated financial statements for information regarding the carrying values of our goodwill.

### ***Stock-based Compensation***

We measure compensation cost arising from the grant of share-based payments to employees at fair value and recognize such cost over the period during which the employee is required to provide service in exchange for the award, usually the vesting period. Total stock-based compensation expense recognized during the years ended December 31, 2016, 2015, and 2014 was \$1,893, \$1,744 and \$1,541, respectively.

Table of Contents

For awards with service conditions, we recognize compensation cost on a straight-line basis over the requisite service/vesting period once the awards have been earned. For awards with performance conditions, accruals of compensation cost are made based on the probable outcome of the performance conditions.

The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if circumstances change and we use different assumptions, our stock-based compensation expense could be materially different in the future. See Note 5, *Stock-Based Compensation Plans*, of our consolidated financial statements for further information regarding our Stock Incentive plans.

**Impact of Recently Issued Accounting Pronouncements**

In the normal course of business, we evaluate all new accounting pronouncements issued by the Financial Accounting Standards Board ( FASB ), Securities and Exchange Commission ( SEC ), Emerging Issues Task Force ( EITF ) or other authoritative accounting bodies to determine the potential impact they may have on our Consolidated Financial Statements. See Note 1 *Summary of Significant Accounting Policies* of the notes to consolidated financial statements contained in Item 8 of this report for additional information about these recently issued accounting standards and their potential impact on our financial condition or results of operations.

Table of Contents**Operating Results****Year 2016 compared to 2015**

(In thousands, except per share data)	For the year ended December 31,		2016 vs. 2015 Variance	
	2016	2015	\$	%
Revenues	\$ 245,893	\$ 232,434	\$ 13,459	6%
Cost of goods sold	172,889	163,662	9,227	6%
Gross margin	73,004	68,772	4,232	6%
Gross margin percentage	29.7%	29.6%		
Operating costs and expenses:				
Selling	9,986	8,149	1,837	23%
General and administrative	24,333	22,251	2,082	9%
Engineering and development	16,170	14,229	1,941	14%
Business development	428	569	(141)	100%
Amortization of intangible assets	3,204	2,644	560	21%
Total operating costs and expenses	54,121	47,842	6,279	13%
Operating income	18,883	20,930	(2,047)	(10)%
Interest expense	6,449	6,023	426	7%
Other income	(369)	(514)	145	(28)%
Total other expense (income)	6,080	5,509	571	10%
Income before income taxes	12,803	15,421	(2,618)	(17)%
Provision for income taxes	(3,725)	(4,347)	622	(14)%
Net income	\$ 9,078	\$ 11,074	\$ (1,996)	(18)%
Effective tax rate	29.1%	28.2%	0.9%	3%
Diluted earnings per share	\$ 1.00	\$ 1.20	(0.20)	(17)%
Bookings	\$ 250,369	\$ 231,940	\$ 18,429	8%
Backlog	\$ 78,602	\$ 70,999	\$ 7,603	11%

**NET INCOME AND ADJUSTED NET INCOME:** Net income decreased during 2016 reflecting operating expense increases that outpaced the increase in sales. The increase in expenses was largely attributable to Heidrive, and also included increased development costs, SG&A expenses and additional organizational enhancements.

Adjusted net income for the year ended December 31, 2016, was \$8,809. Adjusted diluted earnings per share for 2016 was \$0.97. Adjusted net income and adjusted diluted earnings per share are non-GAAP measurements. Adjusted net income for 2016 excludes \$428 (\$291 net of tax) and for 2015 excludes \$569 (\$387 net of tax) of business development costs. Adjusted net income for 2016 also excludes \$823 (\$560 net of tax) of income from insurance recoveries related to a fire at one of our international locations. See information included in Non GAAP Measures below for a reconciliation of net income to Adjusted net income.

**EBITDA AND ADJUSTED EBITDA:** EBITDA was \$29,001 for 2016 compared to \$28,910 for 2015. Adjusted EBITDA was \$30,499 and \$31,223 for 2016 and 2015, 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: During 2016, we experienced growth in all of our markets except for vehicle. The 6% increase in sales in 2016 is largely due to the addition of Heidrive. Our sales for 2016 were comprised of 54% to US customers and 46% to customers primarily in Europe, Canada and Asia. The overall increase in revenue was due to increased volume, fluctuations in foreign currency were not a factor.

Table of Contents

ORDER BACKLOG: The increase in bookings in 2016 compared to 2015 is largely due to addition of Heidrive. There were increases in orders for most of our markets outside of vehicle. There has been a decline in orders and backlog reflecting the weakness in our vehicle market caused by generally soft industrial market conditions, a slowdown in the European auto market and product end-of-life wind-downs.

GROSS MARGIN: The 6% increase in gross profit was largely due to increased volume attributable to market growth. Gross profit was revised in the fourth quarter of 2016 related to the correction of accounting for certain intercompany sales. Refer to Note 12 *Selected Quarterly Financial Data (Unaudited)* for additional information.

SELLING EXPENSES: Selling expenses increased in 2016 compared to 2015 primarily due to the acquisition of Heidrive and continued investment in our One Allied sales organization to support future growth. Selling expenses as a percentage of revenues were 4% for 2016 and 2015.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses increased in 2016 from 2015 largely due to the acquisition of Heidrive. G&A expenses were partially offset by insurance recoveries related to a fire at one of our international locations. As a percentage of revenues, general and administrative expenses was 10% for 2016 and 2015.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 14% in 2016 compared to 2015. The increase is primarily due to the acquisition of Heidrive and the continuation of a significant development project to meet the future needs of a target market for Allied Motion. As a percentage of revenues, engineering and development expenses were 6% for both 2016 and 2015.

BUSINESS DEVELOPMENT COSTS: The Company incurred \$428 of business development costs during 2016 related to the acquisition of Heidrive on January 12, 2016 and consulting expenses to evaluate new business opportunities.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets increased in 2016 compared to 2015 due to the amortization of Heidrive intangible assets.

INCOME TAXES: The effective income tax rate as a percentage of income before income taxes was 29.1% and 28.2% in 2016 and 2015, respectively. The effective tax rate for 2016 is lower than the statutory rate primarily due to differences in foreign tax rates and the effect of recording excess tax benefits related to share based payment awards as a discrete item, in accordance with ASU 2016-09 which was adopted during 2016. The effective tax rate for 2015 is lower than the statutory rate primarily due to differences in foreign tax rates and changes in our valuation allowance on foreign net operating losses. The effective rate for 2016 is higher than 2015 primarily related to an increase in the valuation allowance due to an increase in the estimate of net operating losses that will expire unused, offset by the discrete item related to excess tax benefits from share based payment awards.

The Company adopted ASU 2016-09 prospectively and ASU 2015-17 retrospectively as of January 1, 2016. These pronouncements impact the accounting and disclosure for income taxes (See Note 1, *Business and Summary of Significant Accounting Policies*, *recently adopted accounting pronouncements* from our consolidated financial statements).

# Table of Contents

## Operating Results

### Year 2015 compared to 2014

(In thousands, except per share data)	For the year ended December 31,		2015 vs. 2014 Variance	
	2015	2014	\$	%
Revenues	\$ 232,434	\$ 249,682	\$ (17,248)	(7)%
Cost of goods sold	163,662	176,256	(12,594)	(7)%
Gross margin	68,772	73,426	(4,654)	(6)%
Gross margin percentage	29.6%	29.4%		
Operating costs and expenses:				
Selling	8,149	8,709	(560)	(6)%
General and administrative	22,251	23,972	(1,721)	(7)%
Engineering and development	14,229	13,881	348	3%
Business development	569		569	100%
Amortization of intangible assets	2,644	2,714	(70)	(3)%
Total operating costs and expenses	47,842	49,276	(1,434)	(3)%
Operating income	20,930	24,150	(3,220)	(13)%
Interest expense	6,023	6,435	(412)	(6)%
Other income	(514)	(908)	394	(43)%
Total other expense (income)	5,509	5,527	(18)	(0)%
Income before income taxes	15,421	18,623	(3,202)	(17)%
Provision for income taxes	(4,347)	(4,763)	416	(9)%
Net income	\$ 11,074	\$ 13,860	\$ (2,786)	(20)%
Effective tax rate	28.2%	25.6%	2.6%	10%
Diluted earnings per share	\$ 1.20	\$ 1.51	\$ (0.31)	(21)%
Bookings	\$ 231,940	\$ 251,527	\$ (19,587)	(8)%
Backlog	\$ 70,999	\$ 75,065	\$ (4,066)	(5)%

**NET INCOME AND ADJUSTED NET INCOME:** Net income decreased in 2015 from 2014 primarily due to unfavorable currency exchange and decreased volume offset by lower G&A expense.

Adjusted net income for the year ended December 31, 2015, was \$11,461. Adjusted diluted earnings per share for 2015 was \$1.24. Adjusted net income and adjusted diluted earnings per share are non-GAAP measurements. Adjusted net income for 2016 excludes \$569 (\$387 net of tax) of business development. See information included in Non GAAP Measures below for a reconciliation of net income to Adjusted net income.

**EBITDA AND ADJUSTED EBITDA:** EBITDA was \$28,910 for 2015 compared to \$32,325 for 2014. Adjusted EBITDA was \$31,223 and \$33,866 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.



## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

**REVENUES:** During 2015, we experienced growth in our Electronics and Medical markets. Our remaining markets were down. The 7% decrease in sales in 2015 was primarily due to foreign currency. Our sales for 2015 were comprised of 66% to US customers and 34% to customers primarily in Europe, Canada and Asia. The overall decrease in revenue was due to 6% unfavorable currency impact, and a 1% volume decrease.

**ORDER BACKLOG:** The decrease in backlog of 5% in 2015 was due to the impact of foreign currency. Volume was not a factor in the backlog decline.

Table of Contents

**GROSS MARGIN:** Gross margin as a percentage of revenues was 29.6% and 29.4% for 2015 and 2014, respectively. The increase in margin was 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 decreased by 6% compared to the same period of 2014 due to reduced headcount in 2016. Selling expenses as a percentage of revenues were 4% in 2015 and 2014.

**GENERAL AND ADMINISTRATIVE EXPENSES:** General and administrative expenses decreased by 7% 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 incentive compensation, consulting, and company meetings were lower than in 2014. As a percentage of revenues, general and administrative expenses were 10% for 2015 and 2014.

**ENGINEERING AND DEVELOPMENT EXPENSES:** Engineering and development expenses increased by 3% in 2015 compared to 2014 primarily due to the ramp up of a significant development project. As a percentage of revenues, engineering and development expenses on a year to date basis were 6% for 2015 and 2014.

**BUSINESS DEVELOPMENT COSTS:** The Company incurred \$569 of business development costs during 2015 related to the acquisition of Heidrive GmbH on January 12, 2016. Business development costs are typically acquisition related expenses for due diligence and legal services.

**AMORTIZATION OF INTANGIBLE ASSETS:** Amortization of intangible assets expense was flat between 2014 and 2015.

**INCOME TAXES:** The effective income tax rate as a percentage of income before income taxes was 28.2% and 25.6% in 2015 and 2014, respectively. The effective tax rate for 2015 and 2014 was lower than the statutory rate primarily due to differences in foreign tax rates and changes in our valuation allowance on foreign net operating losses. The effective rate for 2015 was higher than 2014 primarily due to the effect of state taxes and nondeductible permanent items in 2015 related to an acquisition.

**Non-GAAP Measures**

EBITDA and Adjusted EBITDA are provided for information purposes only and are not measures of financial performance under GAAP.

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

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

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 the 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.

## Table of Contents

The Company's calculation of EBITDA and Adjusted EBITDA for 2016, 2015 and 2014 is as follows (in thousands):

	For the year ended December 31,		
	2016	2015	2014
Net income as reported	\$ 9,078	\$ 11,074	\$ 13,860
Interest expense	6,449	6,023	6,435
Provision for income tax	3,725	4,347	4,763
Depreciation and amortization	9,749	7,466	7,267
EBITDA	29,001	28,910	32,325
Stock compensation expense	1,893	1,744	1,541
Business development costs	428	569	
Insurance recoveries	(823)		
Adjusted EBITDA	\$ 30,499	\$ 31,223	\$ 33,866

Allied Motion's management uses Adjusted net income to assess the Company's consolidated financial and operating performance. Adjusted net income is provided for informational purposes only and is not a measure of financial performance under generally accepted accounting principles. This measure helps management make decisions that are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. Adjusted net income provides management with a measure of financial performance of the Company based on operational factors, including the profitability of assets on an economic basis, net of operating expenses, and the capital costs of the business on a consistent basis as it removes the impact of certain non-routine items from the Company's operating results. Adjusted net income is a key metric used by senior management and the Company's board of directors to review the consolidated financial performance of the business. This measure adjusts net income determined in accordance with GAAP to reflect changes in financial results associated with the highlighted charges and income items.

The Company's calculation of Adjusted net income and Adjusted diluted earnings per share for years ended December 31, 2016, 2015 and 2014 is as follows (in thousands):

	For the year ended December 31,		
	2016	2015	2014
Net income as reported	\$ 9,078	\$ 11,074	\$ 13,860
Non-GAAP adjustments, net of tax			
Business development costs	291	387	
Insurance recoveries	(560)		
Non-GAAP adjusted net income	\$ 8,809	\$ 11,461	\$ 13,860
Per Share Amounts			
Non-GAAP adjusted net income per share (diluted)	\$ 0.97	\$ 1.24	\$ 1.51
Diluted weighted average common shares	9,105	9,238	9,165

## Liquidity and Capital Resources

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

On October 28, 2016, we entered into a new \$125,000 Senior Secured Revolving Facility (the Revolving Facility ) with HSBC Bank USA and affiliate banks (refer to Note 6, *Debt Obligations*, from our consolidated financial statements). We used \$65,462 of the new facility to pay the remaining \$3,000 on the Prior Revolving Credit Facility, \$31,500 on the Term Loan and the \$30,000 Senior Subordinated Notes. The remaining \$962 was used for debt issue costs on the Revolving Facility and accrued interest for the prior facility.

The Company's liquidity position as measured by cash and cash equivalents decreased by \$5,795, to a balance of \$15,483 at December 31, 2016 from 2015.

Table of Contents

	Year Ended December 31,		2016 vs.	Year Ended December 31,		2015 vs.
	2016	2015	2015	2014	2014	
	\$	\$	\$	\$	\$	\$
Net cash provided by operating activities	\$ 14,303	\$ 20,073	\$ (5,770)	\$ 20,186	\$ (113)	
Net cash used in investing activities	(21,393)	(4,730)	(16,663)	(2,649)	(2,081)	
Net cash (used in) provided by financing activities	1,580	(6,095)	7,675	(11,500)	5,405	
Effect of foreign exchange rates on cash	(285)	(1,083)	798	(1,295)	212	
Net increase (decrease) in cash and cash equivalents	\$ (5,795)	\$ 8,165	\$ (13,960)	\$ 4,742	\$ 3,423	

During 2016, the decrease in cash provided by operating activities is primarily due to an increase in working capital needs, primarily attributable to Heidrive activity after during 2016. The receivables increase reflects the shift for Heidrive from having a factoring arrangement before we acquired them to building up normal receivable balances during the year.

During 2015, the decrease in cash provided by operating activities was primarily due to lower net income offset by a decrease in working capital needs, primarily trade receivables that was related to the reduced number of days needed for collection in 2015 compared to 2014. A tax payment of \$2,656 related to the Globe acquisition was made during the third quarter of 2014.

The significant cash used for investing activities in 2016 reflects the acquisition of Heidrive during the first quarter. The cash paid for the acquisition was \$16,205 net of cash acquired. During 2016, purchases of property and equipment were higher at \$5,188 compared to \$4,730 for 2015.

Net cash used in investing activities was lower in 2014 than in 2015 as the result of the receipt of a \$1,434 purchase price adjustment related to the Globe acquisition during the first quarter of 2014. This adjustment offset normal purchases of property, plant and equipment during 2014. During 2015, purchases of property and equipment were \$4,730 compared to \$4,046 for 2014.

The net cash provided by investing activities in 2016 reflects the refinance of our debt on October 28, 2016. The net proceeds of \$76,321 were offset by the use of the international revolver of \$10,859 ( 10,000) to partially finance the Heidrive acquisition in the first quarter. During 2016, we made payments of \$6,118 ( 5,495) towards the international revolver. The international revolver was also refinanced as part of the October 28, 2016 transaction with the outstanding balance remaining the same.

Prior to the refinance at October 28, 2016, we made \$5,625 of payments for our Term Loan obligation and borrowed \$3,000 on the existing revolver. Subsequent to the refinance, we borrowed an additional \$1,000 on our Revolving Facility.

Net cash used in financing activities was lower in 2015 compared 2014 due to higher payments of long term debt in 2014. During 2015, we made payments of \$6,375 for our Term Loan obligation, and \$1,000 for our prior revolver. At December 31, 2015, we had \$67,125 in obligations under the Credit Agreement and the Note Agreement.

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Note 6, *Debt Obligations*, of the notes to the consolidated financial statements provides additional information regarding the Revolving Facility and the Prior Credit Agreement.

During the year ended December 31, 2016, the Company paid dividends of \$0.10 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.

Table of Contents**Contractual Obligations**

The following table summarizes contractual obligations and borrowings as of December 31, 2016 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			More Than 5 Years
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	
Operating leases	\$ 10,417	\$ 2,401	\$ 3,839	\$ 2,903	\$ 1,274
Debt Obligations (1)	71,419	936		70,483	
Interest on Debt (2)	10,594	2,192	4,384	4,018	
Total	\$ 92,430	\$ 5,529	\$ 8,223	\$ 77,404	\$ 1,274

(1) Amounts represent our debt obligations as of December 31, 2016.

(2) Amounts represent the estimated interest payments based on the balances and applicable interest rates as of December 31, 2016.

**Item 7A. Qualitative and Quantitative Disclosures about Market Risk*****Foreign Currency***

We have international operations in The Netherlands, Sweden, Germany, 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 \$10,000 and \$7,000 on our 2016 and 2015 sales, respectively. This amount is not indicative of the hypothetical net earnings 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 year ended December 31, 2016 decreased sales in comparison to 2015 by approximately \$400.

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 loss of approximately \$2,000 for the year ended December 31, 2016 and a loss of \$4,300 for the year ended December 31, 2015. 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 gains of approximately \$30 and \$290 for 2016 and 2015, respectively. 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 \$4,700 and \$4,370 on our foreign net assets as of December 31, 2016 and 2015.



***Interest Rates***

Interest rates on our Revolving Facility are based on the LIBOR plus a margin of 1.00% to 2.25% (currently 1.75%) or the Prime Rate plus a margin of 0% to 1.25% (currently 0.75%), in each case depending on the Company's ratio of total funded indebtedness to Consolidated EBITDA. 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 (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 a requirement of the debt refinance, one of the swaps was liquidated. As of December 31, 2016 the remaining amount hedged was \$7,875, with the amount to amortize quarterly to a notional of \$3,337 at maturity. This swap is accounted for as a cash flow hedge. Refer to Note 7 to the Company's consolidated financial statements for information about our derivative financial instruments.

As of December 31, 2016, we had \$71,203 outstanding under the Revolving Facility, of which \$7,875 is currently being

Table of Contents

hedged. Refer to Note 6 to the Company's 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 \$63,328 of unhedged floating rate debt outstanding at December 31, 2016 would have an impact of approximately \$578 on our interest expense on an annualized basis.

Table of Contents

**Item 8. Financial Statements and Supplementary Data.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Allied Motion Technologies Inc.

We have audited the accompanying consolidated balance sheets of Allied Motion Technologies Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Heidrive because it was acquired by the Company during 2016. Accordingly, our audit did not include the internal control over financial reporting at Heidrive.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that 1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allied Motion Technologies Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

EKS&H LLP

March 13, 2017  
Denver, Colorado

Table of Contents**ALLIED MOTION TECHNOLOGIES INC.****CONSOLIDATED BALANCE SHEETS**

	December 31, 2016	December 31, 2015
<b>(in thousands except share and per share data)</b>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 15,483	\$ 21,278
Trade receivables, net of allowance for doubtful accounts of \$362 and \$611 at December 31, 2016 and 2015, respectively	26,104	22,710
Inventories	31,098	26,175
Prepaid expenses and other assets	3,120	3,749
Total current assets	75,805	73,912
Property, plant and equipment, net	37,474	35,315
Deferred income taxes	923	2,548
Intangible assets, net	34,252	29,984
Goodwill	27,522	17,757
Other long-term assets	3,943	2,631
Total assets	\$ 179,919	\$ 162,147
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Debt obligations	936	9,860
Accounts payable	13,204	13,000
Accrued liabilities	10,678	11,121
Total current liabilities	24,818	33,981
Long-term debt	70,483	57,518
Deferred income taxes	3,266	630
Pension and post-retirement obligations	4,381	2,785
Other long term liabilities	4,685	2,636
Total liabilities	107,633	97,550
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Common stock, no par value, authorized 50,000 shares; 9,374 and 9,276 shares issued and outstanding at December 31, 2016 and 2015, respectively	29,503	27,824
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	54,786	46,650
Accumulated other comprehensive loss	(12,003)	(9,877)
Total stockholders' equity	72,286	64,597
Total Liabilities and Stockholders' Equity	\$ 179,919	\$ 162,147

See accompanying notes to consolidated financial statements.

Table of Contents

## ALLIED MOTION TECHNOLOGIES INC.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands, except per share data)	December 31, 2016	For the year ended December 31, 2015	December 31, 2014
Revenues	\$ 245,893	\$ 232,434	\$ 249,682
Cost of goods sold	172,889	163,662	176,256
Gross margin	73,004	68,772	73,426
Operating costs and expenses:			
Selling	9,986	8,149	8,709
General and administrative	24,333	22,251	23,972
Engineering and development	16,170	14,229	13,881
Business development	428	569	
Amortization of intangible assets	3,204	2,644	2,714
Total operating costs and expenses	54,121	47,842	49,276
Operating income	18,883	20,930	24,150
Other expense (income):			
Interest expense	6,449	6,023	6,435
Other expense (income), net	(369)	(514)	(908)
Total other expense (income), net	6,080	5,509	5,527
Income before income taxes	12,803	15,421	18,623
Provision for income taxes	(3,725)	(4,347)	(4,763)
Net income	\$ 9,078	\$ 11,074	\$ 13,860
Basic earnings per share:			
Earnings per share	\$ 1.01	\$ 1.20	\$ 1.52
Basic weighted average common shares	9,011	9,228	9,145
Diluted earnings per share:			
Earnings per share	\$ 1.00	\$ 1.20	\$ 1.51
Diluted weighted average common shares	9,105	9,238	9,165
Net income	\$ 9,078	\$ 11,074	\$ 13,860
Other comprehensive income:			
Foreign currency translation adjustment	(1,989)	(4,334)	(5,601)
Change in accumulated loss on derivatives	(3)	(25)	(43)
Pension adjustments (1)	(134)	165	(663)
Comprehensive income	\$ 6,952	\$ 6,880	\$ 7,553

(1) Net of tax of (\$78), \$114 and (\$460) for the periods ending December 31, 2016, 2015 and 2014, respectively.

See accompanying notes to consolidated financial statements.

Table of Contents

## ALLIED MOTION TECHNOLOGIES INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)	Shares	Common Stock		Unamortized Cost of Equity Awards	Retained Earnings	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income (Loss)		Total Stockholders Equity
		Amount					Accumulated income (loss) on derivatives	Pension Adjustments	
Balances, December 31, 2013	9,091	\$ 27,035	\$	(3,264)	\$ 23,608	\$ 773	\$ 41	\$ (190)	\$ 48,003
Stock transactions under employee benefit stock plans	30	344							344
Issuance of restricted stock, net of forfeitures	92	1,074		(1,601)					(527)
Stock compensation expense				1,541					1,541
Comprehensive income						(5,601)	(43)	(1,123)	(6,767)
Tax effect								460	460
Net income					13,860				13,860
Dividends to stockholders					(963)				(963)
Balances, December 31, 2014	9,213	\$ 28,453	\$	(3,324)	\$ 36,505	\$ (4,828)	\$ (2)	\$ (853)	\$ 55,951
Stock transactions under employee benefit stock plans	37	1,014							1,014
Issuance of restricted stock, net of forfeitures	76	2,064		(2,040)					24
Stock compensation expense		(7)		1,751					1,744
Shares withheld for payment of employee payroll taxes	(50)	(1,559)							(1,559)
Excess tax benefit from stock based compensation arrangements		1,461							1,461
Comprehensive income loss						(4,334)	(25)	279	(4,080)
Tax effect								(114)	(114)
Net income					11,074				11,074
Dividends to stockholders		11			(929)				(918)
Balances, December 31, 2015	9,276	\$ 31,437	\$	(3,613)	\$ 46,650	\$ (9,162)	\$ (27)	\$ (688)	\$ 64,597
Stock transactions under employee benefit stock plans	49	839							839
Issuance of restricted stock, net of forfeitures	101	1,969		(1,968)					1
Stock compensation expense				1,893					1,893
Shares withheld for payment of employee payroll taxes	(52)	(1,054)							(1,054)
Comprehensive income loss						(1,989)	(3)	(212)	(2,204)
Tax effect								78	78
Net income					9,078				9,078
Dividends to stockholders					(942)				(942)

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Balances, December 31,  
2016

9,374	\$	33,191	\$	(3,688)	\$	54,786	\$	(11,151)	\$	(30)	\$	(822)	\$	72,286
-------	----	--------	----	---------	----	--------	----	----------	----	------	----	-------	----	--------

See accompanying notes to consolidated financial statements.



Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)	December 31, 2016	For the year ended December 31, 2015	December 31, 2014
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 9,078	\$ 11,074	\$ 13,860
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,749	7,466	7,267
Deferred income taxes	1,770	1,417	1,208
Excess tax benefit from stock-based payment arrangements		(1,461)	
Provision for doubtful accounts	167	333	473
Provision for excess and obsolete inventory	351	432	753
Provision for warranty	(138)	142	234
Write-off of debt issue costs on Prior Credit agreement recorded in interest expense (Note 6)	1,052		
Debt issue cost amortization recorded in interest expense	380		
Restricted stock compensation	1,893	1,744	1,541
Other	(652)	216	429
Changes in operating assets and liabilities, excluding changes due to acquisition:			
(Increase) decrease in trade receivables, net	(3,719)	3,655	(2,504)
(Increase) decrease in inventories	(928)	(2,262)	(2,864)
(Increase) decrease in prepaid expenses and other assets	69	(1,394)	194
Increase (decrease) in accounts payable	(956)	(1,874)	752
Increase (decrease) in accrued liabilities and other liabilities	(3,813)	585	(1,157)
Net cash provided by operating activities	14,303	20,073	20,186
<b>Cash Flows From Investing Activities:</b>			
Proceeds from working capital adjustment and (consideration paid for acquisition, net of cash acquired)	(16,205)		1,397
Purchase of property and equipment	(5,188)	(4,730)	(4,046)
Net cash used in investing activities	(21,393)	(4,730)	(2,649)
<b>Cash Flows From Financing Activities:</b>			
Borrowings (repayments) on lines-of-credit, net	(5,709)	383	(7,541)
Principal payments of long-term debt	(67,125)	(6,375)	(5,250)
Proceeds from issuance of long-term debt	76,321		
Change in restricted cash obligations			1,800
Payment of debt issuance costs	(745)		
Dividends paid to stockholders	(942)	(923)	(853)
Shares withheld for payment of employee payroll taxes	(1,054)	(1,559)	
Excess tax benefit from stock-based payment arrangements		1,461	
Stock transactions under employee benefit stock plans	834	918	344
Net cash provided by (used in) financing activities	1,580	(6,095)	(11,500)
Effect of foreign exchange rate changes on cash	(285)	(1,083)	(1,295)
Net (decrease) increase in cash and cash equivalents	(5,795)	8,165	4,742
Cash and cash equivalents at beginning of period	21,278	13,113	8,371
Cash and cash equivalents at end of period	15,483	21,278	13,113

**Supplemental disclosure of cash flow information:**

# Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Net cash paid during the period for:

Interest	\$	5,048	\$	5,575	\$	6,014
Income taxes	\$	1,148	\$	2,125	\$	5,921

See accompanying notes to consolidated financial statements.

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Business***

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.

***Principles of Consolidation***

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

For business combinations, we record net assets acquired and liabilities assumed at their fair values. The operating results for Heidrive, Inc. (Note 2) are included in the consolidated statements of income and comprehensive income for the year ended December 31, 2016 from January 12, 2016, the date of acquisition.

***Cash and Cash Equivalents***

Cash and cash equivalents include instruments which are readily convertible into cash (original maturities of three months or less) and which are not subject to significant risk of changes in interest rates. Cash flows from foreign currency transactions are translated using an average rate.

***Accounts Receivable***

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. Activity in the allowance for doubtful accounts for 2016, 2015 and 2014 was as follows (in thousands):

	December 31, 2016		December 31, 2015		December 31, 2014
Beginning balance	\$ 611	\$	367	\$	802
Additional reserves	167		333		473
Writeoffs	(414)		(117)		(882)
Effect of foreign currency translation	(2)		28		(26)
Ending balance	\$ 362	\$	611	\$	367

### *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):

	December 31, 2016		December 31, 2015
Parts and raw materials	\$ 23,978	\$	23,710
Work-in-process	6,628		2,404
Finished goods	4,928		3,730
	35,534		29,844
Less reserves	(4,436)		(3,669)
Inventories	\$ 31,098	\$	26,175

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

The Company recorded provisions for excess and obsolete inventories of approximately \$351, \$432 and \$753 for 2016, 2015 and 2014, respectively.

***Property, Plant and Equipment***

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

	Useful lives	December 31, 2016	December 31, 2015
Land		\$ 962	\$ 970
Building and improvements	5 - 39 years	9,911	9,771
Machinery, equipment, tools and dies	3 - 15 years	44,247	37,782
Furniture, fixtures and other	3 - 10 years	10,088	8,657
		65,208	57,180
Less accumulated depreciation		(27,734)	(21,865)
Property, plant and equipment, net		\$ 37,474	\$ 35,315

Depreciation expense is provided using the straight-line method over the estimated useful lives of the assets. Amortization of building improvements is provided using the straight-line method over the life of the lease term or the life of the assets, whichever is shorter. Maintenance and repair costs are charged to operations as incurred. Major additions and improvements are capitalized. The cost and related accumulated depreciation of retired or sold property are removed from the accounts and the resulting gain or loss, if any, is reflected in earnings.

Depreciation expense was \$6,545, \$4,822 and \$4,553 in 2016, 2015 and 2014, respectively.

***Intangible Assets***

Intangible assets, other than goodwill, are recorded at cost and are amortized over their estimated useful lives using the straight-line method.

***Impairment of Long-Lived Assets***

The Company reviews the carrying values of its long-lived assets, including property, plant and equipment and intangible assets, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Long-lived assets are carried at historical cost if the projected cash flows from their use will recover their carrying amounts on an undiscounted basis and without considering interest. If projected cash flows are less than their carrying value, the long-lived assets must be reduced to their estimated fair value. Considerable judgment is required to project such cash flows and, if required, estimate the fair value of the impaired long-lived assets.

***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in a business combination.

Goodwill is recorded at fair value and not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators arise. The Company has defined one reporting unit that is the same as its operating segment. Goodwill is evaluated for impairment by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. If it is determined, based on qualitative factors, that the fair value of the reporting unit may be more likely than not less than carrying amount, or if significant adverse changes in the Company's future financial performance occur that could materially impact fair value, a quantitative goodwill impairment test would be required. Additionally, the Company can elect to forgo the qualitative assessment and perform the quantitative test.

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

The first step of the quantitative test compares the fair value of the reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, there is a potential impairment and the second step must be performed. The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, the excess is required to be recorded as an impairment charge.

The implied fair value of goodwill is determined by assigning the fair value of the reporting unit to all the assets and liabilities of that unit (including any unrecognized intangible assets) as if it had been acquired in a business combination. The Company has elected to perform the annual impairment assessment for goodwill each year in the fourth quarter.

At October 31, 2016, we performed our annual assessment of fair value and concluded that there was no impairment related to goodwill. The Company did not record any impairment charges for the year ended December 31, 2016, 2015 or 2014.

***Other Long-Term Assets***

Other long-term assets include securities that the Company has purchased with the intent of funding the deferred compensation arrangements for certain executives of the Company as well as deferred finance costs. These items are accounted for at fair value on a recurring basis. Any changes in value are included in net income in the Company's consolidated statements of income and comprehensive income.

***Warranty***

The Company offers warranty coverage for its products. The length of the warranty period for its products is generally three months to two years, and varies significantly based on the product 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 2016, 2015 and 2014 were as follows (in thousands):

	December 31, 2016		December 31, 2015		December 31, 2014	
Warranty reserve at beginning of the year	\$	780	\$	786	\$	629
Warranty reserves acquired		297				
Provision		(138)		142		234
Warranty expenditures		(96)		(123)		(40)
Effect of foreign currency translation		(13)		(25)		(37)
Warranty reserve at end of year	\$	830	\$	780	\$	786

### *Accrued Liabilities*

Accrued liabilities consist of the following (in thousands):

	December 31, 2016		December 31, 2015	
Compensation and fringe benefits	\$	7,379	\$	7,791
Warranty reserve		830		780
Other accrued expenses		2,469		2,550
	\$	10,678	\$	11,121

### *Foreign Currency Translation*

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



Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

adjustment. Foreign currency translation adjustment is included in other comprehensive income, a component of stockholders' equity in the accompanying consolidated statements of stockholders' equity. 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 of the Technology Units ( TUs ) are included in the results of operations as incurred.

***Revenue Recognition***

The Company recognizes revenue when products are shipped or delivered (shipping terms may be either FOB shipping point or destination) and title has passed to the customer, persuasive evidence of an arrangement exists, the selling price is fixed or determinable, and collectability is reasonably assured. The Company's shipping and handling costs are included in cost of sales for all periods presented.

***Engineering and Development Costs***

The Company is engaged in a variety of engineering and design activities as well as basic research and development activities directed to the substantial improvement or new application of the Company's existing technologies. Engineering and development costs are expensed as incurred.

***Basic and Diluted Income per Share***

Basic income per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method. The dilutive effect of outstanding awards was 94,000, 10,000 and 20,000 shares for the years 2016, 2015 and 2014, respectively. Stock awards of 30,700 were excluded from the calculation of diluted income per share for 2016. No stock awards were excluded from the calculation of diluted income per share for years 2015 and 2014.

***Comprehensive Income***

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to stockholders.

### ***Fair Value Accounting***

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 consolidated balance sheets for these assets approximate fair value because of the immediate or short-term maturities of these financial instruments.

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

The following table presents the Company's financial assets that are accounted for at fair value on a recurring basis as of December 31, 2016 and 2015, respectively, by level within the fair value hierarchy (in thousands):

	<b>December 31, 2016</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets (liabilities)			
Pension plan assets	\$ 4,948	\$	\$
Other long term assets	3,476		
Interest rate swaps		(30)	

	<b>December 31, 2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets (liabilities)			
Pension plan assets	\$ 4,986	\$	\$
Other long term assets	2,631		
Interest rate swaps		(27)	

***Derivative Financial Instruments***

Disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

*Income Taxes*

The current provision for income taxes represents actual or estimated amounts payable or refundable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, and for operating loss and tax credit carryforwards. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to the tax provision or benefit in the period of enactment. A valuation allowance may be provided to the extent management deems it is more likely than not that deferred tax assets will not be realized. The ultimate realization of net deferred tax assets is dependent upon the generation of future taxable income, in the appropriate taxing jurisdictions, during the periods in which temporary differences, net operating losses and tax credits become realizable. Management believes that it is more likely than not that the Company will realize the benefits of these temporary differences and operating loss and tax credit carryforwards, net of valuation allowances.

Realization of an uncertain income tax position must have a more likely than not probability of being sustained based on technical merits before it can be recognized in the financial statements, assuming a review by tax authorities having all relevant

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

information and applying current conventions. The Company does not have significant unrecognized tax benefits and does not anticipate a significant increase or decrease in unrecognized tax benefits within the next twelve months. Income tax related interest and penalties recognized in 2016, 2015 and 2014 are de minimus.

***Pension and Postretirement Welfare Plans***

The Company reports gains or losses and prior service costs or credits that arise during the period, but are not recognized as components of net periodic benefit cost, as a component of other comprehensive income, net of tax. Amounts recognized in accumulated other comprehensive income are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements.

***Concentration of Credit Risk***

Trade receivables subject the Company to the potential for credit risk. To reduce this risk, the Company performs evaluations of its customers financial condition and creditworthiness at the time of sale, and updates those evaluations when necessary. See Note 11 for additional information regarding customer concentration.

***Use of Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassifications***

Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2016 presentation.

***Recently Adopted Accounting Pronouncements***

Effective January 1, 2016, the Company adopted ASU 2016-09, *Compensation - Stock Compensation (Topic 718)*. The FASB issued ASU 2016-09 in March 2016 as part of its simplification initiative which affects all entities that issue share-based payment awards to their employees. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification, and the classification of those taxes paid on the statement of cash flows. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2016 using either prospective, retrospective or modified retrospective transition method, depending on the area covered in this update. As permitted within the amendment, the Company elected to early adopt and prospectively apply the provisions of this amendment as of January 1, 2016. As a result of the adoption, a tax benefit of approximately \$348 was recorded during 2016.

Effective April 1, 2016, the Company adopted ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company early adopted this ASU for the first quarter of 2016, and applied it retrospectively to 2015 for comparability, which resulted in the reclassification of \$2,551 of current deferred tax assets to noncurrent as of December 31, 2015.

Effective January 1, 2016, the Company adopted ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. This standard requires that an entity recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The update requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 did not have a material impact on the Company's consolidated financial statements.

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Effective January 1, 2016, the Company adopted ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* on a retrospective basis. The updated accounting guidance requires debt issuance costs to be presented as a deduction from the corresponding debt liability instead of the historical presentation as an unamortized debt issuance asset. The impacts of adopting the new standard as of December 31, 2015, were a decrease in other assets and a decrease in long term debt of \$1,388.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* which requires management of a company to evaluate whether there is substantial doubt about the company's ability to continue as a going concern. This ASU is effective for the annual reporting periods ending after December 15, 2016, and for interim and annual reporting periods thereafter, with early adoption permitted. The Company adopted this standard effective January 1, 2016 and it had no impact on its consolidated financial statements.

***Recently Issued Accounting Pronouncements***

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The objective of ASU 2016-15 is to reduce existing diversity in practice by addressing eight specific cash flow issues related to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. If early adopted, an entity must adopt all the amendments in the same period. The Company is currently evaluating the impact of the adoption of ASU 2016-15 on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, which amends the FASB Accounting Standards Codification and creates Topic 842, *Leases*. The new topic supersedes Topic 840, *Leases*, and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosures of key information about leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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 price 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

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

after December 15, 2016. ASU 2015-11 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 is a comprehensive new revenue recognition model. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU 2014-09 is effective for our interim and annual reporting periods beginning January 1, 2018, and is to be adopted using either a full retrospective or modified retrospective transition method. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We do not plan to early adopt the guidance. We currently anticipate adopting the new standard under the modified retrospective approach. We are still in the process of reviewing our contracts, and are continuing to evaluate the exact impact the update will have on recording revenue in our consolidated financial statements and related disclosures.



Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**2. ACQUISITION**

In December 2015, the Company, through its wholly-owned subsidiary, Allied Motion Technologies B.V., entered into a Share Purchase Agreement (the "Purchase Agreement") to purchase all of the outstanding equity interests of Heidrive GmbH, a German limited liability company ("Heidrive") from palero fünf S.à r.l for \$22,000 (approximately 20,000), which included certain management performance bonuses to be paid after closing.

The adjusted purchase price as of January 12, 2016 is \$18,534 (17,068). During the year, the purchase price was reduced by \$795 (732) for a seller concession that was finalized.

The purchase price was funded with cash of \$7,675 (\$8,470 less purchase price adjustments of \$795) plus \$10,859 (10,000) of borrowings under the Company's international revolving credit facility (Note 6).

Heidrive is headquartered in Kelheim, Germany, and has manufacturing facilities located in Germany and the Czech Republic.

The Company incurred \$467 of transaction costs in 2015 and \$135 in 2016 related to the acquisition of Heidrive. Transaction costs are included in Business Development expenses on the consolidated statements of income and comprehensive income.

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

	<b>January 12, 2016</b>
Cash	\$ 2,329
Other current assets	5,868
Property, plant and equipment	4,002
Amortizable intangible assets	7,710
Goodwill	10,248
Current liabilities	(7,696)
Long-term liabilities	(3,927)

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Net purchase price	\$	18,534
--------------------	----	--------

The purchase price allocation was revised during the year to reflect an updated valuation of intangible assets and property, plant and equipment, adjustment to inventory reserves, and final adjustments to income taxes. These adjustments were offset with corresponding adjustments to goodwill. The purchase price allocation will be finalized during the first quarter 2017.

The intangible assets acquired consist of customer lists, tradename, and technology. Goodwill generated in the acquisition is related to the assembled workforce, synergies between Allied Motion's other Technology Units (TUs) 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 Heidrive's management knowledge in providing complementary product offerings to the Company's customers.

The goodwill resulting from the Heidrive acquisition is not tax deductible.

The full year 2016 revenues and earnings for Heidrive are included in the consolidated statements of income and comprehensive income. Unaudited proforma revenues, earnings, and diluted earnings per share were approximately \$264,793, \$12,386 and \$1.34 for the year ended December 31, 2015, assuming the acquisition occurred on January 1, 2015. Included in the proforma information is: the additional depreciation and amortization resulting from the valuation of amortizable tangible and intangible assets, interest expense on acquisition debt, acquisition costs and US GAAP adjustments. The pro forma financial information is for informational purposes only and does not purport to present what the Company's results would have been had these transactions occurred on the date presented.

Table of Contents**ALLIED MOTION TECHNOLOGIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share data)****3. GOODWILL**

The change in the carrying amount of goodwill for 2016, 2015 and 2014 is as follows (in thousands):

	December 31, 2016	December 31, 2015	December 31, 2014
Beginning balance	\$ 17,757	\$ 18,303	\$ 20,233
Goodwill acquired	10,248		
Acquisition adjustments			(1,223)
Effect of foreign currency translation	(483)	(546)	(707)
Ending balance	\$ 27,522	\$ 17,757	\$ 18,303

The purchase price allocation for Heidrive was revised during 2016 to reflect final valuations of intangible assets, property plant and equipment, adjustments to income taxes and the offsetting adjustments to goodwill (Note 2).

**4. INTANGIBLE ASSETS**

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

		December 31, 2016			December 31, 2015		
	Life	Gross Amount	Accumulated amortization	Net Book Value	Gross Amount	Accumulated amortization	Net Book Value
Customer lists	8 - 17 years	\$ 37,868	\$ (10,087)	\$ 27,781	\$ 34,149	\$ (7,785)	\$ 26,364
Trade name	10 - 12 years	6,038	(2,281)	3,757	4,775	(1,793)	2,982
Design and technologies	10 - 12 years	4,537	(1,840)	2,697	2,189	(1,570)	619
Patents	17 years	24	(7)	17	24	(5)	19
Total		\$ 48,467	\$ (14,215)	\$ 34,252	\$ 41,137	\$ (11,153)	\$ 29,984

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Intangible assets acquired from the Heidrive acquisition were approximately \$7,710 (Note 2). The weighted average amortization period for the acquired intangibles is 14.5 years.

Total amortization expense for intangible assets for the years 2016, 2015 and 2014 was \$3,204, \$2,644 and \$2,714, respectively.

Estimated amortization expense for intangible assets is as follows:

Year ending December 31,		Total
2017	\$	3,162
2018		3,162
2019		3,162
2020		3,162
2021		2,929
Thereafter		18,675
	\$	34,252

Table of Contents**ALLIED MOTION TECHNOLOGIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share data)****5. STOCK-BASED COMPENSATION PLANS***Stock Incentive Plans*

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

As of December 31, 2016, the Company had 727,107 shares of common stock available for grant under stock incentive plans.

**Restricted Stock**

The following is a summary of restricted stock grants, fair value and performance based awards:

<b>For the year ended December 31,</b>	<b>Unvested restricted stock awards</b>	<b>Weighted average grant date fair value</b>	<b>Awards with performance vesting requirements</b>
2016	105,662	\$ 19.99	60,153
2015	76,714	\$ 27.37	41,792
2014	168,334	\$ 11.26	88,566

The value at the date of award is amortized to compensation expense over the related service period, which is generally three years for time vested grants. Short-term performance based grants can be achieved over a period of one year, and long-term performance grants can be earned through December 31, 2020. Earned grants are then subject to either a 3 year or 5 year service period. Shares of non-vested restricted stock are forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

# Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

The following is a summary of restricted stock activity during years 2016, 2015 and 2014:

	Number of Nonvested Restricted Shares
Balance, December 31, 2013	520,195
Awarded	168,334
Forfeited	(42,141)
Vested	(158,710)
Balance, December 31, 2014	487,678
Awarded	76,714
Forfeited	(7,066)
Vested	(190,127)
Balance, December 31, 2015	367,199
Awarded	105,662
Forfeited	(5,912)
Vested	(158,407)
Balance, December 31, 2016	308,542

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

The following is a summary of performance based restricted stock activity during years 2016, 2015 and 2014:

	<b>Total performance grants</b>
Outstanding, December 31, 2013	15,190
Awarded	88,566
Performance criteria met	(92,583)
Forfeited	(5,281)
Outstanding, December 31, 2014	5,892
Awarded	41,792
Performance criteria met	(14,200)
Forfeited	(4,296)
Outstanding, December 31, 2015	29,188
Awarded	60,153
Performance criteria met	(38,167)
Forfeited	(6,302)
Outstanding, December 31, 2016	44,872

The performance criteria and forfeitures in the above table did not occur until the Board of Directors approved them during the February 2017, 2016 and 2015 meetings.

***Share-Based Compensation Expense***

**Restricted Stock**

During 2016, 2015 and 2014 compensation expense net of forfeitures of \$1,893, \$1,744 and \$1,541 was recorded, respectively. As of December 31, 2016, there was \$2,573 of total unrecognized compensation expense related to restricted stock awards, of which approximately \$1,326 is expected to be recognized in 2017.

***Employee Stock Ownership Plan***

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

The Company sponsors an Employee Stock Ownership Plan ( ESOP ) that covers all non-union U.S. employees who work over 1,000 hours per year. The terms of the ESOP require the Company to make an annual contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in 2016, 2015 and 2014) or ii) the annual interest payable on any loan outstanding to the Company from the ESOP. Company contributions to the Plan accrued for 2016, 2015 and 2014, respectively, were \$674, \$812 and \$980. These amounts are included in general and administrative costs in the consolidated statements of income and comprehensive income.

### *Defined Contribution Plan*

The Company sponsors the Allied Motion 401(k) Tax Advantaged Investment Plan ( 401(k) ) which covers substantially all of its U.S. based employees. The plan provides for the deferral of employee compensation under Section 401(k) and a discretionary Company match. In 2016, 2015 and 2014 this match was 100% per dollar of the first 3% of participant deferral and 50% per dollar of the next 2% contribution, up to 4% of a total 5% participant deferral. Net costs related to this defined contribution plan were \$1,085, \$1,076 and \$1,036 in 2016, 2015 and 2014, respectively.

### **Dividends**

For the years ended December 31, 2016, 2015 and 2014 a total of \$0.10 per share on all outstanding shares was declared and paid. Total dividends paid for the years ended December 31, 2016, 2015 and 2014 were \$942, \$923 and \$853, respectively.



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

Based on the terms of the Company's Credit Agreement, dividends paid to shareholders are acceptable, subject to the Company's compliance with the covenants under the Credit Agreement.

**6. DEBT OBLIGATIONS**

Debt obligations consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
<b>Current Borrowings</b>		
China Credit Facility (6.4% at December 31, 2016)	\$ 936	\$ 1,641
Term Loan, current portion		8,219
Current borrowings	\$ 936	\$ 9,860
<b>Long-term Debt</b>		
Revolving Credit Facility, long term (1)	\$ 71,203	
Term Loan, noncurrent		28,906
Subordinated Notes (14.5%, 13% Cash, 1.5% PIK)		30,000
Unamortized debt issuance costs	(720)	(1,388)
Long-term debt	\$ 70,483	\$ 57,518

---

(1) The effective rate of the Revolver is 2.3% at December 31, 2016.

**Senior Secured Revolving Credit Facility**

On October 28, 2016, the Company entered into a Credit Agreement (the "Credit Agreement") for a \$125,000 revolving credit facility (the "Revolving Facility"). The Revolving Facility includes a \$50,000 accordion amount and has an initial term of five years. HSBC Bank USA, National Association is the administrative agent, HSBC Securities (USA) Inc. is the sole lead arranger and sole book runner, and Keybank National Association and Wells Fargo Bank, National Association are co-syndication agents.

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Borrowings under the Revolving Facility bear interest at the LIBOR Rate (as defined in the Credit Agreement) plus a margin of 1.00% to 2.25% or the Prime Rate (as defined in the Credit Agreement) plus a margin of 0% to 1.25%, in each case depending on the Company's ratio of total funded indebtedness (as defined in the Credit Agreement) to Consolidated EBITDA (the "Total Leverage Ratio"). At December 31, 2016, the applicable margin for LIBOR Rate borrowings was 1.75% and the applicable margin for Prime Rate borrowings was 0.75%. In addition, the Company is required to pay a commitment fee of between 0.10% and 0.25% quarterly (currently 0.175%) on the unused portion of the Revolving facility, also based on the Company's Total Leverage Ratio. The Revolving Facility is secured by substantially all of the Company's non-realty assets and is fully and unconditionally guaranteed by certain of the Company's subsidiaries.

Financial covenants under the Credit Agreement require the Company to maintain a minimum interest coverage ratio of at least 3.0:1.0 at the end of each fiscal quarter. In addition, the Company's Total Leverage Ratio at the end of any fiscal quarter shall not be greater than 3.75:1.0 through March 31, 2017, 3.5:1.0 through September 30, 2017, 3.25:1.0 through March 31, 2018 and 3.0:1.0 thereafter; provided that the Company may elect to temporarily increase the Total Leverage Ratio by 0.5x over the otherwise maximum during the twelve-month period following a permitted acquisition under the Credit Agreement. The Credit Agreement also includes covenants and restrictions that limit the Company's ability to incur additional indebtedness, merge, consolidate or sell all or substantially all of its assets and enter into transactions with an affiliate of the Company on other than an arms-length transaction. These covenants, which are described more fully in the Credit Agreement, to which reference is made for a complete statement of the covenants, are subject to certain exceptions. The Company was in compliance with all covenants at December 31, 2016.

The Credit Agreement also includes customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, if any representation or warranty made by the Company is false or misleading in any material

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

respect, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, the occurrence of certain ERISA events, the invalidity of the loan documents or a change in control of the Company. The amounts outstanding under the Revolving Facility may be accelerated upon certain events of default.

**Prior Credit Agreement**

On January 8, 2016, the Company entered into a First Amendment and Consent (the "Amendment") to the Prior Credit Agreement. Pursuant to the Amendment, the administrative agent and lenders consented to the Company's acquisition of Heidrive GmbH, and that such acquisition would not reduce the acquisition basket under the Prior Credit Agreement. The Amendment also amended the Prior Credit Agreement to increase the revolving credit facility from \$15,000 to \$30,000 and the international revolving sublimit from \$10,000 to \$25,000.

The Prior Credit Agreement included a \$30,000 Revolving Credit Facility and a \$50,000 Term Loan (collectively the "Senior Credit Facilities") each with a five-year term that were scheduled to mature in 2018.

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

Principal installments were scheduled to be payable on the Term Loan in varying percentages quarterly through September 30, 2018 with a balloon payment at maturity. The Senior Credit Facilities were secured by substantially all of the Company's assets.

The Prior Credit Agreement included certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Prior Credit Agreement also included other covenants and restrictions, including limits on the amount of certain types of capital expenditures.

**Senior Subordinated Notes**

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

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 was 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 was scheduled to be due on October 18, 2019. The Company was permitted to prepay the Notes at any time after October 18, 2016, in whole or in part, at 100% of the principal amount. The Notes were unsecured obligations of the Company and were fully and unconditionally guaranteed by certain of the Company's subsidiaries.

On January 8, 2016, the Company entered into a Consent and Amendment No. 3 to the Note Agreement with Prudential Capital Partners IV, L.P. and its affiliates. Pursuant to the Note Amendment, the note holders consented to the Company's acquisition of Heidrive GmbH and that such acquisition would not reduce the acquisition basket under the Note Agreement.

The Senior Subordinated Notes were paid in full on October 28, 2016 as part of the Credit Agreement discussed above.

### **Other**

The China Facility was refinanced during the fourth quarter of 2016. The China Facility provides credit of approximately \$1,440 (Chinese Renminbi ( "RMB") 10,000). The China Facility is used for working capital and capital equipment needs at the Company's China operations, and the lender may demand payment at any time. The average balance for 2016 was \$1,500 (RMB 10,150). At December 31, 2016, there was approximately \$505 (RMB 3,500) available under the facility.

### **Deferred Financing Fees**

In connection with the Senior Secured Credit Facility, the Company incurred \$745 of deferred financing costs. These costs are offset against long-term debt in the consolidated balance sheets. The costs are deferred and amortized over a five year term.

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Amortization of these costs is charged to interest expense in the accompanying consolidated statements of income and comprehensive income using the straight-line method. Deferred financing costs net of accumulated amortization were \$720 as of December 31, 2016.

In connection with Prior Credit Agreement, the Company incurred \$2,377 of deferred financing costs. Accumulated amortization of these fees amounted to \$1,325 as of October 28, 2016, when the existing debt was paid. The net deferred financing fees for the Prior Credit Agreement of \$1,052 were written off to interest expense as of the date of the refinance.

**7. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

The Company's objectives in using interest rate derivatives are 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 a requirement of the debt refinance described in Note 6, one of the swaps was liquidated. As of December 31, 2016, the remaining amount hedged was \$12,500, with the amount to amortize quarterly to a notional of \$3,337 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.

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

During 2016, 2015 and 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 years ended December 31, 2016, 2015 and 2014.

Amounts reported in accumulated other comprehensive income related to derivatives are reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates that an additional \$30 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 tables below present the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2016 and 2015 (in thousands):

Derivative Instrument	Balance Sheet Classification	Fair Value as of December 31,			
		2016		2015	
Interest Rate Swaps	Other Liabilities	\$	30	\$	27

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

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

Derivative Instruments	Net deferral in OCI of derivatives (effective portion) For the year ended December 31,			
	2016		2015	
Interest Rate Swaps	\$	111	\$	219

Statement of earnings classification	Net reclassification from AOCI into income (effective portion) For the year ended December 31,			
	2016		2015	
Interest expense	\$	108	\$	229

During February 2017, the Company entered into Interest Rate Swaps with a combined notional of \$40,000 that mature in February 2022. Refer to Note 13 *Subsequent Event* for information regarding the new swap arrangement.

**8. INCOME TAXES**

The provision for income taxes is based on income before income taxes as follows (in thousands):

	December 31, 2016	For the year ended December 31, 2015	December 31, 2014
Domestic	\$ 4,288	\$ 7,676	\$ 9,484
Foreign	8,515	7,745	9,139
Income before income taxes	\$ 12,803	\$ 15,421	\$ 18,623

Components of the total provision for income taxes are as follows (in thousands):

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

	December 31, 2016	For the year ended December 31, 2015	December 31, 2014
Current provision (benefit)			
Domestic	\$ (70)	\$ 1,936	\$ 1,917
Foreign	2,025	1,042	1,126
Total current provision	1,955	2,978	3,043
Deferred provision			
Domestic	1,438	1,217	1,297
Foreign	332	152	423
Total deferred provision	1,770	1,369	1,720
Provision for income taxes	\$ 3,725	\$ 4,347	\$ 4,763



[Table of Contents](#)**ALLIED MOTION TECHNOLOGIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands, except share and per share data)**

The provision for income taxes differs from the amount determined by applying the federal statutory rate as follows:

	December 31, 2016	For the year ended December 31, 2015	December 31, 2014
Tax provision, computed at statutory rate	34.0%	34.0%	34.0%
State tax, net of federal impact	4.6%	4.8%	0.6%
Change in valuation allowance	0.9%	(3.3)%	(4.7)%
Effect of foreign tax rate differences	(6.5)%	(6.1)%	(4.5)%
Permanent items, other	(0.4)%	0.9%	(0.7)%
R&D Credit	(1.7)%	(1.3)%	(0.5)%
Restricted Stock Awards	(2.7)%	0.0%	0.0%
Other	0.9%	(0.8)%	1.4%
Provision for income taxes	29.1%	28.2%	25.6%

The tax effects of significant temporary differences and credit and operating loss carryforwards that give rise to the net deferred tax assets and tax liabilities are as follows:

	December 31, 2016	December 31, 2015
Noncurrent deferred tax assets:		
Employee benefit plans	\$ 2,247	\$ 2,719
Goodwill and Intangibles		215
Other	852	582
Allowances and other	969	977
Net operating loss and tax credit carryforwards	1,003	1,045
Total noncurrent deferred tax assets	5,071	5,538
Valuation allowance	(557)	(439)
Net noncurrent deferred tax assets:	\$ 4,514	\$ 5,099
Net noncurrent deferred tax liabilities:		
Property and Equipment	\$ 3,445	\$ 2,857
Goodwill and Intangibles	3,136	
Other	276	324
Total deferred tax liabilities	\$ 6,857	\$ 3,181
Net deferred tax asset/(deferred tax liability)	\$ (2,343)	\$ 1,918

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

The Company has foreign net operating loss carryforwards of approximately \$3,000 which, if unused, will expire in 2017. These carryforwards and related valuation allowance were recorded in relation to the acquisition of Globe Motors, Inc.

Additionally, the Company has foreign operating losses that relate to a foreign subsidiary acquired in 2010. At the time of the acquisition, the Company could not conclude, on a more likely than not basis, that it would ultimately realize tax benefits from these losses and credits, and therefore valued the deferred benefit at zero. The Company will continue to assess its ability to utilize any portion of the tax carryforward balance and whether it should adjust the amount of deferred tax asset related to this carryforward.

Realization of the Company's recorded deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from utilization of net operating losses and tax credit carryforwards. During 2016, the Company utilized a portion of its net operating loss carryforwards. Also, the Company increased the valuation allowance recorded due to the

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

uncertainty related to the realization of certain deferred tax assets. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. Management believes that it is more likely than not that the Company will realize the benefits of its deferred tax assets, net of valuation allowances as of December 31, 2016.

The Company files income tax returns in various U.S. and foreign taxing jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state tax examinations in its major tax jurisdictions for periods before 2010. The Company is no longer subject to tax examinations in The Netherlands or Sweden for periods before 2011, in Germany for periods before 2012 and in Portugal for periods before 2013.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-domestic subsidiaries in activities outside the United States. Generally, such amounts would become subject to domestic taxation upon the remittance of dividends to the United States and under certain other circumstances. Exceptions may be made on a year-by-year basis to repatriate current year earnings of certain foreign subsidiaries based on cash needs in the United States, however, the Company does not intend to transfer amounts or pay dividends and, therefore, has not recorded the domestic tax consequences of such payments. As of December 31, 2016, domestic income and foreign withholding taxes have not been provided for unremitted earnings of foreign subsidiaries. These earnings, which are considered to be indefinitely reinvested, would become subject to domestic income tax if they were remitted to the United States. The amount of unrecognized deferred income tax liability on the unremitted earnings has not been determined because the amount that would be payable is based on the timing and jurisdictions of any repatriated amounts.

The Company adopted ASU 2016-09 prospectively and ASU 2015-17 retrospectively as of January 1, 2016. These pronouncements impact the accounting and disclosure for income taxes (refer to Note 1, *Recently Adopted Accounting Pronouncements* section for more information).

**9. COMMITMENTS AND CONTINGENCIES**

***Operating Leases***

At December 31, 2016, the Company maintains leases for certain facilities and equipment. The Company has entered into facility agreements, some of which contain provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent obligation, which is included in accrued liabilities in the accompanying consolidated balance sheets.

Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

Year ending December 31,	Total
2017	2,401
2018	2,271
2019	1,568
2020	1,143
2021	942
Thereafter	2,092
	\$ 10,417

Rental expense was \$2,720, \$1,946 and \$1,976 in 2016, 2015 and 2014, respectively.

#### *Severance Benefit Agreements*

As of December 31, 2016, the Company has annually renewable severance benefit agreements with key employees which, among other things, provide inducement to the employees to continue to work for the Company during and after any period of

Table of Contents

**ALLIED MOTION TECHNOLOGIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

a potential change in control of the Company. The agreements provide the employees with specified benefits upon the subsequent severance of employment in the event of change in control of the Company and are effective for 24 months thereafter. In addition, severance benefits include, for some employees, a gross-up payment for excise taxes, if any.

***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.

**10. DEFERRED COMPENSATION ARRANGEMENTS**

The Company has deferred compensation arrangements with certain key members of management. These arrangements provide the Board with the ability to make contributions based on the Company's performance and discretionary contributions based on other factors as determined by the Board. It also allows for the participants to make certain deferrals into the plan. The amount of the liability is comprised of liabilities from previous contributions as well as the performance contribution for the year ended December 31, 2016. Amounts accrued relating to previous periods are \$3,481 and \$2,636 as of December 31, 2016 and December 31, 2015, respectively, and are included in noncurrent liabilities in the consolidated balance sheets. The amounts accrued as of December 31, 2016 and December 31, 2015, which relate to the performance contribution for 2016 and 2015 are \$132 and \$469, respectively, and are included in accrued liabilities on the consolidated balance sheets.

In addition, the Company would contribute certain amounts to a Supplemental Executive Retirement Plan in the event of death, disability, or termination without cause, for certain key executives. As of December 31, 2016, this amount would be approximately \$154.

**11. SEGMENT INFORMATION**

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

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

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 consolidated financial statements and within this note.

The Company's wholly owned international subsidiaries, located in The Netherlands, Sweden, Germany, Portugal, China 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 year ended December 31,				
	2016		2015	2014
Revenues derived from foreign subsidiaries	\$ 99,061	\$	75,509	\$ 82,544

Identifiable assets outside of the United States are \$73,378 and \$56,444 as of December 31, 2016 and 2015, 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.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Sales to customers outside of the United States by all subsidiaries were \$111,993, \$80,029 and \$85,152 during 2016, 2015 and 2014, respectively.

For 2016, 2015 and 2014 one customer accounted for 19%, 24% and 23% of revenues, respectively, and as of December 31, 2015 and 2014, for 12% and 23% of trade receivables, respectively. As of December 31, 2015 and 2014 another customer accounted for 15% of accounts receivable as of each year end.

**12. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The Company's quarterly financial statements for each of the quarters included in its Form 10-Qs for the year ended December 31, 2016 contained an error related to the elimination of intercompany cost of sales. The error has been corrected as of December 31, 2016, but since the adjustment was not material to any of the quarters the Form 10-Qs will not be amended. Management has determined the effects to be neither quantitatively or qualitatively material to the financial statements included in any of the Form 10-Qs filed during 2016. The impact of the error was immaterial to all periods in 2015.

The following table illustrates the correction of the error as shown in the statement of operations in Form 10-Q:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>
<b>Year 2016</b>			
Net income as reported	2,127	2,942	2,520
Effect on cost of goods sold	(228)	(251)	(301)
Net income as revised	2,355	3,193	2,821

The following table illustrates the correction of the error as recorded in the Company's financial statements:

	<b>Fourth Quarter</b>
<b>Year 2016</b>	
Net income as recorded	1,489
Effect on cost of goods sold	780

Net income as revised	709
-----------------------	-----



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

Selected quarterly financial data for each of the four quarters in years 2016 and 2015 is as follows (in thousands, except per share data):

<b>Year 2016 (Revised)</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenues	\$ 63,675	\$ 65,835	\$ 61,040	\$ 55,343
Gross margin	18,505	19,864	17,907	16,728
Net income	2,355	3,193	2,821	709
Basic earnings per share	0.25	0.34	0.30	0.08
Diluted earnings per share	0.25	0.34	0.30	0.08

<b>Year 2015</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenues	\$ 59,580	\$ 60,479	\$ 61,534	\$ 50,841
Gross margin	17,500	17,987	18,939	14,346
Net income	2,976	3,125	4,278	695
Basic earnings per share	0.32	0.34	0.46	0.08
Diluted earnings per share	0.32	0.34	0.46	0.07

Note: The sum of the quarterly net income per share (basic and diluted) differs from the annual net income per share (basic and diluted) because of the differences in the weighted average number of common shares outstanding and the common shares used in the quarterly and annual computations as well as differences in rounding.

**13. SUBSEQUENT EVENT*****Interest Rate Swap Agreement***

During February 2017, the Company entered into Interest Rate Swaps with a combined notional of \$40,000 and that mature in February 2022. The Company entered into these Interest Rate Swaps with the objective to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. This interest rate swap hedges approximately 60% of the outstanding Revolving Facility (Note 6) as of the date of inception. The swap

matures in full after the five-year term.

Table of Contents

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable

**Item 9A. Controls and Procedures.**

**Conclusion regarding the effectiveness of disclosure controls and procedures.**

Our management, with the participation of our Chief Executive Officer (principal executive) and Chief Financial Officer (principal financial officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2016. 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 Chief 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 December 31, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

**Management's report on internal control over financial reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

EKS&H, LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued a report, included herein under Item 8, on the effectiveness of our internal control over financial reporting.

## Edgar Filing: ALLIED MOTION TECHNOLOGIES INC - Form 10-K

Our system of internal control over financial reporting was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Changes in Internal Control Over Financial Reporting**

During the fiscal year ended December 31, 2016, with the exception of Heidrive, there was 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.

### **Note regarding acquisition**

In making our assessment of the Company's internal control over financial reporting as of December 30, 2016, we have excluded the operations of Heidrive. We are currently assessing the control environment of this acquired business. Our consolidated financial statements reflect Heidrive's results of operations from January 12, 2016. Heidrive's net sales constituted approximately 13% of our net sales for 2016, and Heidrive's assets constituted approximately 6% of the Company's total assets as of December 31, 2016.

### **Item 9B. Other Information**

Not applicable

Table of Contents

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

**Item 11. Executive Compensation.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference. Also incorporated by reference is the information in the table under the heading "Equity Compensation Plan Information" included in Item 5 of the Form 10-K.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

The Company's definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

a) The following documents are filed as part of this Report:

**1. Consolidated Financial Statements**

a) Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015.

b) Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2016, 2015 and 2014.

c) Consolidated Statements of Stockholders' Equity for the years 2016 and 2015.

d) Consolidated Statements of Cash Flows for the years 2016, 2015 and 2014.

e) Notes to Consolidated Financial Statements.

f) Report of Independent Registered Public Accounting Firm.

Table of Contents

**3. Exhibits**

<b>Exhibit No.</b>	<b>Subject</b>
3.1	Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed June 16, 2010.)
3.2	Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed June 16, 2010.)
10.1*	2007 Stock Incentive Plan as amended. (Incorporated by reference to Exhibit 10 to the Company's Registration Statement on Form S-8 filed with the SEC on March 19, 2014.)
10.2*	Consulting Agreement between Richard D. Smith and Allied Motion Technologies Inc. dated January 3, 2011. (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed January 6, 2011.)
10.3*	Employment Agreement between Allied Motion Technologies Inc. and Richard S. Warzala, as Amended and Restated, effective March 22, 2016. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2016.)
10.4*	Amendment to Amended and Restated Employment Agreement for Richard S. Warzala dated and effective as of June 1, 2011 between Allied Motion Technologies, Inc. and Richard S. Warzala. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 2011)
10.5*	Change of Control Agreement between Allied Motion Technologies Inc. and Richard S. Warzala, as Amended and Restated, effective December 22, 2008. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-K for the year ended December 31, 2008.)
10.6*	Deferred Compensation Plan, as Amended and Restated, effective May 31, 2011. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2011.)
10.7*	Change of Control Agreement between Allied Motion Technologies Inc. and Robert P. Maida, dated and effective as of October 1, 2012 and Michael R. Leach (effective July 7, 2015). (Incorporated by reference to Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 2012.)
10.8*	Stock Ownership Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-K for the year ended December 31, 2015.)
10.9	Share Purchase Agreement regarding Heidrive GmbH between Allied Motion Technologies B.V. and palero fünf S.à r.l. dated December 23, 2016. (Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed December 30, 2016).

Table of Contents

<b>Exhibit No.</b>	<b>Subject</b>
10.10	Credit Agreement, dated as of October 28, 2013, among Allied Motion Technologies Inc. and Allied Motions Technologies B.V., as borrowers, HSBC Bank USA, National Association, as administrative agent, HSBC Securities (USA) Inc. as sole lead arranger and sole book runner, Keybank National Association and Wells Fargo bank, National Association, as co-syndication agents and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2016.)
21	List of Subsidiaries (filed herewith).
23	Consent of EKS&H LLP (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 Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) consolidated balance sheets, (ii) consolidated statements of income and comprehensive income, (iii) consolidated statements of stockholders' equity, (iv) consolidated statements of cash flows and (v) the notes to the consolidated financial statements.

---

\* Denotes management contract or compensatory plan or arrangement.



Table of Contents

**SIGNATURES**

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

ALLIED MOTION TECHNOLOGIES INC.

By: */s/ MICHAEL R. LEACH*  
Michael R. Leach  
*Chief Financial Officer*

Date: March 13, 2017

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

<b>Signatures</b>	<b>Title</b>	<b>Date</b>
<i>/s/ RICHARD S. WARZALA</i> Richard S. Warzala	President, Chief Executive Officer and Chairman of the Board	March 13, 2017
<i>/s/ MICHAEL R. LEACH</i> Michael R. Leach	Chief Financial Officer	March 13, 2017
<i>/s/ RICHARD D. FEDERICO</i> Richard D. Federico	Lead Director of the Independent Directors	March 13, 2017
<i>/s/ ALEXIS P. MICHAS</i> Alexis P. Michas	Director	March 13, 2017
<i>/s/ GERALD J. LABER</i> Gerald J. Laber	Director	March 13, 2017
<i>/s/ RICHARD D. SMITH</i> Richard D. Smith	Director	March 13, 2017
<i>/s/ JAMES J. TANOUS</i> James J. Tanous	Director	March 13, 2017
<i>/s/ MICHAEL R. WINTER</i>	Director	March 13, 2017

Michael R. Winter