

ALLIED MOTION TECHNOLOGIES INC  
Form 10-Q  
May 04, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**Form 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the quarterly period ended March 31, 2016**

**Commission File Number**

**0-04041**

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**ALLIED MOTION TECHNOLOGIES INC.**

(Exact name of Registrant as Specified in Its Charter)

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

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

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**495 Commerce Drive, Suite 3**

**Amherst, New York 14228**

(Address of Principal Executive offices, including zip code)

**(716) 242-8634**

(Registrant's Telephone Number, Including Area Code)

(Former Address, if Changed Since Last Report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller

reporting company)

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

Number of Shares of the only class of Common Stock outstanding: 9,402,363 as of May 4, 2016

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

|                                                                                                                                                           | March 31,<br>2016 | December 31,<br>2015 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>Assets</b>                                                                                                                                             |                   |                      |
| Current Assets:                                                                                                                                           |                   |                      |
| Cash and cash equivalents                                                                                                                                 | \$ 6,316          | \$ 21,278            |
| Trade receivables, net of allowance for doubtful accounts of \$772 and \$611 at March 31, 2016 and December 31, 2015, respectively                        | 29,729            | 22,710               |
| Inventories, net                                                                                                                                          | 31,279            | 26,175               |
| Prepaid expenses and other assets                                                                                                                         | 4,980             | 3,749                |
| Total Current Assets                                                                                                                                      | 72,304            | 73,912               |
| Property, plant and equipment, net                                                                                                                        | 37,603            | 35,315               |
| Deferred income taxes                                                                                                                                     | 5,160             | 5,099                |
| Intangible assets, net                                                                                                                                    | 36,407            | 29,984               |
| Goodwill                                                                                                                                                  | 31,293            | 17,757               |
| Other long term assets                                                                                                                                    | 3,651             | 2,631                |
| Total Assets                                                                                                                                              | \$ 186,418        | \$ 164,698           |
| <b>Liabilities and Stockholders Equity</b>                                                                                                                |                   |                      |
| Current Liabilities:                                                                                                                                      |                   |                      |
| Debt obligations                                                                                                                                          | 21,947            | 9,860                |
| Accounts payable                                                                                                                                          | 14,201            | 13,000               |
| Accrued liabilities                                                                                                                                       | 13,013            | 11,121               |
| Total Current Liabilities                                                                                                                                 | 49,161            | 33,981               |
| Long-term debt                                                                                                                                            | 55,037            | 57,518               |
| Deferred income taxes                                                                                                                                     | 5,141             | 3,181                |
| Deferred compensation arrangements                                                                                                                        | 3,151             | 2,636                |
| Pension and post-retirement obligations                                                                                                                   | 4,192             | 2,785                |
| Total Liabilities                                                                                                                                         | 116,682           | 100,101              |
| Commitments and Contingencies                                                                                                                             |                   |                      |
| Stockholders Equity:                                                                                                                                      |                   |                      |
| Common stock, no par value, authorized 50,000 shares; 9,402 and 9,276 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively | 29,151            | 27,824               |
| Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding                                                     |                   |                      |
| Retained earnings                                                                                                                                         | 48,537            | 46,650               |
| Accumulated other comprehensive loss                                                                                                                      | (7,952)           | (9,877)              |
| Total Stockholders Equity                                                                                                                                 | 69,736            | 64,597               |
| Total Liabilities and Stockholders Equity                                                                                                                 | \$ 186,418        | \$ 164,698           |

See accompanying notes to condensed consolidated financial statements.

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share data)

**(Unaudited)**

|                                                    | For the three months ended<br>March 31, |            |
|----------------------------------------------------|-----------------------------------------|------------|
|                                                    | 2016                                    | 2015       |
| Revenues                                           | \$ 63,675                               | \$ 59,580  |
| Cost of goods sold                                 | 45,398                                  | 42,080     |
| Gross margin                                       | 18,277                                  | 17,500     |
| Operating costs and expenses:                      |                                         |            |
| Selling                                            | 2,424                                   | 2,208      |
| General and administrative                         | 6,409                                   | 5,553      |
| Engineering and development                        | 4,050                                   | 3,446      |
| Business development                               | 83                                      |            |
| Amortization of intangible assets                  | 779                                     | 662        |
| Total operating costs and expenses                 | 13,745                                  | 11,869     |
| Operating income                                   | 4,532                                   | 5,631      |
| Other expense (income):                            |                                         |            |
| Interest expense                                   | 1,532                                   | 1,515      |
| Other expense, net                                 | 15                                      | (266)      |
| Total other expense, net                           | 1,547                                   | 1,249      |
| Income before income taxes                         | 2,985                                   | 4,382      |
| Provision for income taxes                         | (858)                                   | (1,406)    |
| Net income                                         | \$ 2,127                                | \$ 2,976   |
| Basic earnings per share:                          |                                         |            |
| Earnings per share                                 | \$ 0.23                                 | \$ 0.32    |
| Basic weighted average common shares               | 9,273                                   | 9,208      |
| Diluted earnings per share:                        |                                         |            |
| Earnings per share                                 | \$ 0.23                                 | \$ 0.32    |
| Diluted weighted average common shares             | 9,273                                   | 9,208      |
| Net income                                         | \$ 2,127                                | \$ 2,976   |
| Foreign currency translation adjustment            | 2,029                                   | (4,479)    |
| Change in accumulated (loss) income on derivatives | (104)                                   | (100)      |
| Comprehensive income (loss)                        | \$ 4,052                                | \$ (1,603) |

See accompanying notes to condensed consolidated financial statements.

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

**(Unaudited)**

|                                                                                                                                  | For the three months ended<br>March 31, |           |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------|
|                                                                                                                                  | 2016                                    | 2015      |
| <b>Cash Flows From Operating Activities:</b>                                                                                     |                                         |           |
| Net income                                                                                                                       | \$ 2,127                                | \$ 2,976  |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities<br>(net of working capital acquired): |                                         |           |
| Depreciation and amortization                                                                                                    | 2,270                                   | 1,807     |
| Deferred income taxes                                                                                                            | 96                                      | 50        |
| Stock compensation expense                                                                                                       | 513                                     | 433       |
| Other                                                                                                                            | (217)                                   | (198)     |
| Changes in operating assets and liabilities:                                                                                     |                                         |           |
| Trade receivables                                                                                                                | (6,423)                                 | (3,395)   |
| Inventories, net                                                                                                                 | (16)                                    | (728)     |
| Prepaid expenses and other assets                                                                                                | (484)                                   | (50)      |
| Accounts payable                                                                                                                 | (520)                                   | 1,891     |
| Accrued liabilities                                                                                                              | (4,261)                                 | (2,117)   |
| Net cash (used in) provided by operating activities                                                                              | (6,915)                                 | 669       |
| <b>Cash Flows From Investing Activities:</b>                                                                                     |                                         |           |
| Consideration paid for acquisition, net of cash acquired (\$2,329)                                                               | (17,000)                                |           |
| Purchase of property and equipment                                                                                               | (984)                                   | (1,436)   |
| Net cash used in investing activities                                                                                            | (17,984)                                | (1,436)   |
| <b>Cash Flows From Financing Activities:</b>                                                                                     |                                         |           |
| Borrowings on lines-of-credit, net                                                                                               | 10,859                                  | 315       |
| Principal payments of long-term debt                                                                                             | (1,875)                                 | (1,500)   |
| Dividends paid to stockholders                                                                                                   | (224)                                   | (225)     |
| Stock transactions under employee benefit stock plans                                                                            | 811                                     | 1,171     |
| Net cash provided by (used in) financing activities                                                                              | 9,571                                   | (239)     |
| Effect of foreign exchange rate changes on cash                                                                                  | 366                                     | (1,064)   |
| Net decrease in cash and cash equivalents                                                                                        | (14,962)                                | (2,070)   |
| Cash and cash equivalents at beginning of period                                                                                 | 21,278                                  | 13,113    |
| Cash and cash equivalents at end of period                                                                                       | \$ 6,316                                | \$ 11,043 |

See accompanying notes to condensed consolidated financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

**1. BASIS OF PREPARATION AND PRESENTATION**

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

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

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

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

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

It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2015 that was previously filed by the Company.

*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.

**2. ACQUISITION**

*Acquisition of Heidrive*

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 includes certain management performance bonuses to be paid after closing. On January 12, 2016, the Company completed the acquisition for an adjusted purchase price of \$19,329 (17,800). The purchase price was funded with cash of \$8,470 (7,800) plus \$10,859 (10,000) of borrowings under the Company's foreign revolving credit facility (Note 9).

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



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## ALLIED MOTION TECHNOLOGIES INC.

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

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> |         |
|-------------------------------|-------------------------|---------|
| Current assets                | \$                      | 7,981   |
| Property, plant and equipment |                         | 2,459   |
| Amortizable intangible assets |                         | 6,841   |
| Goodwill                      |                         | 12,755  |
| Current liabilities           |                         | (7,695) |
| Long-term liabilities         |                         | (3,012) |
| Net purchase price            | \$                      | 19,329  |

The purchase price will be subject to further adjustment to reflect, among other things, any adjustments in accordance with the Purchase Agreement, finalization of the opening balance sheet, including adjustments for final valuations of assets and liabilities including intangible assets.

The intangible assets acquired consist of customer lists, tradename, and technology (the useful lives of which have not been finalized). 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.

**3. 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):

|                         | <b>March 31,</b> |         | <b>December 31,</b> |         |
|-------------------------|------------------|---------|---------------------|---------|
|                         | <b>2016</b>      |         | <b>2015</b>         |         |
| Parts and raw materials | \$               | 27,117  | \$                  | 23,710  |
| Work-in-process         |                  | 4,699   |                     | 2,404   |
| Finished goods          |                  | 4,744   |                     | 3,730   |
|                         |                  | 36,560  |                     | 29,844  |
| Less reserves           |                  | (5,281) |                     | (3,669) |
| Inventories, net        | \$               | 31,279  | \$                  | 26,175  |

**4. PROPERTY, PLANT AND EQUIPMENT**

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

|                                      | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--------------------------------------|---------------------------|------------------------------|
| Land                                 | \$ 979                    | \$ 970                       |
| Building and improvements            | 9,866                     | 9,771                        |
| Machinery, equipment, tools and dies | 40,923                    | 37,782                       |
| Furniture, fixtures and other        | 9,347                     | 8,657                        |
|                                      | 61,115                    | 57,180                       |
| Less accumulated depreciation        | (23,512)                  | (21,865)                     |
| Property, plant and equipment, net   | \$ 37,603                 | \$ 35,315                    |

Depreciation expense was approximately \$1,491 and \$1,145 for the quarters ended March 31, 2016 and 2015, respectively.

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## ALLIED MOTION TECHNOLOGIES INC.

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

**5. GOODWILL**

The change in the carrying amount of goodwill for the quarter ended March 31, 2016 and year ended December 31, 2015 is as follows (in thousands):

|                                        | March 31,<br>2016 | December 31,<br>2015 |
|----------------------------------------|-------------------|----------------------|
| Beginning balance                      | \$ 17,757         | \$ 18,303            |
| Goodwill acquired (Note 2)             | 12,755            |                      |
| Effect of foreign currency translation | 781               | (546)                |
| Ending balance                         | \$ 31,293         | \$ 17,757            |

**6. INTANGIBLE ASSETS**

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

|                         |                  | Gross<br>Amount | March 31, 2016<br>Accumulated<br>amortization | Net Book<br>Value | Gross<br>Amount | December 31, 2015<br>Accumulated<br>amortization | Net Book<br>Value |
|-------------------------|------------------|-----------------|-----------------------------------------------|-------------------|-----------------|--------------------------------------------------|-------------------|
| Customer lists          | 8 - 15 years     | \$ 37,639       | \$ (8,435)                                    | \$ 29,204         | \$ 34,149       | \$ (7,785)                                       | \$ 26,364         |
| Trade name              | 10 -<br>15 years | 6,025           | (1,909)                                       | 4,116             | 4,775           | (1,793)                                          | 2,982             |
| Design and technologies | 8 - 15 years     | 4,772           | (1,703)                                       | 3,069             | 2,189           | (1,570)                                          | 619               |
| Patents                 | 24               | 24              | (6)                                           | 18                | 24              | (5)                                              | 19                |
| Total                   |                  | \$ 48,460       | \$ (12,053)                                   | \$ 36,407         | \$ 41,137       | \$ (11,153)                                      | \$ 29,984         |

Intangible assets acquired from the Heidrive acquisition were approximately \$6,841 (Note 2).

Amortization expense for intangible assets was \$779 and \$662 for the quarters ending March 31, 2016 and 2015, respectively. Estimated future intangible asset amortization expense as of March 31, 2016 is as follows (in thousands):

|                                      | <b>Estimated<br/>Amortization<br/>Expense</b> |
|--------------------------------------|-----------------------------------------------|
| Remainder of 2016                    | \$ 2,346                                      |
| 2017                                 | 3,128                                         |
| 2018                                 | 3,128                                         |
| 2019                                 | 3,128                                         |
| 2020                                 | 3,128                                         |
| Thereafter                           | 21,549                                        |
| Total estimated amortization expense | \$ 36,407                                     |

**7. STOCK-BASED COMPENSATION**

*Stock Incentive Plans*

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

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

***Restricted Stock***

For the quarter ended March 31, 2016, 86,841 shares of unvested restricted stock were awarded at a weighted average market value of \$19.79. Of the restricted shares granted, 58,813 shares have performance based vesting conditions. The value of the shares is amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of unvested restricted stock are forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

The following is a summary of restricted stock activity for the quarter ended March 31, 2016:

|                                    | Number of<br>shares |
|------------------------------------|---------------------|
| Outstanding at beginning of period | 367,199             |
| Awarded                            | 86,841              |
| Vested                             | (105,950)           |
| Forfeited                          | (4,317)             |
| Outstanding at end of period       | 343,773             |

Stock based compensation expense, net of forfeitures of \$513 and \$433 was recorded for the quarter ended March 31, 2016 and 2015, respectively.

**8. ACCRUED LIABILITIES**

Accrued liabilities consist of the following (in thousands):

|                                  | March 31,<br>2016 | December 31,<br>2015 |
|----------------------------------|-------------------|----------------------|
| Compensation and fringe benefits | \$ 6,178          | \$ 7,791             |
| Warranty reserve                 | 1,073             | 780                  |
| Other accrued expenses           | 5,762             | 2,550                |
|                                  | \$ 13,013         | \$ 11,121            |

## 9. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

|                                                      |        | March 31,<br>2016 |    | December 31,<br>2015 |
|------------------------------------------------------|--------|-------------------|----|----------------------|
| <b>Current Borrowings</b>                            |        |                   |    |                      |
| Revolving Credit Facility                            | \$     | 11,357            | \$ |                      |
| China Credit Facility (6.4% at March 31, 2016)       |        | 1,652             |    | 1,641                |
| Term Loan, current portion, (2.4% at March 31, 2016) | (1)    | 8,938             |    | 8,219                |
| Current borrowings                                   | \$     | 21,947            | \$ | 9,860                |
| <b>Long-term Debt</b>                                |        |                   |    |                      |
| Term Loan, noncurrent (2.4% at March 31, 2016)       | (1) \$ | 26,313            | \$ | 28,906               |
| Subordinated Notes (14.5%, 13% Cash, 1.5% PIK)       |        | 30,000            |    | 30,000               |
| Unamortized debt issuance costs                      |        | (1,276)           |    | (1,388)              |
| Long-term debt                                       | \$     | 55,037            | \$ | 57,518               |

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(1) The effective rate of the Term Loan including the impact of the related hedges is 2.67%.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

**Credit Agreement**

On January 8, 2016, the Company entered into a First Amendment and Consent (the Amendment) to the Credit Agreement with Bank of America, N.A., as administrative agent, and the lenders party thereto (as amended, the 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 Credit Agreement. The Amendment also amends the Credit Agreement to increase the revolving credit facility from \$15,000 to \$30,000 and the foreign revolving sublimit from \$10,000 to \$25,000.

The Credit Agreement provides for the \$30,000 Revolving Credit Facility and a \$50,000 Term Loan (collectively the Senior Credit Facilities) each with a five year term that matures in 2018.

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

Principal installments are payable on the Term Loan in varying percentages quarterly through September 30, 2018 with a balloon payment at maturity. The Senior Credit Facilities are secured by substantially all of the Company's assets. The average outstanding borrowings for 2016 for the Senior Credit Facilities were \$47,500. At March 31, 2016, there was approximately \$18,600 available under the Senior Credit Facilities.

The Credit Agreement contains certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. The Company was in compliance with all covenants at March 31, 2016.

**Senior Subordinated Notes**

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

Company's subsidiaries.

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.

**Other**

The China Facility provides credit of approximately \$1,860 (Chinese Renminbi ( RMB ) 12,000). The China Facility is used for working capital and capital equipment needs at the Company's China operations, and will mature in November, 2017. The average balance for 2016 was \$1,630 (RMB 10,650). At March 31, 2016, there was approximately \$210 (RMB 1,350) available under the facility.



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## ALLIED MOTION TECHNOLOGIES INC.

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Maturities of long-term debt are as follows:

|                   |    | <b>Total</b> |
|-------------------|----|--------------|
| Remainder of 2016 | \$ | 21,947       |
| 2017              |    | 10,374       |
| 2018              |    | 15,939       |
| 2019              |    | 30,000       |
| Total             | \$ | 78,260       |

**10. 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 of March 31, 2016 the amount hedged was \$17,625.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2016 and 2015, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. There was no hedge ineffectiveness recorded in the Company's earnings during the quarters ended March 31, 2016 and 2015.

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Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates that an additional \$90 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 condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015 (in thousands):

| Derivative Instrument | Balance Sheet Classification | Fair Value     |                   |
|-----------------------|------------------------------|----------------|-------------------|
|                       |                              | March 31, 2016 | December 31, 2015 |
| Interest Rate Swaps   | Other Liabilities            | \$ 131         | \$ 27             |

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## ALLIED MOTION TECHNOLOGIES INC.

## UNAUDITED NOTES TO CONDENSED 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<br>(effective portion) |          | Statement of earnings<br>classification | Net reclassification from AOCI<br>into income (effective portion) |         |
|------------------------|-----------------------------------------------------------|----------|-----------------------------------------|-------------------------------------------------------------------|---------|
|                        | For the quarter ended March 31,<br>2016                   | 2015     |                                         | For the quarter ended March 31,<br>2016                           | 2015    |
| Interest Rate Swaps    | \$ (136)                                                  | \$ (151) | Interest expense                        | \$ (32)                                                           | \$ (51) |

**11. FAIR VALUE**

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

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

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

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

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

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|                        | <b>March 31, 2016</b> |                |                |
|------------------------|-----------------------|----------------|----------------|
|                        | <b>Level 1</b>        | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets</b>          |                       |                |                |
| Pension Plan Assets    | \$ 4,910              | \$             | \$             |
| Other long term assets | 3,146                 |                |                |
| Interest rate swaps    |                       | (131)          |                |

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

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

## 12. INCOME TAXES

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

The Company has net operating loss and tax credit carryforwards in certain foreign jurisdictions expiring through 2017. The Company evaluates the future realizability of the tax loss and credit carryforwards considering the anticipated future earnings and tax planning strategies in the foreign jurisdictions.

The effective income tax rate as a percentage of income before income taxes was 28.7% and 32.1% in the first quarter 2016 and 2015, respectively. The effective tax rate for the first quarter of 2016 is net of a discrete tax benefit of 5.4% (\$160) related to the adoption of ASU 2016-09. The effective rate before discrete item for 2016 and 2015 varies from the statutory rate due to permanent differences in state taxes and the difference in US and foreign tax rates and the mix of foreign and domestic income.

The Company adopted ASU No. 2015-17 and ASU No. 2016-09 as of January 1, 2016. These pronouncements impact the accounting and disclosure for income taxes (refer to Note 18).

## 13. COMMITMENTS AND CONTINGENCIES

### *Warranty*

The Company offers warranty coverage for its products. The length of the warranty period for its products varies significantly based on the product being sold. The Company estimates the costs of repairing products under warranty based on the historical average cost of the repairs. The assumptions used to estimate warranty accruals are reevaluated periodically in light of actual experience and, when appropriate, the accruals are adjusted. Estimated warranty costs are recorded at the time of sale of the related product, and are considered a cost of sale.

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Changes in the Company's reserve for product warranty claims for the quarter ended March 31, 2016 and the year ended December 31, 2015 were as follows (in thousands):

|                                           | March 31,<br>2016 | December 31,<br>2015 |
|-------------------------------------------|-------------------|----------------------|
| Warranty reserve at beginning of the year | \$ 780            | \$ 786               |
| Warranty reserves acquired                | 297               |                      |
| Provision                                 | 49                | 142                  |
| Warranty expenditures                     | (43)              | (123)                |
| Effect of foreign currency translation    | (10)              | (25)                 |
| Warranty reserve at end of the period     | \$ 1,073          | \$ 780               |

### *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.

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## ALLIED MOTION TECHNOLOGIES INC.

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

**14. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated Other Comprehensive Income for the quarters ended March 31, 2016 and 2015 is comprised of the following (in thousands):

|                                     | Defined Benefit<br>Plan Liability | Cash Flow<br>Hedges | Foreign Currency<br>Translation<br>Adjustment | Total      |
|-------------------------------------|-----------------------------------|---------------------|-----------------------------------------------|------------|
| At December 31, 2015                | \$ (688)                          | \$ (27)             | \$ (9,162)                                    | \$ (9,877) |
| Unrealized loss on cash flow hedges |                                   | (136)               |                                               | (136)      |
| Amounts reclassified from AOCI      |                                   | 32                  |                                               | 32         |
| Foreign currency translation gain   |                                   |                     | 2,029                                         | 2,029      |
| At March 31, 2016                   | \$ (688)                          | \$ (131)            | \$ (7,133)                                    | \$ (7,952) |

|                                     | Defined Benefit<br>Plan Liability | Cash Flow<br>Hedges | Foreign Currency<br>Translation<br>Adjustment | Total       |
|-------------------------------------|-----------------------------------|---------------------|-----------------------------------------------|-------------|
| At December 31, 2014                | \$ (853)                          | \$ (2)              | \$ (4,828)                                    | \$ (5,683)  |
| Unrealized loss on cash flow hedges |                                   | (151)               |                                               | (151)       |
| Amounts reclassified from AOCI      |                                   | 51                  |                                               | 51          |
| Foreign currency translation loss   |                                   |                     | (4,479)                                       | (4,479)     |
| At March 31, 2015                   | \$ (853)                          | \$ (102)            | \$ (9,307)                                    | \$ (10,262) |

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

**15. DIVIDENDS PER SHARE**

The Company declared a quarterly dividend of \$0.025 per share in the first quarter of 2016 and 2015. Total dividends declared in the first three months of 2016 and 2015 were \$235 and \$233, respectively.

**16. SEGMENT INFORMATION**

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

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



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ALLIED MOTION TECHNOLOGIES INC.

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(In thousands, except share and per share data)

segment, all financial information required by Segment Reporting can be found in the accompanying condensed consolidated financial statements and within this note.

The Company's wholly owned foreign subsidiaries, located in The Netherlands, Sweden, 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):

|                                            | <b>For the three months ended</b> |        |             |        |
|--------------------------------------------|-----------------------------------|--------|-------------|--------|
|                                            | <b>March 31,</b>                  |        |             |        |
|                                            | <b>2016</b>                       |        | <b>2015</b> |        |
| Revenues derived from foreign subsidiaries | \$                                | 25,607 | \$          | 17,427 |

Identifiable foreign assets were \$81,408 and \$56,444 as of March 31, 2016 and December 31, 2015, respectively.

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

Sales to customers outside of the United States by all subsidiaries were \$28,575 and \$19,814 during the quarters ended March 31, 2016 and 2015, respectively.

For first quarter 2016 and 2015, one customer accounted for 18% and 23% of revenues, respectively and as of March 31, 2016 and December 31, 2015, for 16% and 12% of trade receivables, respectively. As of March 31, 2016 and December 31 2015, another customer accounted for 15% of trade receivables.

**17. RECENT ACCOUNTING PRONOUNCEMENTS**

*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 and 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 \$160 was recorded in the current quarter.

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.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

***Recently issued accounting pronouncements***

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 November 2015, the FASB issued 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. ASU 2015-17 is effective for our financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Earlier application is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 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. This standard is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. ASU 2015-16 is not expected to have a material impact on the Company's condensed 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 prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in ASU 2015-11 more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The standard is effective for fiscal years beginning after December 15, 2016. ASU 2015-11 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts,

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significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance will be effective for the Company beginning in the first quarter of fiscal year 2018 using one of two prescribed retrospective methods. Early adoption is not permitted. The Company has not yet selected a transition method, or determined the effect of the standard on its ongoing financial reporting.

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

*All statements contained herein that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word believe, anticipate, expect, project, intend, will continue, will likely result, should or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from the expected results described in the forward-looking statements. The risks and uncertainties include those associated with: the domestic and foreign general business and economic conditions in the markets we serve, including political and currency risks and adverse changes in local legal and regulatory environments; the introduction of new technologies and the impact of competitive products; the ability to protect the Company's intellectual property; our ability to sustain, manage or forecast its growth and product acceptance to accurately align capacity with demand; the continued success of our customers and the ability to realize the full amounts reflected in our order backlog as revenue; the loss of significant customers or the enforceability of the Company's contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise; our ability to meet the technical specifications of our customers; the performance of subcontractors or suppliers and the continued availability of parts and components; changes in government regulations; the availability of financing and our access to capital markets, borrowings, or financial transactions to hedge certain risks; the ability to attract and retain qualified personnel who can design new applications and products for the motion industry; the ability to implement our corporate strategies designed for growth and improvement in profits including to identify and consummate favorable acquisitions to support external growth and the development of new technologies; the ability to successfully integrate an acquired business into our business model without substantial costs, delays, or problems; our the ability to control costs, including the establishment and operation of low cost region manufacturing and component sourcing capabilities; and the additional risk factors discussed under Item 1A. Risk Factors in Part II of this report and in the Company's Annual Report in Form 10-K. 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.*

*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.*

**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**

The Company achieved a 7% increase in sales for the first quarter of 2016 compared to the prior year resulting from the contribution for our Heidrive acquisition as well as increased sales in our medical, electronics and industrial markets. Earnings were 29% lower in the first quarter of 2016 compared to the prior year which reflects higher operating costs from increased investment in engineering and development for multi-product motion system offerings, the additional expense related to the Heidrive acquisition and the investments we continue to make to realign our organization for greater efficiency and accelerated growth.

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We are encouraged with the progress we have made as we advance our strategy to become the leader in motion solutions for our target markets. A number of our multi-product motion control solution wins successfully moved into production during the quarter, we realigned and enhanced our North American sales organization, and look for additional lift from the Heidrive acquisition which provides us multiple growth opportunities through new markets and customers, complementary products and additional technical competencies in customized motor and system solutions.

2016 will be a year of change and transformation as we continue to apply our One Allied approach to better serve our customers and markets, use our Allied Systematic Tools to improve productivity and efficiency, and invest in the further development of our motion control solutions capabilities and offerings to drive higher value sales and margin expansion. We also intend to restructure a significant portion of our debt later this year.

**Operating Results***Quarter ended March 31, 2016 compared to quarter ended March 31, 2015*

| (in thousands)                     | For the quarter ended<br>March 31, |           | 2016 vs. 2015<br>Variance |        |
|------------------------------------|------------------------------------|-----------|---------------------------|--------|
|                                    | 2016                               | 2015      | \$                        | %      |
| Revenues                           | \$ 63,675                          | \$ 59,580 | \$ 4,095                  | 7%     |
| Cost of goods sold                 | 45,398                             | 42,080    | 3,318                     | 8%     |
| Gross margin                       | 18,277                             | 17,500    | 777                       | 4%     |
| Gross margin percentage            | 28.7%                              | 29.4%     |                           |        |
| Operating costs and expenses:      |                                    |           |                           |        |
| Selling                            | 2,424                              | 2,208     | 216                       | 10%    |
| General and administrative         | 6,409                              | 5,553     | 856                       | 15%    |
| Engineering and development        | 4,050                              | 3,446     | 604                       | 18%    |
| Business development               | 83                                 |           | 83                        | 100%   |
| Amortization of intangible assets  | 779                                | 662       | 117                       | 18%    |
| Total operating costs and expenses | 13,745                             | 11,869    | 1,876                     | 16%    |
| Operating income                   | 4,532                              | 5,631     | (1,099)                   | (20)%  |
| Interest expense                   | 1,532                              | 1,515     | 17                        | 1%     |
| Other income (expense)             | 15                                 | (266)     | 281                       | (106)% |
| Total other expense                | 1,547                              | 1,249     | 298                       | 24%    |
| Income before income taxes         | 2,985                              | 4,382     | (1,397)                   | (32)%  |
| Provision for income taxes         | (858)                              | (1,406)   | 548                       | (39)%  |
| Net Income                         | \$ 2,127                           | \$ 2,976  | \$ (849)                  | (29)%  |
| Effective tax rate                 | 28.7%                              | 32.1%     | (3)%                      | (10)%  |
| Diluted earnings per share         | \$ 0.23                            | \$ 0.32   | \$ (0.09)                 | (28)%  |
| Bookings                           | \$ 66,391                          | \$ 58,143 | \$ 8,248                  | 14%    |
| Backlog                            | \$ 81,704                          | \$ 71,344 | \$ 10,360                 | 15%    |

NET INCOME: Net income decreased during the first quarter reflecting increased engineering and development costs, and additional organizational enhancements. Heidrive is included in our results as of January 12, 2016.

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Adjusted net income for the quarter ended March 31, 2016, was \$2,183. Adjusted diluted earnings per share for 2016 was \$0.24. Adjusted net income and adjusted diluted earnings per share are non-GAAP measurements. Adjusted net income for



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2016 excludes \$83 (\$56 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 \$6,787 for the first quarter of 2016 compared to \$7,704 for the same quarter last year. Adjusted EBITDA was \$7,383 and \$8,137 for the first quarter of 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:** For the quarter, the increase in revenues reflects the incremental sales from Heidrive and increased sales in the Medical, Electronics and Industrial markets, partially offset by lower sales in the Vehicle and Aerospace & Defense markets.

Sales to U.S. customers were 55% of total sales for the quarter compared with 67% for the same period last year, with the balance of sales to customers primarily in Europe, Canada and Asia.

**ORDER BACKLOG:** The increase in bookings in the first quarter of 2016 compared to the first quarter of 2015 is largely due to the acquisition of Heidrive. The backlog increase as of March 31, 2016 compared to at March 31, 2015 was also attributable to the added business of Heidrive.

**GROSS MARGIN:** The 4% gross margin compression in first quarter 2016 compared to first quarter 2015 was due to product mix.

**SELLING EXPENSES:** Selling expenses increased in the first quarter of 2016 compared to the same period of 2015 primarily due to the acquisition of Heidrive. Selling expenses as a percentage of revenues were 4% in the first quarter of 2016 and 2015.

**GENERAL AND ADMINISTRATIVE EXPENSES:** General and administrative expenses increased by 15% in the first quarter 2016 from the first quarter 2015 largely due to the acquisition of Heidrive. As a percentage of revenues, general and administrative expenses increased to 10% for the period ended March 31, 2016 compared to 9% for the same period in 2015.

**ENGINEERING AND DEVELOPMENT EXPENSES:** Engineering and development expenses increased by 18% in the first quarter of 2016 compared to the same quarter last year. The increase is primarily due to the ramp up of a significant development project to meet the future needs of a target market for Allied Motion along with the acquisition of Heidrive. As a percentage of revenues, engineering and development expenses were 6% for both the first quarter of 2016 and 2015.

**BUSINESS DEVELOPMENT COSTS:** The Company incurred \$83 of business development costs during 2016 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 increased in the first quarter of 2016 compared to the first quarter of 2015 due to the amortization Heidrive's intangible assets.

**INCOME TAXES:** The effective income tax rate as a percentage of income before income taxes was 28.7% and 32.1% in the first quarters of 2016 and 2015, respectively. The effective tax rate for 2016 and 2015 is lower than the statutory rate primarily due to differences in foreign tax rates. The effective rate for 2016 is lower than 2015 primarily due to the effect of foreign tax rate differences and the early adoption of ASU 2016-09, *Compensation - Stock Compensation (Topic 718)*. Refer to Note 12 of the *Unaudited Notes to Condensed Consolidated Financial Statements* for information.

### **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

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operating unit performance, and that are not a helpful measure of the performance of our underlying business particularly in light of their unpredictable nature. This non-GAAP disclosure has limitations as an analytical tool, should not be viewed as a substitute for net income determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. In addition, supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to net income determined in accordance with GAAP.

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

The Company also believes that Adjusted EBITDA provides helpful information about the operating performance of its business. Adjusted EBITDA excludes stock compensation expense, as well as certain income or expenses which are not indicative of the ongoing performance of the Company. EBITDA and Adjusted EBITDA do not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

The Company's calculation of EBITDA and Adjusted EBITDA for the quarters ended March 31, 2016 and 2015 is as follows (in thousands):

|                               | For the three months ended |       |      |       |
|-------------------------------|----------------------------|-------|------|-------|
|                               | March 31,                  |       | 2015 |       |
|                               | 2016                       |       | 2015 |       |
| Net income as reported        | \$                         | 2,127 | \$   | 2,976 |
| Interest expense              |                            | 1,532 |      | 1,515 |
| Provision for income tax      |                            | 858   |      | 1,406 |
| Depreciation and amortization |                            | 2,270 |      | 1,807 |
| EBITDA                        |                            | 6,787 |      | 7,704 |
| Stock compensation expense    |                            | 513   |      | 433   |
| Business development costs    |                            | 83    |      |       |
| Adjusted EBITDA               | \$                         | 7,383 | \$   | 8,137 |

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.



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

|                                                  | For the quarter ended<br>March 31, |       |      |       |
|--------------------------------------------------|------------------------------------|-------|------|-------|
|                                                  | 2016                               |       | 2015 |       |
| Net income as reported                           | \$                                 | 2,127 | \$   | 2,976 |
| Non-GAAP adjustments, net of tax                 |                                    |       |      |       |
| Business development costs                       |                                    | 56    |      |       |
| Non-GAAP adjusted net income                     | \$                                 | 2,183 | \$   | 2,976 |
| <b>Per Share Amounts</b>                         |                                    |       |      |       |
| Non-GAAP adjusted net income per share (diluted) | \$                                 | 0.24  | \$   | 0.32  |
| Diluted weighted average common shares           |                                    | 9,273 |      | 9,208 |

### **Liquidity and Capital Resources**

The Company's liquidity position as measured by cash and cash equivalents decreased by \$14,962 to a balance of \$6,316 at March 31, 2016 from December 31, 2015.

|                                                     | Quarter ended<br>March 31, |            |             | 2016 vs. 2015<br>\$ |
|-----------------------------------------------------|----------------------------|------------|-------------|---------------------|
|                                                     | 2016                       | 2015       | 2015        |                     |
| Net cash (used in) provided by operating activities | \$ (6,915)                 | \$ 669     | \$ (7,584)  |                     |
| Net cash used in investing activities               | (17,984)                   | (1,436)    | (16,548)    |                     |
| Net cash (used in) provided by financing activities | 9,571                      | (239)      | 9,810       |                     |
| Effect of foreign exchange rates on cash            | 366                        | (1,064)    | 1,430       |                     |
| Net decrease in cash and cash equivalents           | \$ (14,962)                | \$ (2,070) | \$ (12,892) |                     |

During the first quarter 2016, the decrease in cash provided by operating activities is primarily due to lower net income combined with an increase in working capital needs, primarily trade receivables, accounts payable and accrued liabilities. The receivables increase reflects higher sales in first quarter 2016 compared to 2015 that includes the additive sales from Heidrive. The change in cash used for accrued liabilities is largely attributable to the cash settlement of acquired liabilities for Heidrive, made during the first quarter.

The significant cash used for investing activities in 2016 reflects the acquisition of Heidrive during the quarter. The cash paid for the acquisition was \$17,000 net of cash acquired. During the first quarter of 2016, purchases of property and equipment were \$984 compared to \$1,436 for the first quarter of 2015.

Net cash provided by financing activities was higher in the first quarter of 2016 than 2015 due to the use of the foreign revolver of \$10,859 (10,000) to partially finance the Heidrive acquisition. During the first quarter of 2016, we made payments of \$1,875 for our Term Loan

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obligation. At March 31, 2016, we had \$76,608 in obligations under the Credit Agreement and the Note Agreement.

The Credit Agreement contains certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. The Company was in compliance with all covenants at March 31, 2016.

As of March 31, 2016, the amount available to borrow under the Credit Agreement was approximately \$18,600.

The average China Facility balance for the first quarter of 2016 was \$1,630 (RMB 10,650). At March 31, 2016, there was approximately \$210 (RMB 1,350) available under the facility.

During the quarter ended March 31, 2016, the Company paid dividends of \$0.025 per share. The Company's working capital, capital expenditure and dividend requirements are expected to be funded from cash provided by operations and amounts available under the Credit Agreement.

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**Item 3. Qualitative and Quantitative Disclosures about Market Risk**

***Foreign Currency***

We have foreign 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 \$2,500 on our first quarter 2016 sales. 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 quarter ended March 31, 2016 decreased sales in comparison to the quarter ended March 31, 2015 by approximately \$350.

We translate all assets and liabilities of our foreign operations, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the Condensed Consolidated Financial Statements as Comprehensive Income. The translation adjustment was a gain of approximately \$2,000 for the first quarter 2016 and a loss of \$4,500 for the first quarter 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 a loss of \$94 and \$220 for the first quarter of 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 \$4,945 on our foreign net assets as of March 31, 2016.

***Interest Rates***

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

As of March 31, 2016, we had \$35,250 outstanding under the Term Loan, of which \$17,625 is currently being hedged. Refer to Note 6 of the *Notes to Condensed Consolidated Financial Statements* for additional information about our outstanding debt. A hypothetical one percentage point (100 basis points) change in the Base Rate on the \$17,625 of unhedged floating rate debt outstanding at March 31, 2016 would have an impact of approximately \$40 on our interest expense for the first quarter 2016.

**Item 4. Controls and Procedures**

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal accounting officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of March 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.



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Based on management's evaluation of our disclosure controls and procedures as of March 31, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

**Changes in internal control over financial reporting**

During the quarter ended March 31, 2016, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in the Company's Form 10-K for the year ended December 31, 2015, except to the extent factual information disclosed elsewhere in this form 10-Q relates to such risk factors. For a full discussion of these risk factors, please refer to Item 1A. Risk Factors in the 2015 Annual Report in Form 10-K.

**Item 5. Other Information**

The Company held its annual stockholders' meeting on May 4, 2016. At the annual meeting, the stockholders of the Company (i) elected the seven director nominees, (ii) approved, on an advisory basis, the compensation awarded to the Company's Named Executive Officers, (iii) and ratified the appointment of EKS&H LLLP as the Company's independent registered public accounting firm for the 2016 fiscal year.

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

| Nominee             | For       | Against | Abstentions | Broker Non-votes |
|---------------------|-----------|---------|-------------|------------------|
| Richard D. Federico | 5,457,307 | 173,343 | 10,915      | 2,183,308        |
| Gerald J. Laber     | 5,487,475 | 143,377 | 10,713      | 2,183,308        |
| Alexis P. Michas    | 5,495,399 | 136,254 | 9,912       | 2,183,308        |
| Richard D. Smith    | 5,454,366 | 176,489 | 10,710      | 2,183,308        |
| James J. Tanous     | 5,456,836 | 179,445 | 5,284       | 2,183,308        |
| Richard S. Warzala  | 5,488,634 | 143,240 | 9,691       | 2,183,308        |
| Michael R. Winter   | 5,464,550 | 172,032 | 4,983       | 2,183,308        |

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

| <b>For</b> | <b>Against</b> | <b>Abstentions</b> | <b>Broker Non-Votes</b> |
|------------|----------------|--------------------|-------------------------|
| 5,395,736  | 229,658        | 16,171             | 2,183,308               |

The results of the voting for the ratification of EKS&H as the Company's independent registered public accounting firm for the 2016 fiscal year were as follows:

| <b>For</b> | <b>Against</b> | <b>Abstentions</b> |
|------------|----------------|--------------------|
| 7,719,835  | 9,561          | 95,477             |

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**Item 6. Exhibits**

(a) Exhibits

10.1 Employment Agreement between Allied Motion Technologies Inc. and Richard S. Warzala, as Amended and Restated, effective March 22, 2016.

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

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

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

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

101 The following materials from Allied Motion Technologies Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and comprehensive income, (iii) condensed consolidated statements of cash flows and (iv) the notes to the consolidated financial statements.

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SIGNATURES

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

DATE: May 4, 2016

ALLIED MOTION TECHNOLOGIES INC.  
By: /s/ Michael R. Leach  
Michael R. Leach  
*Chief Financial Officer*