

ALLIED MOTION TECHNOLOGIES INC
Form 10-Q
August 14, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2014

Commission File Number

0-04041

ALLIED MOTION TECHNOLOGIES INC.

(Exact name of Registrant as Specified in Its Charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

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

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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)

455 Commerce Drive, Suite 4

Amherst, New York 14228

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of Shares of the only class of Common Stock outstanding: 9,223,924 as of August 14, 2014

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ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 10,988	\$ 10,171
Trade receivables, net of allowance for doubtful accounts of \$1,548 and \$802 at June 30, 2014 and December 31, 2013, respectively	30,997	27,123
Inventories, net	25,473	24,430
Deferred income taxes	955	2,961
Prepaid expenses and other assets	2,310	2,602
Total Current Assets	70,723	67,287
Property, plant and equipment, net	37,558	40,111
Deferred income taxes	4,450	3,246
Intangible assets, net	33,856	35,222
Goodwill	20,543	20,233
Other long term assets	4,271	4,878
Total Assets	\$ 171,401	\$ 170,977
Liabilities and Stockholders Equity		
Current Liabilities:		
Debt obligations	12,043	14,145
Accounts payable	16,590	15,478
Accrued liabilities	10,515	9,898
Income taxes payable	2,811	2,729
Total Current Liabilities	41,959	42,250
Long-term debt	70,500	73,500
Deferred income taxes	1,475	2,327
Deferred compensation arrangements	2,518	2,599
Pension and post-retirement obligations	2,175	2,298
Total Liabilities	118,627	122,974
Commitments and Contingencies		
Stockholders Equity:		
Common stock, no par value, authorized 50,000 shares; 9,221 and 9,091 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	24,623	23,771
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	27,950	23,608
Accumulated other comprehensive income	201	624
Total Stockholders Equity	52,774	48,003
Total Liabilities and Stockholders Equity	\$ 171,401	\$ 170,977

See accompanying notes to condensed consolidated financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In Thousands, except per share data)

(Unaudited)

	For the three months ended		For the six months ended	
	2014	June 30, 2013	2014	June 30, 2013
Revenues	\$ 62,069	\$ 25,352	\$ 122,504	\$ 50,495
Cost of goods sold	43,501	17,817	86,844	35,437
Gross margin	18,568	7,535	35,660	15,058
Operating costs and expenses:				
Selling	2,232	1,214	4,342	2,507
General and administrative	6,709	2,715	12,925	5,584
Engineering and development	3,472	1,658	6,989	3,405
Business development costs		565		638
Relocation costs		234		234
Amortization of intangible assets	670	85	1,348	169
Total operating costs and expenses	13,083	6,471	25,604	12,537
Operating income	5,485	1,064	10,056	2,521
Other expense (income):				
Interest expense	1,649	8	3,287	17
Other expense (income), net	53	(132)	(299)	(96)
Total other expense (income), net	1,702	(124)	2,988	(79)
Income before income taxes	3,783	1,188	7,068	2,600
Provision for income taxes	(1,090)	(369)	(2,227)	(821)
Net income	\$ 2,693	\$ 819	\$ 4,841	\$ 1,779
Foreign currency translation adjustment	(324)	6	(317)	(454)
Change in accumulated loss on derivatives	(89)		(106)	
Comprehensive income	\$ 2,280	\$ 825	\$ 4,418	\$ 1,325
Basic earnings per share:				
Earnings per share	\$ 0.29	\$ 0.09	\$ 0.53	\$ 0.20
Basic weighted average common shares	9,152	8,806	9,136	8,766
Diluted earnings per share:				
Earnings per share	\$ 0.29	\$ 0.09	\$ 0.53	\$ 0.20
Diluted weighted average common shares	9,152	8,806	9,136	8,766

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 six months ended June 30,	
	2014	2013
Cash Flows From Operating Activities:		
Net income	\$ 4,841	\$ 1,779
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,481	830
Deferred income taxes	575	(64)
Stock compensation expense	768	501
Other	1,465	(177)
Changes in operating assets and liabilities:		
Trade receivables	(4,979)	(1,080)
Inventories, net	(1,488)	637
Prepaid expenses and other assets	593	37
Accounts payable	1,173	327
Accrued liabilities	(71)	(49)
Net cash provided by operating activities	6,358	2,741
Cash Flows From Investing Activities:		
Proceeds from working capital adjustment and other acquisition adjustments	1,399	
Purchase of property and equipment	(1,571)	(1,170)
Net cash used in investing activities	(172)	(1,170)
Cash Flows From Financing Activities:		
Borrowings (repayments) on lines-of-credit, net	(2,591)	160
Principal payments of long-term debt	(2,500)	
Dividends paid to stockholders	(499)	(422)
Stock transactions under employee benefit stock plans	304	414
Net cash (used in) provided by financing activities	(5,286)	152
Effect of foreign exchange rate changes on cash	(83)	(195)
Net decrease in cash and cash equivalents	817	1,528
Cash and cash equivalents at beginning of period	10,171	9,728
Cash and cash equivalents at end of period	\$ 10,988	\$ 11,256

See accompanying notes to condensed consolidated financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

1. BASIS OF PREPARATION AND PRESENTATION

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

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

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

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

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

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It is suggested that the accompanying condensed consolidated interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2013 that was previously filed by the Company.

2. ACQUISITIONS

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

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

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

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

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

	June 30, 2014
Trade receivables, net	\$ 16,567
Inventories, net	11,142
Prepaid expenses and other assets	2,860
Property, plant and equipment	28,286
Amortizable intangible assets	33,530
Goodwill	14,572
Accounts payable	(10,622)
Accrued liabilities	(7,769)
Net purchase price	\$ 88,566

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

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

Pro forma Condensed Combined Financial Information (Unaudited)

The following presents the Company's unaudited pro forma financial information for the three and six months ended June 30, 2013 giving effect to the acquisition of Globe Motors as if it had occurred at January 1, 2013. Included in the pro forma information is: the additional depreciation and amortization resulting from the valuation of amortizable tangible and intangible assets; interest on borrowings made by the Company; amortization of deferred finance costs incurred to issue the borrowings; removal of acquisition related transaction costs; removal of certain costs for which Allied Motion would be indemnified by the seller and stock compensation expense related to shares issued to certain executives of Allied Motion as a result of the acquisition.

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	Three months ended		Six months ended	
	June 30, 2013		June 30, 2013	
Revenues	\$	53,658	\$	104,097
Net income	\$	2,817	\$	3,906
Diluted net income per share	\$	0.31	\$	0.43

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

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

	June 30, 2014	December 31, 2013
Parts and raw materials	\$ 22,271	\$ 20,649
Work-in-process	2,982	3,369
Finished goods	3,880	4,350
	29,133	28,368
Less reserves	(3,660)	(3,938)
Inventories, net	\$ 25,473	\$ 24,430

4. PROPERTY, PLANT AND EQUIPMENT

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

	June 30 2014	December 31 2013
Land	\$ 654	\$ 654
Building and improvements	9,909	9,748
Machinery, equipment, tools and dies	38,630	40,237
Furniture, fixtures and other	5,273	4,544
	54,466	55,183
Less accumulated depreciation	(16,908)	(15,072)
Property, plant and equipment, net	\$ 37,558	\$ 40,111

Depreciation expense was approximately \$1,123 and \$348 for the quarters ended June 30, 2014 and 2013, respectively. Depreciation expense was \$2,133 and \$661 for the six months ended June 30, 2014 and 2013, respectively.

5. GOODWILL

The change in the carrying amount of goodwill for the six-months ended June 30, 2014 is as follows (in thousands):

	June 30, 2014	
Beginning balance	\$	20,233
Acquisition adjustments		362
Effect of foreign currency translation		(52)
Ending balance	\$	20,543

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

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

6. INTANGIBLE ASSETS

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

	Life	Gross Amount	June 30, 2014 Accumulated amortization	Net Book Value	Gross Amount	December 31, 2013 Accumulated amortization	Net Book Value
Customer lists	8 - 15 years	\$ 34,144	\$ (4,872)	\$ 29,272	\$ 34,166	\$ (3,821)	\$ 30,345
Trade name	10 years	4,775	(1,218)	3,557	4,775	(1,012)	3,763
Design and technologies	8 - 10 years	2,708	(1,702)	1,006	2,730	(1,637)	1,093
Patents		24	(3)	21	24	(3)	21
Total		\$ 41,651	\$ (7,795)	\$ 33,856	\$ 41,695	\$ (6,473)	\$ 35,222

Amortization expense for intangible assets was \$670 and \$85 for the quarters ending June 30, 2014 and 2013, respectively; and \$1,348 and \$169 for the six months ended June 30, 2014 and 2013, respectively.

7. STOCK-BASED COMPENSATION*Stock Incentive Plans*

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

Restricted Stock

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For the six months ended June 30, 2014, 165,406 shares of unvested restricted stock were awarded with a weighted average value of \$11.20. Of the restricted shares granted, 80,591 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. Shares of unvested restricted stock are forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

The following is a summary of restricted stock activity for the six months ended June 30, 2014:

	Number of Shares
Outstanding at beginning of period	520,195
Awarded	165,406
Vested	(109,048)
Forfeited	(41,961)
Outstanding at end of period	534,592

For the quarters ended June 30, 2014 and 2013, stock compensation expense, net of forfeitures, of \$388 and \$277 was recorded, respectively. For the six-months ended June 30, 2014 and 2013, stock compensation expense, net of forfeitures of \$768 and \$501 was recorded, respectively.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

8. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Current Borrowings		
Revolving Credit Facility (2.7% at June 30, 2014)	\$ 5,000	\$ 7,725
China Credit Facility (6.3% at June 30, 2014)	1,293	1,170
Term Loan, current portion, (2.7% at June 30, 2014) (1)	5,750	5,250
Current borrowings	\$ 12,043	\$ 14,145
Long-term Debt		
Term Loan, noncurrent (2.7% at June 30, 2014) (1)	\$ 40,500	\$ 43,500
Subordinated Notes (14.5%, 13% Cash, 1.5% PIK)	30,000	30,000
Long-term debt	\$ 70,500	\$ 73,500

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

Credit Agreement

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

Borrowings under the Senior Credit Facilities are subject to terms defined in the Credit Agreement. Borrowings bear interest at either the Base Rate plus a margin of 0.25% to 2.00% (currently 1.50%) or the Eurocurrency Rate plus a margin of 1.25% to 3.00% (currently 2.50%), in each case depending on the Company's ratio of total funded indebtedness to Consolidated EBITDA (the Total Leverage Ratio).

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Principal installments are payable on the Term Loan in varying percentages quarterly through September 30, 2018 with a balloon payment at maturity. The Senior Credit Facilities are secured by substantially all of the Company's assets. The average outstanding borrowings for 2014 for the Senior Credit Facilities were \$55,000. At June 30, 2014, there was approximately \$10,000 available under the Senior Credit Facilities.

The Credit Agreement contains certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. The Company was in compliance with all covenants at June 30, 2014.

Senior Subordinated Notes

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

Other

The Company also has a Credit Facility in China providing credit of approximately \$1,545 (Chinese Renminbi (RMB) 9,500). This facility is used for working capital and capital equipment needs at the Company's China operations, and will mature in October 2014. The average balance for 2014 was \$1,320 (RMB 8,100). At June 30, 2014, there was approximately \$250 (RMB 1,500) available under the facility.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company estimates that an additional \$209 will be reclassified as an increase to interest expense over the next year.

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

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of June 30, 2014 (in thousands):

Derivative Instrument	Balance Sheet Location	June 30, 2014
------------------------------	-------------------------------	----------------------