

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

WASHINGTON, D.C. 20549

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**Form 10-Q**

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

**For the quarterly period ended September 30, 2014**

**Commission File Number**

**0-04041**

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**ALLIED MOTION TECHNOLOGIES INC.**

(Exact name of Registrant as Specified in Its Charter)

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

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

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**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   
(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: 9,225,150 as of November 14, 2014

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

(Unaudited)

|   | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Current Assets:   |                       |                      |
| Cash and cash equivalents   | \$ 7,267              | \$ 8,371             |
| Restricted cash   | 1,800                 | 1,800                |
| Trade receivables, net of allowance for doubtful accounts of \$1,647 and \$802 at September 30, 2014 and December 31, 2013, respectively                      | 36,302                | 27,123               |
| Inventories, net  | 26,073                | 24,430               |
| Deferred income taxes   | 1,771                 | 2,961                |
| Prepaid expenses and other assets   | 2,822                 | 2,602                |
| Total Current Assets  | 76,035                | 67,287               |
| Property, plant and equipment, net  | 36,953                | 40,111               |
| Deferred income taxes   | 3,095                 | 3,246                |
| Intangible assets, net  | 33,532                | 35,222               |
| Goodwill  | 19,611                | 20,233               |
| Other long term assets  | 4,089                 | 4,878                |
| Total Assets  | \$ 173,315            | \$ 170,977           |
| <b>Liabilities and Stockholders Equity</b>  |                       |                      |
| Current Liabilities:  |                       |                      |
| Debt obligations  | 12,294                | 14,145               |
| Accounts payable  | 18,820                | 15,478               |
| Accrued liabilities   | 12,325                | 9,898                |
| Income taxes payable  | 1,310                 | 2,729                |
| Total Current Liabilities   | 44,749                | 42,250               |
| Long-term debt  | 69,000                | 73,500               |
| Deferred income taxes   | 1,331                 | 2,327                |
| Deferred compensation arrangements  | 2,146                 | 2,599                |
| Pension and post-retirement obligations   | 2,122                 | 2,298                |
| Total Liabilities   | 119,348               | 122,974              |
| Commitments and Contingencies   |                       |                      |
| Stockholders Equity:  |                       |                      |
| Common stock, no par value, authorized 50,000 shares; 9,225 and 9,091 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively | 25,035                | 23,771               |
| Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding   |                       |                      |
| Retained earnings   | 31,832                | 23,608               |
| Accumulated other comprehensive (loss) income   | (2,900)               | 624                  |
| Total Stockholders Equity   | 53,967                | 48,003               |
| Total Liabilities and Stockholders Equity   | \$ 173,315            | \$ 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<br>September 30, |           | For the nine months ended<br>September 30, |           |
|--|---|-----------|--|-----------|
|  | 2014  | 2013      | 2014                                       | 2013      |
| Revenues                                   | \$ 65,280                                   | \$ 24,876 | \$ 187,784                                 | \$ 75,371 |
| Cost of goods sold                         | 45,668                                      | 17,638    | 132,512                                    | 53,075    |
| Gross margin                               | 19,612                                      | 7,238     | 55,272                                     | 22,296    |
| Operating costs and expenses:              |   |           |  |           |
| Selling                                    | 2,277                                       | 1,132     | 6,619                                      | 3,640     |
| General and administrative                 | 6,172                                       | 2,516     | 19,097                                     | 8,098     |
| Engineering and development                | 3,204                                       | 1,718     | 10,193                                     | 5,123     |
| Business development costs                 |   | 596       |  | 1,235     |
| Relocation costs                           |   |           |  | 234       |
| Amortization of intangible assets          | 697   | 83        | 2,045                                      | 252       |
| Total operating costs and expenses         | 12,350                                      | 6,045     | 37,954                                     | 18,582    |
| Operating income                           | 7,262                                       | 1,193     | 17,318                                     | 3,714     |
| Other expense (income):                    |   |           |  |           |
| Interest expense                           | 1,607                                       | 13        | 4,895                                      | 30        |
| Other expense (income), net                | (368)                                       | 38        | (668)                                      | (58)      |
| Total other expense (income), net          | 1,239                                       | 51        | 4,227                                      | (28)      |
| Income before income taxes                 | 6,023                                       | 1,142     | 13,091                                     | 3,742     |
| Provision for income taxes                 | (1,908)                                     | (309)     | (4,135)                                    | (1,130)   |
| Net income                                 | \$ 4,115                                    | \$ 833    | \$ 8,956                                   | \$ 2,612  |
| Foreign currency translation adjustment    | (3,214)                                     | 806       | (3,539)                                    | 352       |
| Change in unrealized income on derivatives | 113   |           | 15   |           |
| Comprehensive income                       | \$ 1,014                                    | \$ 1,639  | \$ 5,432                                   | \$ 2,964  |
| Basic earnings per share:                  |   |           |  |           |
| Earnings per share                         | \$ 0.45                                     | \$ 0.09   | \$ 0.98                                    | \$ 0.30   |
| Basic weighted average common shares       | 9,157                                       | 8,807     | 9,143                                      | 8,778     |
| Diluted earnings per share:                |   |           |  |           |
| Earnings per share                         | \$ 0.45                                     | \$ 0.09   | \$ 0.98                                    | \$ 0.30   |
| Diluted weighted average common shares     | 9,157                                       | 8,807     | 9,143                                      | 8,778     |

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 nine months ended<br>September 30, |           |
|---|--|-----------|
|   | 2014                                       | 2013      |
| <b>Cash Flows From Operating Activities:</b>                                      |  |           |
| Net income  | \$ 8,956                                   | \$ 2,612  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |           |
| Depreciation and amortization   | 5,382                                      | 1,311     |
| Deferred income taxes   | 993  | (175)     |
| Stock compensation expense  | 1,137                                      | 674       |
| Other   | 2,171                                      | (272)     |
| Changes in operating assets and liabilities:                                      |  |           |
| Trade receivables   | (11,520)                                   | (2,510)   |
| Inventories, net  | (3,259)                                    | (326)     |
| Prepaid expenses and other assets   | (138)                                      | (484)     |
| Accounts payable  | 4,015                                      | 1,796     |
| Income taxes payable  | (2,224)                                    | 938       |
| Accrued liabilities   | 2,440                                      | (120)     |
| Net cash provided by operating activities   | 7,953                                      | 3,444     |
| <b>Cash Flows From Investing Activities:</b>                                      |  |           |
| Proceeds from working capital adjustment and other acquisition adjustments        | 1,399                                      |           |
| Purchase of property and equipment  | (3,153)                                    | (2,055)   |
| Net cash used in investing activities   | (1,754)                                    | (2,055)   |
| <b>Cash Flows From Financing Activities:</b>                                      |  |           |
| (Repayments) borrowings on lines-of-credit, net                                   | (2,591)                                    | 724       |
| Principal payments of long-term debt  | (3,750)                                    |           |
| Dividends paid to stockholders  | (730)                                      | (646)     |
| Stock transactions under employee benefit stock plans                             | 334  | 414       |
| Net cash (used in) provided by financing activities                               | (6,737)                                    | 492       |
| Effect of foreign exchange rate changes on cash                                   | (566)                                      | 45        |
| Net (decrease) increase in cash and cash equivalents                              | (1,104)                                    | 1,926     |
| Cash and cash equivalents at beginning of period                                  | 8,371                                      | 9,728     |
| Cash and cash equivalents at end of period  | \$ 7,267                                   | \$ 11,654 |

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.

### *Restricted cash*

The Company is required to maintain \$1,800 restricted cash as collateral in relation to its China credit facilities outstanding with a foreign bank. As of September 30, 2014, the Company is in the process of refinancing its China credit facilities with a foreign branch of its primary debtor bank. The restrictions on cash will be released when the refinancing is completed.

### *Reclassification*

Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2014 presentation.

## **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.

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**ALLIED MOTION TECHNOLOGIES INC.**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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 (Note 8). 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 final purchase price allocated to the underlying net assets based on fair value as of the acquisition date is as follows (in thousands):

|                                   | <b>September 30,<br/>2014</b> |
|-----------------------------------|-------------------------------|
| Trade receivables, net            | \$ 16,567                     |
| Inventories, net                  | 11,142                        |
| Prepaid expenses and other assets | 2,860                         |
| Property, plant and equipment     | 28,286                        |
| Amortizable intangible assets     | 34,040                        |
| Goodwill                          | 14,062                        |
| 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 the final valuation of intangible assets and the offsetting adjustment 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 TU's 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)***

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The following presents the Company's unaudited pro forma financial information for the three and nine months ended September 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.

|                              | <b>Three months ended</b> |        | <b>Nine months ended</b>  |         |
|------------------------------|---------------------------|--------|---------------------------|---------|
|                              | <b>September 30, 2013</b> |        | <b>September 30, 2013</b> |         |
| Revenues                     | \$                        | 60,534 | \$                        | 164,631 |
| Net income                   | \$                        | 2,141  | \$                        | 6,047   |
| Diluted net income per share | \$                        | 0.24   | \$                        | 0.67    |

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):

|                         | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-------------------------|-------------------------------|------------------------------|
| Parts and raw materials | \$ 22,490                     | \$ 20,649                    |
| Work-in-process         | 3,144                         | 3,369                        |
| Finished goods          | 4,019                         | 4,350                        |
|                         | 29,653                        | 28,368                       |
| Less reserves           | (3,580)                       | (3,938)                      |
| Inventories, net        | \$ 26,073                     | \$ 24,430                    |

**4. PROPERTY, PLANT AND EQUIPMENT**

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

|                                      | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--------------------------------------|-------------------------------|------------------------------|
| Land                                 | \$ 631                        | \$ 654                       |
| Building and improvements            | 9,806                         | 9,748                        |
| Machinery, equipment, tools and dies | 37,234                        | 40,237                       |
| Furniture, fixtures and other        | 5,378                         | 4,544                        |
|                                      | 53,049                        | 55,183                       |
| Less accumulated depreciation        | (16,096)                      | (15,072)                     |
| Property, plant and equipment, net   | \$ 36,953                     | \$ 40,111                    |

Depreciation expense was approximately \$1,204 and \$395 for the quarters ended September 30, 2014 and 2013, respectively. Depreciation expense was \$3,337 and \$1,059 for the nine months ended September 30, 2014 and 2013, respectively.

**5. GOODWILL**

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

|  |    |        |
|--|----|--------|
| Balance as of December 31, 2013        | \$ | 20,233 |
| Acquisition adjustments                |    | (147)  |
| Effect of foreign currency translation |    | (475)  |
| Balance as of September 30, 2014       | \$ | 19,611 |

The purchase price allocation has been revised to reflect an updated valuation of intangible assets, property, plant and equipment, adjustments to income taxes and the offsetting adjustments to goodwill (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):

|                         |              | September 30, 2014 |                          |                | December 31, 2013 |                          |                |
|-------------------------|--------------|--------------------|--------------------------|----------------|-------------------|--------------------------|----------------|
|                         | Life         | Gross Amount       | Accumulated amortization | Net Book Value | Gross Amount      | Accumulated amortization | Net Book Value |
| Customer lists          | 8 - 15 years | \$ 34,477          | \$ (5,326)               | \$ 29,151      | \$ 34,166         | \$ (3,821)               | \$ 30,345      |
| Trade name              | 10 years     | 4,775              | (1,314)                  | 3,461          | 4,775             | (1,012)                  | 3,763          |
| Design and technologies | 8 - 10 years | 2,526              | (1,626)                  | 900            | 2,730             | (1,637)                  | 1,093          |
| Patents                 |              | 24                 | (4)                      | 20             | 24                | (3)                      | 21             |
| Total                   |              | \$ 41,802          | \$ (8,270)               | \$ 33,532      | \$ 41,695         | \$ (6,473)               | \$ 35,222      |

Amortization expense for intangible assets was \$697 and \$83 for the quarters ending September 30, 2014 and 2013, respectively; and \$2,045 and \$252 for the nine months ended September 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 nine months ended September 30, 2014, 168,334 shares of unvested restricted stock were awarded with a weighted average value of \$11.26. 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 nine months ended September 30, 2014:

|                                    | <b>Number of<br/>Shares</b> |
|------------------------------------|-----------------------------|
| Outstanding at beginning of period | 520,195                     |
| Awarded                            | 168,334                     |
| Vested                             | (109,048)                   |
| Forfeited                          | (42,141)                    |
| Outstanding at end of period       | 537,340                     |

For the quarters ended September 30, 2014 and 2013, stock compensation expense, net of forfeitures, of \$370 and \$172 was recorded, respectively. For the nine months ended September 30, 2014 and 2013, stock compensation expense, net of forfeitures of \$1,137 and \$674 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):

|  |       | September 30,<br>2014 |    | December 31,<br>2013 |
|--|-------|-----------------------|----|----------------------|
| <b>Current Borrowings</b>                                |       |                       |    |                      |
| Revolving Credit Facility (2.2% at September 30, 2014)   | \$    | 5,000                 | \$ | 7,725                |
| China Credit Facility (6.3% at September 30, 2014)       |       | 1,294                 |    | 1,170                |
| Term Loan, current portion, (2.2% at September 30, 2014) | (1)   | 6,000                 |    | 5,250                |
| Current borrowings                                       | \$    | 12,294                | \$ | 14,145               |
| <b>Long-term Debt</b>                                    |       |                       |    |                      |
| Term Loan, noncurrent (2.2% at September 30, 2014)       | (1)\$ | 39,000                | \$ | 43,500               |
| Subordinated Notes (14.5%, 13% Cash, 1.5% PIK)           |       | 30,000                |    | 30,000               |
| Long-term debt   | \$    | 69,000                | \$ | 73,500               |

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(1) The effective rate of the Term Loan including the impact of the related hedges is 2.64%.

**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 2.00%), 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 \$54,000. At September 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 September 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 \$1,550 (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 \$1,310 (RMB 8,100). At September 30, 2014, there was approximately \$250 (RMB 1,550) 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 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 nine-months ended September 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 nine months ended September 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 \$187 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 September 30, 2014 (in thousands):

| <b>Derivative Instrument</b> | <b>Balance Sheet Location</b> | <b>September 30, 2014<br/>Fair Value</b> |
|------------------------------|-------------------------------|--|
|------------------------------|-------------------------------|--|

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|                     |              |    |    |
|---------------------|--------------|----|----|
| Interest Rate Swaps | Other Assets | \$ | 56 |
|---------------------|--------------|----|----|

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 | For the quarter ended<br>September 30, 2014                        |    | For the quarter ended<br>September 30, 2014 |  |
|------------------------|--|----|---|--|
|                        | Net deferral in<br>OCI of<br>derivatives<br>(effective<br>portion) |    | Statement of<br>earnings<br>classification  | Net<br>reclassification<br>from AOCI into<br>income (effective<br>portion) |
| Interest Rate Swaps    | \$   | 57 | Interest expense                            | \$ (56)  |

| Derivative Instruments | For the nine months ended<br>September 30, 2014                    |       | For the nine months ended<br>September 30, 2014 |  |
|------------------------|--|-------|---|--|
|                        | Net deferral in<br>OCI of<br>derivatives<br>(effective<br>portion) |       | Statement of<br>earnings<br>classification      | Net<br>reclassification<br>from AOCI into<br>income (effective<br>portion) |
| Interest Rate Swaps    | \$   | (158) | Interest expense                                | \$ (173)   |

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**ALLIED MOTION TECHNOLOGIES INC.**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**10. DIVIDENDS PER SHARE**

The Company declared and paid a quarterly dividend of \$0.025 per share in each of the first, second and third quarters of 2014 and 2013. Total dividends paid in the first nine months of 2014 and 2013 were \$730 and \$646, respectively.

**11. SEGMENT INFORMATION**

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

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

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

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

**For the three months  
ended September 30,**

**For the nine months ended  
September 30,**

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|  | 2014      | 2013      | 2014      | 2013      |
|--|-----------|-----------|-----------|-----------|
| Revenues derived from foreign subsidiaries | \$ 19,489 | \$ 11,167 | \$ 59,653 | \$ 33,934 |

Identifiable assets were \$58,488 and \$31,480 as of September 30, 2014 and 2013, respectively.

Sales to customers outside of the United States by all subsidiaries were \$20,735 and \$11,491 during the quarters ended September 30, 2014 and 2013, respectively; and \$64,650 and \$35,504 for the nine months ended September 30, 2014 and 2013, respectively.

During the three and nine months ended September 30, 2014, three customers accounted for 38% and 35% of total revenues, respectively. As of September 30, 2014, three customers accounted for 46% of trade receivables. During the three and nine months ended September 30, 2013, no single customer accounted for more than 10% of total revenues or trade receivables.

## 12. Recently Issued Accounting Standards

In June 2014, the FASB issued ASU No. 2014-12 *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, as of the grant date an entity would not record compensation expense related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be

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**ALLIED MOTION TECHNOLOGIES INC.**

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

met. No new disclosures are required under the ASU. The ASU's guidance is effective for all entities for reporting periods, including interim periods, beginning after December 15, 2015. Early adoption is permitted. In addition, all entities will have the option of applying the guidance either prospectively, only to awards granted or modified on or after the effective date, or retrospectively. Retrospective application would only apply to awards with performance targets outstanding at or after the beginning of the first annual period presented, the earliest presented comparative period. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements and notes.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09 amends the guidance for revenue recognition to replace numerous industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts and customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of the adoption. The Company has not selected a transition method and is assessing the impact, if any, that the adoption of ASU 2014-09 will have on its consolidated financial statements and notes.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. To qualify as a discontinued operation the standard requires a disposal to represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The standard also expands the disclosures for discontinued operations and requires new disclosures related to individually material dispositions that do not qualify as discontinued operations. The standard is effective prospectively for fiscal years beginning after December 15, 2014, with early adoption permitted. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements and notes.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU requires that entities present an unrecognized tax benefit, or portion of an unrecognized tax benefit, as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. The ASU's guidance is effective for reporting periods, including interim periods, beginning after December 15, 2013. The Company is assessing the impact, if any, that the adoption of ASU 2013-11 will have on its consolidated financial statements and notes.

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

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

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

**Amounts in thousands, except per share data**

**3rd Quarter Overview**

Revenues for the quarter ended September 30, 2014 more than doubled from the third quarter of 2013, increasing by 162%. The increase is primarily due to higher sales in vehicle and aerospace and defense markets resulting from the acquisition of Globe Motors, Inc. ( Globe Motors or Globe ) during the fourth quarter of 2013. Sales to Customers both inside and outside of the U.S. increased.

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Bookings for the quarter ended September 30, 2014 were \$66,739 compared to September 30, 2013 bookings of \$25,028. Backlog as of September 30, 2014 was \$80,878 compared to \$75,599 as of December 31, 2013.

From a Cash Flow perspective, our cash net of debt position increased by \$5,247 from December 31, 2013. We also declared and paid a dividend of \$0.025 per share pursuant to our quarterly dividend program during the first, second and third quarters of 2014. Dividends to shareholders for the trailing twelve months were \$0.10 per share, or a dividend payout ratio of 9% when compared to the earnings per share of \$1.13.



Table of Contents**Operating Results***Quarter Ended September 30, 2014 compared to Quarter Ended September 30, 2013*

| (in thousands)                     | For the quarter ended<br>September 30, |           | Increase<br>(decrease) |        |
|------------------------------------|--|-----------|------------------------|--------|
|                                    | 2014                                   | 2013      | \$                     | %      |
| Revenues                           | \$ 65,280                              | \$ 24,876 | \$ 40,404              | 162%   |
| Cost of products sold              | 45,668                                 | 17,638    | 28,030                 | 159%   |
| Gross margin                       | 19,612                                 | 7,238     | 12,374                 | 171%   |
| Gross margin percentage            | 30%                                    | 29%       |                        |        |
| Operating costs and expenses:      |  |           |                        |        |
| Selling                            | 2,277                                  | 1,132     | 1,145                  | 101%   |
| General and administrative         | 6,172                                  | 2,516     | 3,656                  | 145%   |
| Engineering and development        | 3,204                                  | 1,718     | 1,486                  | 86%    |
| Business development costs         |  | 596       | (596)                  | (100)% |
| Amortization of intangible assets  | 697                                    | 83        | 614                    | 740%   |
| Total operating costs and expenses | 12,350                                 | 6,045     | 6,305                  | 104%   |
| Operating income                   | 7,262                                  | 1,193     | 6,069                  | 509%   |
| Interest expense                   | 1,607                                  | 13        | 1,594                  |        |
| Other expense (income)             | (368)                                  | 38        | (406)                  |        |
| Total other expense (income)       | 1,239                                  | 51        | 1,188                  |        |
| Income before income taxes         | 6,023                                  | 1,142     | 4,881                  | 427%   |
| Provision for income taxes         | (1,908)                                | (309)     | (1,599)                | 517%   |
| Net Income                         | \$ 4,115                               | \$ 833    | \$ 3,282               | 394%   |

NET INCOME AND ADJUSTED NET INCOME: Net income increased significantly from the third quarter of 2013 to the third quarter of 2014 due to higher sales in vehicle and aerospace and defense markets resulting from the acquisition of Globe Motors during the fourth quarter of 2013. The majority of the sales increase was due to domestic customers.

Adjusted net income for the quarter ended September 30, 2013, was \$1,239. Adjusted diluted earnings per share for the third quarter of 2013 was \$0.14. Adjusted net income and adjusted diluted earnings per share are non-GAAP measurements. Adjusted net income for the third quarter of 2013 excludes \$596 (\$406 net of tax) of business development costs. See information included in **Non GAAP Measures** below for a reconciliation of net income to Adjusted net income.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$9,531 for the third quarter of 2014 compared to \$1,633 for the same quarter last year. Adjusted EBITDA was \$9,901 and \$2,401 for the third quarter of 2014 and 2013, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense and certain other items. See information included in **Non - GAAP Measures** below for a reconciliation of net income to EBITDA and adjusted EBITDA.

REVENUES: Overall, the Company experienced revenue increases from the third quarter of 2014 from the third quarter of 2013 in all of our markets, most significantly in the vehicle and aerospace and defense markets.

The 162% increase in sales in the third quarter of 2014 is primarily due to the acquisition of Globe and consists of significant additions to our vehicle and aerospace and defense markets. The increase is comprised of a 233% increase in sales to US customers and an 81% increase in sales to non-US customers. 68% of our sales for the quarter were to US customers with the remaining 32% of our sales to customers primarily in Europe, Canada and Asia. Of the increase in revenues, 163% was due to an increase in sales volume for the quarter and (1%) was due to the dollar strengthening against the foreign currencies where we do business, primarily the SEK.

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**ORDER BACKLOG:** Bookings for the quarter ended September 30, 2014 were \$66,739 compared to last year's bookings of \$25,028. Backlog as of September 30, 2014 was \$80,878 compared to \$27,476 as of September 30, 2013. The increases in both bookings and backlog in 2014 is primarily the result of the acquisition of Globe.

**GROSS MARGIN:** Gross margin as a percentage of revenues was 30% and 29% for the quarters ended September 30, 2014 and 2013, respectively.

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

**GENERAL AND ADMINISTRATIVE EXPENSES:** General and administrative expenses increased by 145% in third quarter 2014 from third quarter 2013 primarily due to the addition of Globe. As a percentage of revenues, general and administrative expenses were 9% and 10% for the quarters ended September 30, 2014 and 2013, respectively.

**ENGINEERING AND DEVELOPMENT EXPENSES:** Engineering and development expenses increased by 86% in the third quarter of 2014 compared to the same quarter last year due to the addition of Globe. As a percentage of revenues, engineering and development expenses were 5% and 7% for the third quarter of 2014 and 2013, respectively.

**BUSINESS DEVELOPMENT COSTS:** The Company incurred \$596 of business development costs during the third quarter of 2013 related to the acquisition of Globe.

**AMORTIZATION OF INTANGIBLE ASSETS:** Amortization of intangible assets expense was \$697 in the quarter ended September 30, 2014 compared to \$83 for the same quarter last year. The increase is the result of amortization for Globe's intangible assets.

**INCOME TAXES:** The effective income tax rate as a percentage of income before income taxes was 32% and 27% for the quarters ended September 30, 2014 and 2013, respectively. The effective rate is higher than the same quarter of last year primarily due to the impact of increased US revenues that are typically taxed at higher rates.

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*Nine months Ended September 30, 2014 compared to Nine months Ended September 30, 2013*

| (in thousands)                     | For the nine months ended<br>September 30, |           | Increase<br>(decrease) |        |
|------------------------------------|--|-----------|------------------------|--------|
|                                    | 2014                                       | 2013      | \$                     | %      |
| Revenues                           | \$ 187,784                                 | \$ 75,371 | \$ 112,413             | 149%   |
| Cost of products sold              | 132,512                                    | 53,075    | 79,437                 | 150%   |
| Gross margin                       | 55,272                                     | 22,296    | 32,976                 | 148%   |
| Gross margin percentage            | 29%  | 30%       |                        |        |
| Operating costs and expenses:      |  |           |                        |        |
| Selling                            | 6,619                                      | 3,640     | 2,979                  | 82%    |
| General and administrative         | 19,097                                     | 8,098     | 10,999                 | 136%   |
| Engineering and development        | 10,193                                     | 5,123     | 5,070                  | 99%    |
| Business development costs         |  | 1,235     | (1,235)                | (100)% |
| Relocation costs                   |  | 234       | (234)                  | (100)% |
| Amortization of intangible assets  | 2,045                                      | 252       | 1,793                  | 712%   |
| Total operating costs and expenses | 37,954                                     | 18,582    | 19,372                 | 104%   |
| Operating income                   | 17,318                                     | 3,714     | 13,604                 | 366%   |
| Interest expense                   | 4,895                                      | 30        | 4,865                  |        |
| Other income                       | (668)                                      | (58)      | (610)                  |        |
| Total other expense (income)       | 4,227                                      | (28)      | 4,255                  |        |
| Income before income taxes         | 13,091                                     | 3,742     | 9,349                  | 250%   |
| Provision for income taxes         | (4,135)                                    | (1,130)   | (3,005)                | 266%   |
| Net Income                         | \$ 8,956                                   | \$ 2,612  | \$ 6,344               | 243%   |

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

Adjusted net income for the nine months ended September 30, 2013 was \$3,611. Adjusted diluted earnings per share for the first nine months of 2013 was \$0.41. Adjusted net income and adjusted diluted earnings per share are non-GAAP measurements. Adjusted net income for the first nine months of 2013 excludes \$1,235 (\$840 net of tax) of business development costs and \$234 (\$159 net of tax) in expenses related to the move of our corporate offices (including staff) to Amherst, NY. See information included in Non GAAP Measures below for a reconciliation of net income to Adjusted net income.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$23,368 for the nine months ended September 30, 2014 compared to \$5,083 for the same period last year. Adjusted EBITDA was \$24,505 and \$7,226 for the nine months ended September 30, 2014 and 2013, respectively. EBITDA and Adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA excludes stock compensation expense and certain other items. See information included in Non - GAAP measures below for a reconciliation of net income to EBITDA and Adjusted EBITDA.

REVENUES: Overall, the Company experienced revenue increases for the year-to-date 2014 from 2013 in all of our markets, most significantly in the vehicle and aerospace and defense markets.

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The 149% increase in sales in the nine months ended September 30, 2014 is primarily due to the acquisition of Globe and consists of significant additions to our vehicle and aerospace and defense markets. The increase is comprised of a 209% increase in sales to US customers and an 82% increase in sales to non-US customers. 66% of our sales for the year to date were to US customers with the remaining 34% of our sales to customers primarily in Europe, Canada and Asia. The increase in revenues was due to an increase in sales volume with the impact of foreign currencies being nominal for the year to date.

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**ORDER BACKLOG:** Bookings for the nine months ended September 30, 2014 were \$194,607 compared to last year's bookings of \$69,475. The increase in bookings in 2014 is primarily the result of the acquisition of Globe.

**GROSS MARGIN:** Gross margin as a percentage of revenues was 29% and 30% for the nine months ended September 30, 2014 and 2013, respectively. The decline in margin is primarily due to the acquisition of Globe along with changes in sales mix (increased portion of sales of lower margin business offset partially by a decreased proportion of sales in higher margin business).

**SELLING EXPENSES:** Selling expenses increased in the nine months ended September 30, 2014 primary due to the addition of Globe. However, selling expenses as a percentage of revenues were 4% and 5% in the nine months ended September 30, 2014 and 2013, respectively.

**GENERAL AND ADMINISTRATIVE EXPENSES:** General and administrative expenses increased by 136% in the nine months ended September 30, 2014 from the same period in 2013 due to the addition of Globe, combined with increased incentive compensation. As a percentage of revenues, general and administrative expenses were 10% and 11% for the periods ended September 30, 2014 and 2013, respectively.

**ENGINEERING AND DEVELOPMENT EXPENSES:** Engineering and development expenses increased by 99% in the nine months ended September 30, 2014 compared to the same period in 2013 due to the addition of Globe. As a percentage of revenues, engineering and development expenses were 5% and 7% for the nine months ended September 30, 2014 and 2013, respectively.

**BUSINESS DEVELOPMENT COSTS:** The Company incurred \$1,235 of business development costs during the nine months ended September 30, 2013 related to the acquisition of Globe.

**RELOCATION COSTS:** The Company incurred \$234 of relocation costs during the nine months ended September 30, 2013 for the move of the Company's corporate office and personnel to Amherst, New York. This relocation occurred and was completed in the third quarter of 2013.

**AMORTIZATION OF INTANGIBLE ASSETS:** Amortization of intangible assets expense was \$2,045 in the nine months ended September 30, 2014 compared to \$252 for the same period in 2013. The increase is the result of amortization for Globe's intangible assets.

**INCOME TAXES:** The effective income tax rate as a percentage of income before income taxes was 32% and 30% for the nine months ended September 30, 2014 and 2013, respectively.

**Non-GAAP Measures**

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

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

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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 three and nine months ended September 30, 2014 and 2013 is as follows (in thousands):

|                               | For the three months ended<br>September 30, |          | For the nine months ended<br>September 30, |          |
|-------------------------------|---|----------|--|----------|
|                               | 2014  | 2013     | 2014                                       | 2013     |
| Net income                    | \$ 4,115                                    | \$ 833   | \$ 8,956                                   | \$ 2,612 |
| Interest expense              | 1,607                                       | 13       | 4,895                                      | 30       |
| Provision for income tax      | 1,908                                       | 309      | 4,135                                      | 1,130    |
| Depreciation and amortization | 1,901                                       | 478      | 5,382                                      | 1,311    |
| EBITDA                        | 9,531                                       | 1,633    | 23,368                                     | 5,083    |
| Stock compensation expense    | 370   | 172      | 1,137                                      | 674      |
| Relocation costs              |   |          |  | 234      |
| Business development costs    |   | 596      |  | 1,235    |
| Adjusted EBITDA               | \$ 9,901                                    | \$ 2,401 | \$ 24,505                                  | \$ 7,226 |

Allied Motion's management uses Adjusted net income to assess the Company's consolidated financial and operating performance. 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 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, as used by Allied Motion in past quarters adjusts net income determined in accordance with GAAP to reflect changes in financial results associated with the highlighted charges and income items.

The Company's calculation of Adjusted net income and Adjusted diluted earnings per share for the three and nine months ended September 30, 2014 and 2013 is as follows (in thousands):

|                                     | For the three months ended<br>September 30, |          | For the nine months ended<br>September 30, |          |
|-------------------------------------|---|----------|--|----------|
|                                     | 2014  | 2013     | 2014                                       | 2013     |
| Net income                          | \$ 4,115                                    | \$ 833   | \$ 8,956                                   | \$ 2,612 |
| Non-GAAP adjustments, net of tax    |   |          |  |          |
| Relocation costs                    |   |          |  | 159      |
| Business development costs          |   | 406      |  | 840      |
| Adjusted net income                 | \$ 4,115                                    | \$ 1,239 | \$ 8,956                                   | \$ 3,611 |
| <b>Per Share Amounts</b>            |   |          |  |          |
| Adjusted diluted earnings per share | \$ 0.45                                     | \$ 0.14  | \$ 0.98                                    | \$ 0.41  |
|                                     | 9,157                                       | 8,807    | 9,143                                      | 8,778    |



Diluted weighted average common  
shares

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**Liquidity and Capital Resources**

The Company's liquidity position as measured by cash and cash equivalents decreased by \$1,104, to a balance of \$7,267 at September 30, 2014 from December 30, 2013. Our restricted cash balance of \$1,800 at September 30, 2014 did not change from December 31, 2013.

During the nine months ended September 30, 2014, operations provided \$7,953 in cash compared to \$3,444 of cash provided during the same period of 2013. The increase in cash provided is primarily due to the higher level of earnings, partially offset by an increase in working capital needs. The decrease in income taxes payable reflects a tax payment of \$2,656 during the quarter related to the Globe acquisition.

Net cash used in investing activities was \$1,754 for the nine months ended September 30, 2014 compared to \$2,055 of cash used for the same period of 2013. The decrease in cash used is due to the receipt of a \$1,434 purchase price adjustment related to the Globe acquisition during the first quarter of 2014 offset by an increase of \$1,098 for property and equipment purchases during 2014. For the nine months ended September 30, 2014, purchases of property and equipment were \$3,153 compared to \$2,055 for the same period of last year.

Net cash used for financing activities was \$6,737 for the nine months ended September 30, 2014 compared to cash provided of \$492 for the same period last year. The decrease in 2014 is primarily due to payments on our long-term debt.

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

As of September 30, 2014, the amount available to borrow under the Company's Credit Agreement was approximately \$10,000.

During the three months ended September 30, 2014, the Company paid dividends of \$0.025 per share. The Company's working capital, capital expenditure and dividend requirements are expected to be funded from cash provided by operations and amounts available under the Credit Agreement.

**Critical Accounting Policies**

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company's significant accounting policies are discussed in Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2013. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed

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below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

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

Inventory is valued at the lower of cost or market. The Company monitors and forecasts expected inventory needs based on sales forecasts. Inventory is written down or written off when it becomes obsolete or when it is deemed excess. These determinations involve the exercise of significant judgment by management. If actual market conditions are significantly different from those projected by management, the recorded reserve may be adjusted, and such adjustments may

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have a significant impact on the Company's results of operations. Demand for the Company's products can fluctuate significantly, and in the past the Company has recorded substantial charges for inventory obsolescence.

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

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

**Recently Issued Accounting Standards**

In June 2014, the FASB issued ASU No. 2014-12 *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, as of the grant date an entity would not record compensation expense related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. No new disclosures are required under the ASU. The ASU's guidance is effective for us for reporting periods, including interim periods, beginning after December 15, 2015. Early adoption is permitted. In addition, we will have the option of applying the guidance either prospectively, only to awards granted or modified on or after the effective date, or retrospectively. Retrospective application would only apply to awards with performance targets outstanding at or after the beginning of the first annual period presented, the earliest presented comparative period. We do not expect our adoption of this new standard to have a material impact on our consolidated financial statements and notes.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09 amends the guidance for revenue recognition to replace numerous industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts and customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this ASU are effective for us for reporting periods beginning after December 15, 2016, and early adoption is prohibited. We can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of the adoption. We have not selected a transition method and are assessing the impact, if any, that the adoption of ASU 2014-09 will have on our consolidated financial statements and notes.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. To qualify as a discontinued operation the standard requires a disposal to represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The standard also expands the disclosures for discontinued operations and requires new disclosures related to individually material dispositions that do not qualify as discontinued operations. The standard is effective for us prospectively for fiscal years beginning after December 15, 2014, with early adoption permitted. We do not expect our adoption of this new standard to have a material impact on our consolidated financial statements and notes.

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In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU requires that entities present an unrecognized tax benefit, or portion of an unrecognized tax benefit, as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. The ASU's guidance is effective for us for reporting periods, including interim periods, beginning after December 15, 2013. The Company is assessing the impact, if any, that the adoption of ASU 2013-11 will have on our consolidated financial statements and notes.

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**Item 4. Controls and Procedures**

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

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2014 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II.**

**OTHER INFORMATION**

**Item 6. Exhibits**

(a) Exhibits

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.

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101 The following materials from Allied Motion Technologies Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and comprehensive income, (iii) condensed consolidated statements of cash flows and (iv) the notes to the consolidated financial statements.



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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: November 14, 2014

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