



2020 Annual Report and Form 10K



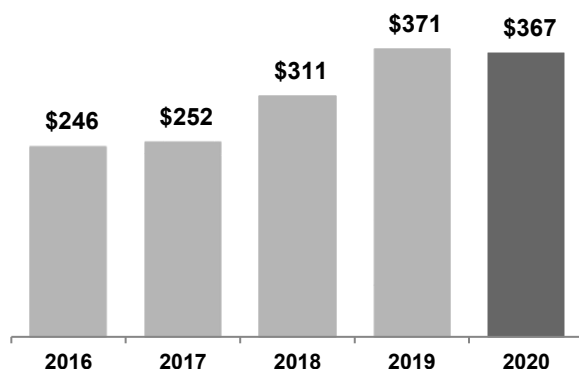
Nasdaq: AMOT

We design, manufacture and sell precision and specialty controlled motion products and solutions that are used in a broad range of industries within our major served markets, which include Vehicle, Medical, Aerospace & Defense, and Industrial. We are headquartered in Amherst, New York, have global operations and sell into markets across the United States, Canada, South America, Europe and Asia-Pacific.

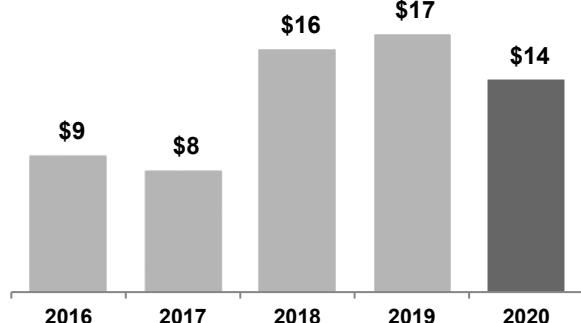
We are focused on controlled motion applications and are known worldwide for our expertise in electro-magnetic, mechanical and electronic motion technology. Our products include brush and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gear motors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, active (electronic) and passive (magnetic) filters for power quality and harmonic issues, and other controlled motion-related products.

Our growth strategy is focused on being the controlled motion solutions leader in our selected target markets by leveraging our “technology/know how” to develop integrated precision solutions that utilize multiple Allied Motion technologies to “change the game” and create higher value solutions for our customers.

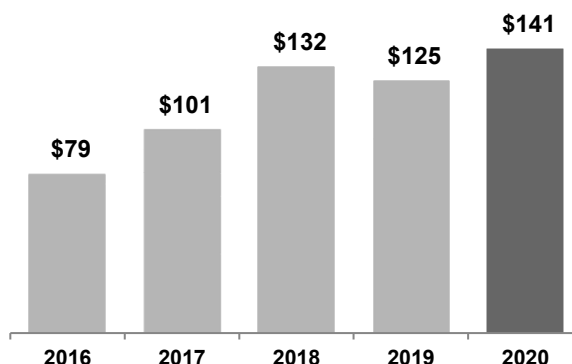
Revenue
(in millions)



Net Income
(in millions)



Backlog
(in millions)



To Our Shareholders,

During this highly unusual year, we continued to drive forward our strategy, proactively develop new solutions, provide timely deliveries to our customers and produce the best results possible under the circumstances. Our team demonstrated outstanding flexibility, operational strength and responsiveness as we worked tirelessly to create a safe work environment, while at the same time, making the necessary adjustments to ensure the needs of our customers were continuing to be met. I am incredibly proud of the entire Allied team as their committed efforts and teamwork enabled the continued execution of our One Allied strategy.



Our focused and disciplined approach allowed us to navigate through the challenges while advancing our strategic priorities and ending a trying year with solid results and notable achievements:

- Revenue was \$367 million, a similar level compared with 2019 despite the pandemic. Our diverse revenue mix provided a solid foundation of demand in certain industries that offset pandemic-related impact on other end markets
- Gross margin was 29.6% driven by disciplined cost management efforts, lean manufacturing operations and favorable mix reflecting increasingly diversified end markets
- Strong cash generated from operations of \$25 million was used, in part, to reduce debt by \$17 million and fund our annual capital expenditures, which were largely focused on expansion initiatives
- Successfully closed and integrated the acquisition of Dynamic Controls and refinanced our lending agreement enabling us to expand borrowing capacity and reduce our cost of debt
- Secured the nomination of another award to provide a customer-specific solution for our Vehicle market, raising the total of all awards to \$325 million
- Importantly, we ended the year with record fourth quarter orders of \$108 million and record backlog of \$141 million

Executing Diversified Strategy

The addition of Dynamic Controls provided an excellent complement to our current capabilities as we continue to leverage controlled motion system solutions in a wide range of markets. Dynamic Controls significantly increased our available critical engineering resources, further strengthened our Medical market position around patient mobility and rehabilitation, and provides a platform to further develop higher-level solutions. Driven largely by Dynamic Controls, our Medical market was up 61% for the year.

Additionally, we realized several wins with new and existing customers across our target markets by providing innovative solutions, which provides key revenue streams for the next several years. This includes the large Vehicle market awards, which we are ramping in 2021 and currently expect to have all of the awards at full rate production in 2024.

Our diversified business model, ability to create more efficient and cost-effective controlled motion solutions for a wide variety of applications, and thorough understanding of our served markets gives us confidence that we will be in a position of strength when we emerge from this pandemic.

Additionally, we believe that we are in a strong financial position and we will continue to focus on advancing internal and organic growth initiatives as well as paying down debt to reload for future acquisitions. Ultimately, we believe we can deliver expanded margins through the continuing strong commitment and alignment on executing our long-term strategy.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard S. Warzala'.

Richard S. Warzala
Chairman of the Board, President and Chief Executive Officer

Performance Highlights

(in thousands, except per share, margin and ratio data)

Year Ended December 31,	2020	2019	2018	2017	2016
Income Statement Data					
Revenue	\$ 366,694	\$ 371,084	\$ 310,611	\$ 252,012	\$ 245,893
Gross profit	108,575	112,584	91,403	75,679	73,004
<i>Gross margin</i>	29.6 %	30.3 %	29.4 %	30.0 %	29.7 %
Operating income	22,994	29,443	23,229	18,800	18,883
<i>Operating margin</i>	6.3 %	7.9 %	7.5 %	7.5 %	7.7 %
Net income	13,643	17,022	15,925	8,036	9,078
Earnings per share - diluted	\$ 1.43	\$ 1.80	\$ 1.70	\$ 0.87	\$ 1.00
Weighted average shares - diluted	9,555	9,461	9,370	9,275	9,105
Balance Sheet Data					
Total assets	\$ 349,197	\$ 305,828	\$ 285,301	\$ 187,922	\$ 179,919
Cash and cash equivalents	23,131	13,416	8,673	15,590	15,483
Total debt	120,079	109,765	122,516	53,155	71,419
Total debt, net of cash	96,948	96,349	113,843	37,565	55,936
Total stockholders' equity	\$ 143,056	\$ 119,194	\$ 101,813	\$ 87,347	\$ 72,286
Net debt/total capitalization	40.4 %	44.7 %	52.8 %	30.1 %	43.6 %
Other Data					
Operating cash flow	\$ 24,838	\$ 34,530	\$ 17,452	\$ 25,407	\$ 14,303
Depreciation and amortization	15,985	14,857	11,576	10,274	9,749
Capital expenditures	9,371	14,882	14,333	6,201	5,188
Backlog	\$ 141,344	\$ 124,950	\$ 131,997	\$ 100,708	\$ 78,602
Days sales outstanding	47	46	56	47	44
Inventory turns	3.8x	4.1x	3.5x	4.9x	4.2x
Employees	1,770	1,700	1,600	1,250	1,220



SEC Form 10K

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

OR

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

For the transition period from _____ to _____

Commission file number: 0-04041

ALLIED MOTION TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of incorporation or organization)

84-0518115

(I.R.S. Employer Identification No.)

495 Commerce Drive, Amherst, New York

(Address of principal executive offices)

14228

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock	AMOT	NASDAQ

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

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

The aggregate market value of voting stock held by non-affiliates of the Registrant, computed by reference to the average bid and asked prices of such stock as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$270,603,764.

Number of shares of the only class of Common Stock outstanding: 9,772,519 as of March 10, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders are incorporated into Part III.

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Disclosure Regarding Forward-Looking Statements

All statements contained herein that are not statements of historical fact constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word “believe,” “anticipate,” “expect,” “project,” “intend,” “will continue,” “will likely result,” “should” or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from the expected results described in the forward-looking statements. The risks and uncertainties include those associated with: the domestic and foreign general business and economic conditions in the markets we serve, including political and currency risks and adverse changes in local legal and regulatory environments; the severity, magnitude and duration of the Coronavirus (“COVID-19”) pandemic, including impacts of the pandemic and of businesses’ and governments’ responses to the pandemic on our operations and personnel, and on commercial activity and demand across our and our customers’ businesses, and on global supply chains; our inability to predict the extent to which the COVID-19 pandemic and related impacts will continue to adversely impact our business operations, financial performance, results of operations, financial position, the prices of our securities and the achievement of our strategic objectives; the introduction of new technologies and the impact of competitive products; the ability to protect the Company’s intellectual property; our ability to sustain, manage or forecast our growth and product acceptance to accurately align capacity with demand; the continued success of our customers and the ability to realize the full amounts reflected in our order backlog as revenue; the loss of significant customers or the enforceability of the Company’s contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise; our ability to meet the technical specifications of our customers; the performance of subcontractors or suppliers and the continued availability of parts and components; changes in government regulations; the availability of financing and our access to capital markets, borrowings, or financial transactions to hedge certain risks; the ability to attract and retain qualified personnel who can design new applications and products for the motion industry; the ability to implement our corporate strategies designed for growth and improvement in profits including to identify and consummate favorable acquisitions to support external growth and the development of new technologies; the ability to successfully integrate an acquired business into our business model without substantial costs, delays, or problems; our ability to control costs, including the establishment and operation of low cost manufacturing and component sourcing capabilities; and the additional risk factors discussed under “Item 1A. Risk Factors” in Part I of this report. Actual results, events and performance may differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements as a prediction of actual results. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. The Company has no obligation or intent to release publicly any revisions to any forward-looking statements, whether as a result of new information, future events, or otherwise.

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

PART I

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

Item 1. Business.

OVERVIEW

Allied Motion Technologies Inc. (“Allied Motion” or the “Company” or “we” or “our”) is a global company that designs, manufactures and sells precision and specialty controlled motion components and systems used in a broad range of industries. Our target markets include Vehicle, Medical, Aerospace & Defense (A&D), and Industrial. We are headquartered in Amherst, NY, and have global operations and sell to markets across the United States, Canada, South America, Europe and Asia-Pacific. We are known worldwide for our expertise in electro-magnetic, mechanical and electronic motion technology. Our products include brush and brushless DC (BLDC) motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, active and passive filters for power quality and harmonic issues, and other controlled motion-related products.

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

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

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

IMPACT OF COVID-19

The ongoing global COVID-19 pandemic has resulted, and may continue to result, in significant disruptions to the United States (“U.S.”) and global economies and has, and may continue to, adversely affect our business, including our supply chain and operations. We have also experienced, and expect to continue to experience, temporary reductions in customer demand in some of our served markets. During 2020, the impact of social distancing measures, the reduced operational status of our suppliers and reductions in production at certain facilities adversely impacted our operations. We expect general business uncertainty will continue to negatively impact demand in several of our served markets into 2021. During 2020, the impact of COVID-19 on our operations was most pronounced in areas that serve our Vehicle, Industrial and Aerospace & Defense markets. However, during the last half of 2020, we experienced a solid recovery in our Vehicle market as order activity rebounded.

In response to the worldwide outbreak, we have taken proactive, aggressive action to protect the health and safety of our employees, customers, partners, suppliers, and communities. We enacted rigorous safety measures in all of our sites, including implementing social distancing protocols, requiring work from home for those employees that do not need to be physically present on the manufacturing floor or in a lab to perform their work, suspending travel, implementing temperature checks at the entrances to our facilities, extensively and frequently disinfecting our workspaces and providing masks and other protective equipment to those employees who must be physically present. We implemented these measures on a worldwide basis and are continuing to monitor and act in accordance with government authorities’ requirements and recommendations. We will continue to act in the best interests of our employees, customers, partners, suppliers and communities.

We responded to the outbreak with a recognition that our Company provides essential and important products, including those that our customers rely on to address this crisis. We manufacture and deliver critical controlled motion components, including electronic drives, motors and control assemblies to manufacturers of medical equipment including respirators, ventilators, infusion pumps, medical fluid pumps and other breathing assist equipment required to care for patients with respiratory issues including those caused as the result of COVID-19 pandemic. We are a long-term, qualified supplier to leading medical device manufacturers of ventilators and respirators around the world.

Global demand and capacity to produce ventilators increased significantly in 2020 and we continue to be a reliable supplier of the critical controlled motion components it requires. The Company has rapidly deployed resources to increase production capacity to meet the surge in demand for certain types of medical products related to combatting the COVID-19 virus. We also continue to provide solutions to suppliers of other types of medical equipment, including surgical tools and equipment, surgical robots, diagnostic equipment, test equipment, patient mobility and rehabilitation equipment, hospital beds and mobile equipment carts.

Our worldwide locations are considered to be essential suppliers to our customers and therefore most of our locations have remained substantially operational during the outbreak while implementing enhanced safety procedures. Our facility in China was shut down for a small portion of the first quarter of 2020 but since then has continued to be fully operational. Our facility in Reynosa, Mexico experienced a brief shutdown in the second quarter of 2020 that did not continue into the remainder of the year. These facilities are currently fully operational.

We have taken actions since the beginning of the COVID-19 pandemic to strengthen our liquidity and financial condition. In February 2020, we renewed and increased our revolving credit facility (“Amended Revolving Facility”) to \$225 million through February 2025 (refer to Note 7, *Debt Obligations* from our consolidated financial statements). Through this amendment we lowered our cost of debt and secured more favorable covenants. While part of our pre-COVID-19 planning, this liquidity preserves our financial flexibility during the pandemic. During 2020, we paid down nearly \$17 million of debt while maintaining a robust cash balance to cover our short-term needs. We believe that our cash flows from operations and borrowing capacity are sufficient to support our short and long-term liquidity needs.

To conserve cash while supporting growth plans, we continue to align variable costs with demand, maintain key engineering capabilities, restrict hiring activity and wage increases and tightly control discretionary spending. The Company continues to closely monitor events and conditions resulting from the COVID-19 pandemic and the related impact on all forms of incentive compensation.

The extent of the future impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments on a global scale, including the duration, spread and intensity of the pandemic and the successful distribution and acceptance of vaccines for COVID-19, all of which are uncertain and difficult to predict. We will continue to proactively respond to the situation and will take further actions as warranted to alter our business operations as necessary.

ACQUISITION

Dynamic Controls Group: On March 7, 2020, we acquired Dynamic Controls Group (“Dynamic Controls”), a wholly owned subsidiary of Invacare Corporation, a market-leading designer and manufacturer of equipment for the medical mobility and rehabilitation markets. Dynamic Controls provides the Company with market leading electronic control solutions and products that further strengthen our medical market position, as well as enable us to further develop higher level solutions with embedded electronics across our other major served markets. The acquisition of Dynamic Controls allows us to build out our ability to leverage controlled motion system solutions in a wide range of markets.

MARKETS AND APPLICATIONS

One of the Company's growth initiatives includes product line platform development to meet the emerging needs of its selected target markets. The platform development emphasizes a combination of technologies to create increased value solutions for customers. The emphasis on new opportunities has allowed the Company to evolve from being an individual component provider to becoming a solutions provider whereby the new opportunities utilize multiple of the Company's technologies in a system solution approach. The Company believes this approach will allow it to provide increased value to its customers and improved margins for the Company. Our strong financial condition, along with Allied Systematic Tools ("AST") continuous improvement initiatives in quality, delivery, and cost provide a positive outlook for the continued long-term growth and profitability of the Company.

The Company's growth strategy is focused on becoming the recognized controlled motion solution leader in its selected target markets by further developing its products and services platform to utilize multiple Allied Motion technologies to create increased value solutions for its customers. Our strategy further defines Allied Motion as being a "technology/know-how" driven company and to be successful, the Company continues to invest in its areas of excellence.

The Company sells its products into a subset of the following broad markets:

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

Medical: surgical robots, prosthetics, electric powered surgical hand pieces, programmable pumps to meter and administer infusions associated with chemotherapy, pain control and antibiotics, nuclear imaging systems, radiology equipment, automated pharmacy dispensing equipment, kidney dialysis equipment, respiratory ventilators, heart pumps, and patient handling equipment (e.g., wheel chairs, scooters, stair lifts, patient lifts, transport tables and hospital beds). The Company's sales generated from its March 2020 acquisition of Dynamic Controls are included within this market.

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

Industrial: products are used in factory automation, specialty equipment, material handling equipment, commercial grade floor polishers and cleaners, commercial building equipment such as welders, cable pullers and assembly tools, the handling, inspection, and testing of components and final products such as PCs, high definition printers, tunable lasers and spectrum analyzers for the fiber optic industry, test and processing equipment for the semiconductor manufacturing industry, power quality products to filter distortion caused by variable frequency drives and other power electronic equipment.

OTHER FACTORS IMPACTING OUR OPERATIONS

Sales and Marketing

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

Allied Motion Sales Organization:

The Company's sales organization continues to evolve with the goal of becoming the best sales and service force in its industry. Through the One Team approach for providing controlled motion solutions and components that best address customers' needs, the Company has broadened the knowledge and skills of its direct sales force, while creating sales and service support in its Solution Centers. This enables the entire sales organization to be capable of selling all products designed, developed and produced by Allied Motion globally. The Company's primary channels to market include the direct sales force and external authorized Sales Representatives, Agents and Distributors that provide field coverage in Asia-Pacific, Europe, Canada, Israel and the Americas. While the majority of the Company's sales are directly to OEMs, it is working to expand its market reach through Distribution channels.

Allied Motion Solution Centers:

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

Sales Backlog:

Backlog as of December 31, 2020 was \$141,344 compared with \$124,950 as of December 31, 2019. The time to convert the majority of backlog to sales is approximately three to six months. Given the short product lead times, we do not believe that the amount of our backlog of orders is a reliable indication of our future sales. We may on occasion receive multi-year orders from customers for product to be delivered on demand over that time frame. There is no assurance that the Company's backlog from these customers will be converted into revenue.

Major Customer

Sales to one customer were 15% and 16% of total sales in 2020 and 2019, respectively. We believe the diversification of the target markets we serve reduces our exposure to negative developments with any single customer.

Competitive Environment

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

Availability of Parts and Raw Materials

We purchase critical raw materials from a limited number of suppliers due to the technically challenging requirements of the supplied product and/or the lengthy process required to qualify these materials both internally and with our customers. We cannot quickly establish additional or replacement suppliers for these materials in some cases because of these rigid requirements. For these critical raw materials, we maintain minimum safety stock levels and partner with suppliers through contract to help ensure the continuity of supply. As a result of the COVID-19 pandemic, we have faced and are facing increased operational challenges from workplace disruptions and restrictions on the movement of raw materials and goods, both at our own facilities and at our customers and suppliers, leading to increases in prices and freight costs. As we seek to secure supply during these uncertain times, we have increased the levels of certain inventories to put us in the position to meet the needs of our customers.

Patents, Trademarks, Licenses, Franchises and Concessions

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

Working Capital Items

We currently maintain inventory levels adequate for our short-term needs based upon present levels of production. We consider the component parts of our different product lines to be generally available and current suppliers to be reliable and capable of satisfying anticipated needs under normal conditions. As discussed herein, as a result of the COVID-19 pandemic, we have experienced increased costs and have purposely increased certain inventories to deal with global supply chain issues.

Engineering and Development Activities

Our engineering and development (E&D) activities are for the development of new products, enhancement of the functionality, effectiveness and reliability of current products, to redesign products to reduce the cost of manufacturing of products or to expand the types of applications for which our products and solutions can be used. Our engineering and development expenditures for the years ended December 31, 2020 and 2019 were \$25,487 and \$23,086, respectively, or 7.0% of sales in 2020, and 6.2% of sales in 2019. The increase was a result of the Dynamic Controls acquisition. We believe E&D is critical to our success and expect to continue to invest at these levels in the future. Of these expenditures, no material amounts were charged directly to customers, although we record non-recurring engineering charges to certain customers for custom engineering required to develop products that meet the customer's specifications.

Environmental Issues

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

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

International Operations

Our operations outside the United States are conducted through wholly-owned foreign subsidiaries and are located primarily in Europe and Asia-Pacific. Our international operations are subject to the usual risks inherent in international trade, including currency fluctuations, local government contracting regulations, local governmental restrictions on foreign investment and repatriation of profits, exchange controls, regulation of the import and distribution of foreign goods, as well as changing economic and social conditions in countries in which our operations are conducted. The information required by this item is set forth in Note 13, *Segment Information*, of the notes to consolidated financial statements contained in Item 8 of this report.

Human Capital

Employment

At December 31, 2020, we employed approximately 1,770 full-time employees worldwide. Of those, approximately 48% are located in North America, 40% are located in Europe and the remainder are located in Asia-Pacific.

Employee Health and Safety

The Company complies in all respects with the national and local laws of the jurisdictions in which we operate regarding workers safety and health. The Company strives to continuously improve employee safety and health through consistent measurement and reporting on progress and leading indicators. It has programs that emphasize that each employee in the organization is responsible for safety in the workplace. The Company provides a comprehensive safety program that

focuses on a zero-incident mindset by providing ongoing training opportunities and review of safety activities and initiative. This clearly visible effort encourages employee engagement and active management and leadership involvement.

Human Capital Management

The Company believes that its workforce is one of the Company's greatest assets, and it has a proactive human capital management and talent development program. The Compensation Committee recognizes human capital as a key driver of long-term value and is responsible for oversight of the Company's human capital management and talent development programs.

- Attraction: The Company competes within each world-wide market for a finite number of skilled and talented workers. The Company leverages our broad resources and reputation to deliver an outstanding career experience to its candidates and our employees.
- Engagement: The Company strives to provide engaging and meaningful career opportunities for its employees, so they can thrive and be satisfied in our technology and innovation-based culture.
- Development: The Company strengthens its employees' skills and experiences through diverse career development and learning opportunities, both internal and external. This emphasizes the Company's key attribute as a compelling place to work and grow at all levels.
- Retention: The Company supports a workplace that provides an environment of trust, personal and professional development and work-life balance is vital to its successful retention of engaged, top-notch talent.

Diversity and Inclusion

The Company is committed to apply fair labor practices while respecting the national and local laws of the countries and communities where we have operations. The Company is committed to providing equal opportunity in all aspects of employment. The Company does not engage in or tolerate unlawful conduct, including discrimination, intimidation, or harassment. The Company strives to establish relationships with key organizations and associations that foster diversity and inclusion initiatives in the communities where it is located. The Company is committed to identifying a talented and innovative workforce by building a diverse and inclusive pipeline of talent. The Compensation Committee is responsible for the oversight of the Company's diversity and inclusion initiatives.

Ethical Business Practices

The Company is dedicated to conducting its business with integrity and responsibility. The Company promotes honest and ethical conduct, and the Board has adopted a Code of Ethics and Business Conduct which applies to all employees, directors, and officers. The Company does not tolerate human rights abuses, human trafficking and or slavery, the use of child labor and will not engage or be complicit in any activity that solicits or encourages human rights abuse.

Item 1A. Risk Factors

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

RISKS RELATED TO THE COVID-19 PANDEMIC

Our financial condition and results of operations have been and may continue to be adversely affected by public health issues, including epidemics or pandemics such as COVID-19.

The COVID-19 pandemic has subjected our business, operations, financial performance, cash flows and financial condition to a number of risks, including, but not limited to those discussed below.

Operations-related risks: As a result of the COVID-19 pandemic, we have faced and are facing increased operational challenges from the need to protect employee health and safety, workplace disruptions and restrictions on the movement of people, raw materials and goods, both at our own facilities and at our customers and suppliers. For example, we have experienced and will continue to experience incremental operating costs due to increased challenges with our workforce (including as a result of illness, absenteeism or government orders), access to necessary components and supplies, and access to fundamental support services (such as shipping and transportation). The ultimate significance of these disruptions to our business, financial condition, results of operations, and cash flows will depend greatly on how long the disruptions continue. A continued delay of full recovery in our operations, and/or any similar delay with respect to resumption of operations by one or more of our key suppliers, would result in further challenges to our business and may negatively affect our business, financial condition, results of operations, and cash flows.

Customer-related risks: As a result of the COVID-19 pandemic, there have been and could continue to be changes in our customers' priorities and practices, as our customers in both the United States and globally confront competing budget priorities and more limited resources. To the extent that COVID-19 continues to impact demand for our products and services and impairs the viability of some of our customers, our financial condition, results of operations, and cash flows could be adversely affected, and those impacts could be material.

Other risks: The magnitude and duration of the global COVID-19 pandemic continues to be uncertain. As the pandemic continues to adversely affect portions of our business and our overall operating and financial results, it may also adversely affect our operating and financial results in a manner that is not presently known to us or that we currently do not expect to present significant risks to our operations or financial results. The extent of the pandemic's effect on our business will depend on future developments, including the duration, spread and intensity of the pandemic and the successful distribution and acceptance of vaccines for COVID-19, all of which are uncertain and difficult to predict.

OPERATIONAL RISKS

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

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

Our growth could suffer if the markets into which we sell our products and services decline.

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

We could experience a failure of a key information technology system, process or site or a breach of information security, including a cybersecurity breach or failure of one or more key information technology systems, networks, processes, associated sites or service providers.

We rely extensively on information technology (“IT”) systems for the storage, processing, and transmission of our electronic, business-related information assets used in or necessary to conduct business. We leverage our internal information technology infrastructures, and those of our business partners, to enable, sustain, and support our global business activities. In addition, we rely on networks and services, including internet sites, data hosting and processing facilities and tools and other hardware, software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or their vendors, to assist in conducting our business. The data we store, and process may include customer payment information, personal information concerning our employees, confidential financial information, and other types of sensitive business-related information. Numerous and evolving cybersecurity threats pose potential risks to the security of our IT systems, networks and services, as well as the confidentiality, availability and integrity of our data. In addition, the laws and regulations governing security of data on IT systems is evolving and adding another layer of complexity in the form of new requirements. We have made, and continue to make investments, seeking to address these threats, including monitoring of networks and systems, hiring of experts, employee training and security policies for employees and third-party providers.

The techniques used in these attacks change frequently and may be difficult to detect for periods of time and we may face difficulties in anticipating and implementing adequate preventative measures. While the breaches of our IT systems to date have not been material to our business or results of operations, the costs of attempting to protect IT systems and data will increase, and there can be no assurance that these added security efforts will prevent all breaches of our IT systems or thefts of our data. If our IT systems are damaged or cease to function properly, the networks or service providers we rely upon fail to function properly, or we or one of our third-party providers suffer a loss or disclosure of our business or stakeholder information due to any number of causes ranging from catastrophic events or power outages to improper data handling or security breaches and our business continuity plans do not effectively address these failures on a timely basis, we may be exposed to potential disruption in operations, loss of customers, reputational, competitive and business harm as well as significant costs from remediation, litigation and regulatory actions.

We are also subject to an increasing number of evolving data privacy and security laws and regulations. Failure to comply with such laws and regulations could result in the imposition of fines, penalties and other costs. The European Union (“EU”) and United Kingdom’s General Data Protection Regulations and the EU’s pending ePrivacy Regulation could disrupt our ability to sell products and solutions or use and transfer data because such activities may not be in compliance with applicable laws.

The Audit Committee of the Board of Directors is responsible for information security oversight and is comprised entirely of independent directors. Additionally, three members of the Company’s Board of Directors have relevant information security and cybersecurity experience. As part of their oversight, senior leadership meets with the Audit Committee at least annually to discuss information security and cybersecurity matters. Over the last three years, nominal costs were incurred related to information security breaches, including penalties and settlements. Over the last three years, the Company has experienced one known security breach, which occurred in June 2018. On an annual basis, the Company is audited by an external security services provider to the National Institute of Standards and Technology (NIST) SP 800-171 standards and enhances its security framework based upon the results of those audits. For new associates, and on an annual basis, the Company requires associates to take security awareness training and has an on-going phishing recognition training and testing programs.

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

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

Any of these uncertainties could adversely affect our profitability and ability to compete. The effect of unavailability or delivery delays would be more severe if associated with our higher volume and more profitable products. Even where

substitute sources of supply are available, qualifying the alternate suppliers and establishing reliable supplies could cost more or could result in delays and a loss of sales.

Certain materials and components used in our products are required and qualified to be sourced from a single or a limited number of suppliers. As such, some materials and components could become in short supply resulting in limited availability and/or increased costs. Additionally, we may elect to develop relationships with a single or limited number of suppliers for materials and components that are otherwise generally available, because some customers require extensive certification of suppliers which is a considerable and time consuming undertaking. Although we believe that alternative suppliers are available to supply materials and components to replace those currently used, doing so may require redesign work and would require having those new sources qualified by our customers prior to making use of those new alternatives. Any interruption in the supply from any supplier that serves as a sole source could delay product shipments and have a material adverse effect on our business, financial condition and results of operations.

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

We use various raw materials, such as copper, steel, zinc and rare earth magnets, in our manufacturing operations. The prices of these raw materials have been subject to volatility. As a result of price increases, we have generally implemented price surcharges to our customers; however, we may be unable to collect surcharges without suffering reductions in unit volume, revenue and operating income. There can be no assurance that we will be able to fully recover the price increases through surcharges in a timely manner. We are also subject to risks associated with U.S. and foreign legislation and regulations relating to imports, including quotas, duties, tariffs or taxes, and other charges or restrictions on imports, which could adversely affect our operations and our ability to import products at current or increased levels. We cannot predict whether additional U.S. and foreign customs quotas, duties, tariffs, taxes or other charges or restrictions, requirements as to where raw materials must be purchased, or other restrictions on our imports will be imposed upon the importation of our products in the future or adversely modified, or what effect such actions would have on our costs of operations.

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

Competition in connection with the manufacturing of our products may intensify in the future. The market for our technologies is competitive and subject to rapid technological change. We compete globally on the basis of product performance, customer service, availability, reliability, productivity and price. Our competitors may be larger and may have greater financial, operational, economies of scale, personnel, sales, technical and marketing resources than us. Certain of our competitors also may pursue aggressive pricing or product strategies that may cause us to reduce the prices we charge for our original equipment and aftermarket products and services or lose sales. These actions may lead to reduced revenues, lower margins and/or a decline in market share, any of which may adversely affect our business, financial condition and results of operations.

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

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

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

We are required to hire and retain skilled employees at all levels of our operations in a market where such qualified employees are in high demand and are subject to receiving competing offers. We believe that there is, and will continue

to be, competition for qualified personnel in our industry, and there is no assurance that we will be able to attract or retain the personnel necessary for the management and development of our business. The inability to attract or retain employees currently or in the future may have a material adverse effect on our business.

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

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

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

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

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

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

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

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

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

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

capacity. Any of these manufacturing problems could result in significant costs and liability, as well as negative publicity and damage to our reputation that could reduce demand for our products.

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

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

STRATEGIC RISKS

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

Acquisitions are part of our strategic growth plans. We may have difficulty finding these opportunities, or if we do identify these opportunities, we may not be able to complete the transactions for various reasons including a failure to secure financing.

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

The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and as a result we may face unexpected liabilities.

Certain of the acquisition agreements by which we have acquired companies require the former owners to indemnify us against certain liabilities related to the operation of the company before we acquired it. In most of these agreements, however, the liability of the former owners is limited, and certain former owners may be unable to meet their indemnification responsibilities. We cannot assure that these indemnification provisions will protect us fully or at all, and as a result we may face unexpected liabilities that adversely affect our financial results.

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

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

We may experience difficulties that could delay or prevent the successful development of new products or product enhancements under new and existing contracts, and new products or product enhancements may not be accepted by our customers. In addition, the development expenses we incur may exceed our cost estimates, and new products we develop may not generate sales sufficient to offset our costs. If any of these events occur, our sales and profits could be adversely affected.

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

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

FINANCIAL RISKS

Foreign currency exchange rates may adversely affect our financial results.

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

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

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

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

Our ability to service our indebtedness depends on our financial performance, which is affected by prevailing economic conditions and financial, business, regulatory and other factors. Some of these factors are beyond our control. Our debt level and related debt service obligations can have negative consequences, including requiring us to dedicate significant cash flow from operations to the payment of principal and interest on our debt, which reduces the funds we have available for other purposes such as acquisitions and capital investment; reducing our flexibility in planning for or reacting to changes in our business and market conditions; and exposing us to interest rate risk since a portion of our debt obligations are at variable rates. In addition, certain of our indebtedness will have significant outstanding principal balances on their maturity dates, commonly known as balloon payments. Therefore, we will likely need to refinance at least a portion of our outstanding debt as it matures. We may incur more debt in the future, particularly to finance acquisitions, and there can be no assurance that our cost of funding will not substantially increase.

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

In addition, certain of our variable rate debt uses London Interbank Offer Rate ("LIBOR") as a benchmark for

establishing the interest rate, a portion of which is hedged with LIBOR-based interest rate derivatives. LIBOR has been the subject of recent proposals for reform, and is currently scheduled to be discontinued on June 30, 2023. While all of our material financing arrangements indexed to LIBOR provide procedures for determining an alternative base rate when LIBOR is discontinued, there can be no assurances as to whether such alternative base rate will be more or less favorable than LIBOR. We intend to monitor developments with respect to the phasing out of LIBOR and will work to minimize the impact of any LIBOR transition. The consequences of these developments cannot be entirely predicted, but could include an increase in the cost of our variable rate indebtedness.

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

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

Our operating results could fluctuate significantly.

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

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

We may never realize the full value of our substantial intangible assets.

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

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

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

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

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

We believe that effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. If we are unable to detect or correct any issues in the design or operating effectiveness of internal

controls over financial reporting or fail to prevent fraud, current and potential customers and shareholders could lose confidence in our financial reporting, which could harm our business and the trading price of our stock.

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

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

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

LEGAL AND REGULATORY RISKS

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

Our profitability and international operations are, and will continue to be, subject to risks relating to changes in foreign legal and regulatory requirements. In addition, our international operations are governed by various U.S. laws and regulations, including Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act and other foreign anti-bribery laws. The FCPA generally prohibits companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. Other countries in which we operate also have anti-bribery laws, some of which prohibit improper payments to government and non-government persons and entities. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities and could negatively affect our business, reputation, operating results and financial condition.

We are required to comply with various import laws and export control and economic sanctions laws, which may affect our transactions with certain customers, business partners and other persons and dealings between our employees and subsidiaries. In certain circumstances, export control and economic sanctions regulations or embargos may prohibit the export of certain products, services and technologies. In other circumstances, we may be required to obtain an export license before exporting the controlled item. Compliance with the various import laws that apply to our businesses can restrict our access to, and increase the cost of obtaining, certain products and at times can interrupt our supply of imported inventory. In addition to government regulations regarding sale and export, we are subject to other regulations regarding our products. For example, the U.S. Securities and Exchange Commission has adopted disclosure rules for companies that use conflict minerals in their products, with substantial supply chain verification requirements in the event that the materials come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These rules and verification requirements impose additional costs on us and on our suppliers, and may limit the sources or increase the cost of materials used in our products. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers that could place us at a competitive disadvantage, and our reputation may be harmed.

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

We rely on patents, trademarks and proprietary knowledge and technology, both internally developed and acquired, in order to maintain a competitive advantage. Our inability to defend against the unauthorized use of these rights and assets could have an adverse effect on our results of operations and financial condition. Litigation may be necessary to protect

our intellectual property rights or defend against claims of infringement. This litigation could result in significant costs and divert our management's focus away from operations.

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

We are subject to a variety of litigation and other legal and regulatory proceedings incidental to our business, including claims for damages arising out of the use of products or services and claims relating to intellectual property, employment, tax, commercial disputes, competition, sales and trading practices, environmental, personal injury, insurance coverage, acquisition, as well as regulatory investigations or enforcement. We may also become subject to lawsuits as a result of past or future acquisitions including liabilities retained from, or representations, warranties or indemnities provided in connection with these acquisitions. These lawsuits may include claims for compensatory damages, punitive and consequential damages and/or injunctive relief. The defense of these lawsuits may divert our management's attention, we may incur significant expenses in defending these lawsuits and we may be required to pay damage awards or settlements or become subject to equitable remedies that could adversely affect our operations and financial results. Moreover, any insurance or indemnification rights that we may have may be insufficient or unavailable to protect us against such losses. We estimate loss contingencies and establish reserves based on our assessment where liability is deemed probable and reasonably estimable given the facts and circumstances known to us at a particular point in time. Subsequent developments may affect our assessment and estimates of the loss contingencies recorded as liabilities. We cannot guarantee that our liabilities in connection with litigation and other legal and regulatory proceedings will not exceed our estimates or adversely affect our financial results and reputation.

Our business is subject to environmental regulations that could negatively affect our operating results.

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

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

As of December 31, 2020, the Company occupies facilities as follows:

Description / Use	Location	Approximate Square Footage	Owned Or Leased
Corporate headquarters	Amherst, New York	6,000	Leased
Office and manufacturing facility	Amherst, New York	6,000	Leased
Office and manufacturing facility	Changzhou, China	40,000	Leased
Office	Christchurch, New Zealand	27,000	Leased
Office	Dayton, Ohio	29,000	Owned
Office and manufacturing facility	Dayton, Ohio	25,000	Leased
Office and manufacturing facility	Dordrecht, The Netherlands	32,000	Leased
Office and manufacturing facility	Dothan, Alabama	88,000	Owned
Office	Ferndown, Great Britain	1,000	Leased
Office and manufacturing facility	Germantown, Wisconsin	66,000	Leased
Office and manufacturing facilities	Kelheim, Germany	154,000	Leased
Office	Kidderminster, Great Britain	6,200	Leased
Office and manufacturing facility	Mrakov, Czech Republic	42,000	Leased
Office	Oakville, Ontario, Canada	3,500	Leased
Office and manufacturing facility	Owosso, Michigan	85,000	Owned
Office and manufacturing facility	Porto, Portugal	53,000	Owned
Office and manufacturing facility	Reynosa, Mexico	50,000	Leased
Office and manufacturing facility	Stockholm, Sweden	25,000	Leased
Office and manufacturing facility	Suzhou, China	41,000	Leased
Office and manufacturing facility	Tulsa, Oklahoma	33,000	Leased
Office and manufacturing facility	Twinsburg, Ohio	57,600	Leased
Office and manufacturing facility	Watertown, New York	107,000	Owned

The Company's management believes the above-described facilities are adequate to meet the Company's current and foreseeable needs. Operating leases for the Company's properties expire at various times through 2033. Upon the expiration of the Company's current leases, management believes that the Company will be able to secure renewal terms or enter into leases for alternative locations at market terms.

Item 3. Legal Proceedings.

The Company is involved in certain actions that have arisen out of the ordinary course of business. Management believes that resolution of the actions will not have a significant adverse effect on the Company's consolidated financial statements.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

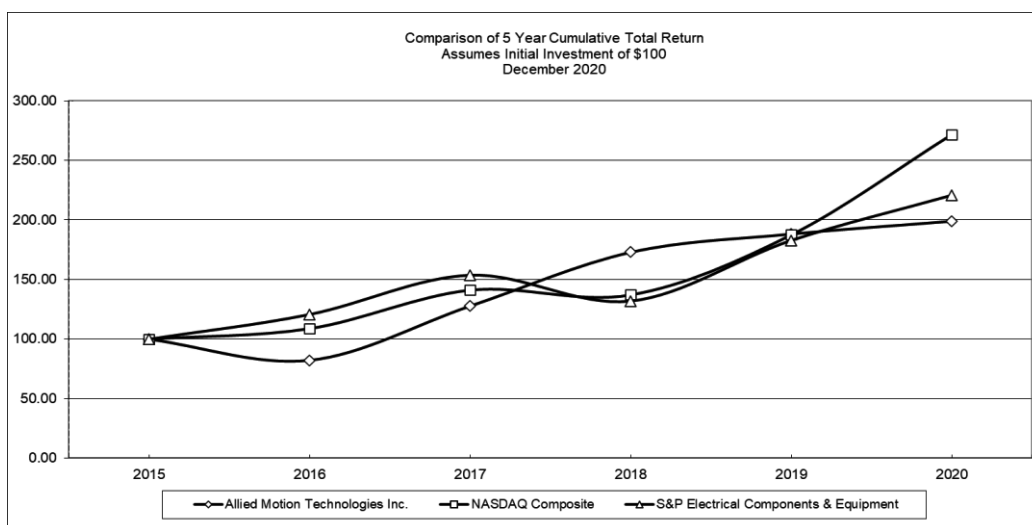
Allied Motion's common stock is listed on the Nasdaq Global Market System and trades under the symbol AMOT. The number of holders of record as reported by the Company's transfer agent of the Company's common stock as of the close of business on March 10, 2021 was 221.

Dividends

During 2020 and 2019, we declared regular quarterly cash dividends on our common stock. We paid \$0.03 per quarter in 2020 and 2019. While it is our current intention to pay regular quarterly cash dividends, any decision to pay future cash dividends will be made by our Board and will depend on our earnings, financial condition and other factors.

Performance Graph

The following performance graph and tables reflect the five year change in the Company's cumulative total stockholder return on Common Stock as compared with the cumulative total return of the NASDAQ Stock Market Index and the S&P Electrical Components and Equipment Index for a \$100 investment made on December 31, 2015, including reinvestment of any dividends.



	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Allied Motion Technologies	\$ 100.00	\$ 82.18	\$ 127.75	\$ 172.98	\$ 188.35	\$ 199.14
NASDAQ (U.S.)	\$ 100.00	\$ 108.87	\$ 141.13	\$ 137.12	\$ 187.44	\$ 271.64
S&P Electrical Components & Equipment	\$ 100.00	\$ 120.70	\$ 153.66	\$ 131.90	\$ 182.71	\$ 220.60

Issuer Purchases of Equity Securities

Period	Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/20 to 10/31/20	194	\$ 41.28	—	—
11/01/20 to 11/30/20	—	—	—	—
12/01/20 to 12/31/20	4,343	48.54	—	—
Total	4,537	\$ 48.23	—	—

- (1) As permitted under the Company's equity compensation plan, these shares were withheld by the Company to satisfy tax withholding obligations for employees in connection with the vesting of stock. Shares withheld for tax withholding obligations

do not affect the total number of shares available for repurchase under any approved common stock repurchase plan. At December 31, 2020, the Company did not have an authorized stock repurchase plan in place.

Item 6. Selected Financial Data.

Dollars in thousands, except share data	2020 ⁽¹⁾	2019	2018 ⁽²⁾	2017	2016 ⁽³⁾
Results from Operations					
Revenues	\$ 366,694	\$ 371,084	\$ 310,611	\$ 252,012	\$ 245,893
Net income	13,643	17,022	15,925	8,036	9,078
Diluted earnings per share	\$ 1.43	\$ 1.80	\$ 1.70	\$ 0.87	\$ 1.00
Dividends declared per share	\$ 0.12	\$ 0.12	\$ 0.115	\$ 0.10	\$ 0.10
Year-End Financial Position					
Cash and cash equivalents	\$ 23,131	\$ 13,416	\$ 8,673	\$ 15,590	\$ 15,483
Working capital	89,684	69,002	66,304	53,358	50,987
Total assets ⁽⁴⁾	349,197	305,828	285,301	187,922	179,919
Short-term debt	—	—	—	461	936
Long-term debt	120,079	109,765	122,516	52,694	70,483
Shareholders' equity	143,056	119,194	101,813	87,347	72,286
Shareholders' equity per common share outstanding	\$ 14.67	\$ 12.42	\$ 10.74	\$ 9.27	\$ 7.71
Supplemental Financial Data					
Capital expenditures	\$ 9,371	\$ 14,882	\$ 14,333	\$ 6,201	\$ 5,188
Depreciation expense	10,057	9,139	7,921	7,055	6,545
Engineering and development	25,487	23,086	19,913	17,542	16,170
Interest expense	3,716	5,134	2,701	2,474	6,449
Intangible amortization	5,928	5,718	3,655	3,219	3,204
Backlog ⁽⁵⁾	141,344	124,950	131,997	100,708	78,602
Ratios					
Net return on sales	3.7 %	4.6 %	5.1 %	3.2 %	3.7 %
Return on shareholders' equity	10.4 %	15.4 %	16.8 %	10.1 %	13.3 %
Current ratio	2.7	2.5	2.5	2.8	3.1
Net debt to capitalization ⁽⁶⁾	40 %	45 %	53 %	30 %	44 %

(1) Includes the effect of the Dynamic Controls acquisition in the first quarter of 2020.

(2) Includes the effect of the Maval OE Steering and TCI acquisitions in the first and fourth quarters of 2018, respectively.

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

(4) Beginning in fiscal 2019, the Company recorded a \$20,717 right-of-use lease asset in adopting ASU No. 2016-02, *Leases (Topic 842)*.

(5) Backlog is defined as confirmed orders for which the customer has provided a release and delivery date.

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

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

Amounts presented in Item 7 are in thousands, except per share data.

Overview

We are a global company that designs, manufactures and sells precision and specialty controlled motion components and systems used in a broad range of industries. Our target markets include Vehicle, Medical, Aerospace & Defense, and Industrial. We are headquartered in Amherst, NY, and have operations in the United States, Canada, Mexico, Europe and Asia-Pacific. We are known worldwide for our expertise in electro-magnetic, mechanical and electronic motion technology. We sell component and integrated controlled motion solutions to end customers and OEMs through our own direct sales force and authorized manufacturers' representatives and distributors. Our products include brush and

brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, active and passive filters for power quality and harmonic issues, and other controlled motion-related products.

Financial Overview

Highlights for our fiscal year ended December 31, 2020, include:

- Revenue was \$366,694 for 2020 compared with \$371,084 in 2019. Our Medical market experienced strong growth of more than 61%, which included the contribution from Dynamic Controls, however all other market verticals experienced reduced demand as a result of the global economic impact of the COVID-19 pandemic. Sales to U.S. customers were 53% of total sales for 2020 and 57% of total sales for 2019, with the balance of sales to customers primarily in Europe, Canada and Asia-Pacific.
- Gross profit was \$108,575 for 2020, a 4% decrease from \$112,584 in 2019. As a percentage of revenue, gross margin decreased 70 basis points to 29.6% as productivity and cost containment efforts helped to mostly offset the impact of lower revenue and higher tariffs, freight and duties.
- Operating income was \$22,994, or 6% of revenue, for 2020 compared with \$29,443, or 8% of revenue, for 2019.
- Net income was \$13,643, or \$1.43 per diluted share, compared with \$17,022, or \$1.80 per diluted share, for 2019.
- Bookings were \$370,712 for 2020 compared with \$366,103 for 2019, an increase of 1%. Backlog as of December 31, 2020 was \$141,344, an increase of 13% from \$124,950 at year end 2019.
- Debt of \$120,079, net of cash of \$23,131, increased by \$599 to \$96,948 at December 31, 2020 from debt of \$109,765, net of cash of \$13,416 of \$96,349 at December 31, 2019.
- We declared and paid a dividend of \$0.03 per share for each quarter of 2020 and 2019 pursuant to our quarterly dividend program. Dividends to shareholders for 2020 and 2019 were \$0.12 per diluted share. The dividend payout ratio was 8% and 7% for 2020 and 2019, respectively when compared with the diluted earnings per share of \$1.43 and \$1.80, respectively.

The Company's 2020 sales were 1% lower than in the prior year. Our market position in the Medical market, combined with the acquisition of Dynamic Controls, nearly offset reductions in our other served markets, many of which were negatively impacted by the COVID-19 pandemic.

Net income was 19.9% lower in 2020 compared to 2019, and earnings per diluted share decreased by 20.6%. These decreases reflect the impact of declines in the markets we serve and the supply chains we utilize due to market conditions impacted by the COVID-19 pandemic, along with incremental expenses from Dynamic Controls.

We remain focused on executing our strategy for growth while streamlining the organization and emphasizing continuous improvement in quality, delivery, cost and innovation as we drive the One Allied approach and expand our value proposition for our customers. Solid strides continue to be made with our multi-product, fully integrated solutions that are leading to increased business. Also, we continue to build a pipeline of exciting market-based application opportunities. Sales cycles are long and the time from being selected for the solution development to full rate production can be longer, yet we believe we continue to build a scalable foundation which can deliver strong returns on those investments.

Our Strategy

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

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

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

Our strategic focus is addressing the critical issues that we believe are necessary to meet the stated long-term goals and objectives of the Company. The majority of the critical issues are focused on growth initiatives for the Company.

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

Outlook for 2021

During 2020, we were able to navigate a difficult environment related to the COVID-19 pandemic, while advancing our strategic priorities and delivering solid results. Our fourth quarter 2020 performance was supported by record orders driven by favorable trends within our Medical markets, and exceptional engagement and focus on executing a significant recovery in our Vehicle market. This demand, combined with supply chain constraints, resulted in some inefficiencies and unintended costs as our teams worked hard to support and meet customer demand and schedules. We also felt the impact of tariffs given the expiration of certain exemptions during the fourth quarter. Ultimately, we believe we can mitigate these costs over time, though their impact is expected to continue over the coming quarters of 2021.

While the economic outlook for 2021 remains uncertain, we believe we are in a strong operational, financial and reputational position. Our record level of backlog, diversified end market penetration and demonstrated agility position us well to perform across varied market trends and give us confidence that we can drive further efficiency, profitable growth and enhanced free cash flow while delivering long-term value for our shareholders.

In 2021, we will continue to focus on leveraging our resources to expand our business in our served markets. In addition, we will continue to execute the ongoing critical issues as defined by our strategy, developed in 2017 and regularly updated since then.

The critical issues from that strategy include:

- 1) Execute acquisition strategy to consolidate a fragmented market.
- 2) Pursue target (niche) markets where we can gain a leadership market position.
- 3) Develop leading edge products to meet the emerging needs of our target markets.
- 4) Utilize lean tools to enhance company performance.
- 5) Execute our long-term strategy and set aggressive growth and profitability goals to measure our success.

Allied Motion is an applied technology/know-how motion company, and to grow, we will continue to invest in the technical resources to ensure we can move forward with our mantra to “*create controlled motion solutions that change the game*” and to meet the emerging needs of our customers in our served market segments. We anticipate that our investment in these key resources will continue to drive our growth now and in the future. We expect to continue the shift from being a component supplier to a more complete solutions provider, along with the application of AST, to drive cost reduction.

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

In addition to our strategy described above, time and resources will be spent to further understand the ESG ecosystem and developments impacting stakeholder expectations. While the Company has a number of initiatives focused on individual components of ESG, we will begin to integrate ESG with our broader strategy and Enterprise Risk Management (ERM). The strategy will include looking to further enhance the Company's ability to meet ongoing and emerging challenges, including the impacts of the COVID-19 pandemic.

Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). We make estimates and assumptions in the preparation of our consolidated financial statements that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We base our estimates and judgments upon historical experience and other factors that are believed to be reasonable under the circumstances. Changes in estimates or assumptions could result in a material adjustment to the consolidated financial statements.

We have identified several critical accounting estimates. An accounting estimate is considered critical if both: (a) the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment involved, and (b) the impact of changes in the estimates and assumptions would have a material effect on the consolidated financial statements. This listing is not a comprehensive list of all of our accounting policies. For further information regarding the application of these and other accounting policies, See Note 1, *Business and Summary of Significant Accounting Policies* of the notes to consolidated financial statements contained in Item 8 of this report for additional information.

The Company's critical accounting estimates include:

Revenue Recognition

The Company considers control of most products to transfer at a single point in time when control is transferred to the customer, generally when the products are shipped in accordance with an agreement and/or purchase order. Control is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of the product. The Company satisfies its performance obligations under a contract with a customer by transferring goods and services generally in exchange for monetary consideration from the customer. The Company considers the customer's purchase order, and the Company's corresponding sales order acknowledgment as the contract with the customer. In the normal course of business, the Company does not accept product returns unless the item is defective as manufactured. The Company establishes provisions for estimated returns and warranties. All contracts include a standard warranty clause to guarantee that the product complies with agreed specifications.

At December 31, 2020 and 2019, the accrual for future warranty obligations was \$1,571 and \$1,075, respectively. The Company's expense (income) for warranty obligations was \$34 in 2020, \$210 in 2019, and (\$13) in 2018, respectively. The length of the warranty period for the Company's products is generally three months to two years and varies significantly based on the product sold. The Company calculates its warranty expense provision based on its historical warranty experience and adjustments are made periodically to reflect actual warranty expenses. If actual future sales returns and allowances are higher than the Company's historical experience, additional accruals may be required.

Inventories

Inventories are measured on a first-in, first-out basis at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventory costing requires complex calculations that include assumptions for overhead absorption, scrap, sample calculations, manufacturing yield estimates, costs to sell, and the determination of which costs may be capitalized. The valuation of inventory requires us to estimate obsolete or excess inventory, as well as inventory that is not of saleable quality.

Historically, our inventory adjustment has been adequate to cover our losses. However, variations in methods or assumptions could have a material impact on our results. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventory write-down or expense a greater amount of overhead costs, which would negatively impact our net income. As of December 31, 2020, we have \$62,978 of inventory recorded on our consolidated balance sheet, representing approximately 18% of total assets. A 1% write-down of our inventory would decrease our 2020 net income by approximately \$458, or \$0.05 per diluted share.

Valuation of Goodwill and Other Long-Lived Assets

We make assumptions in establishing the carrying value, fair value and, if applicable, the estimated lives of our goodwill, intangible and other long-lived assets. Goodwill and intangible assets determined to have an indefinite useful life are not amortized. Instead, these assets are evaluated for impairment on an annual basis and whenever events or business conditions change that could indicate that the asset is impaired. Definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable.

Evaluation of goodwill for impairment

We test the reporting unit's goodwill for impairment as of October 31st of each fiscal year and between annual tests if an event occurs or circumstances change that may indicate that the fair value of the reporting unit is below its carrying value. In conducting this annual impairment testing, we may first perform a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying value. If not, no further goodwill impairment testing is required. If it is more-likely-than-not that the reporting unit's fair value is less than its carrying value, or if we elect not to perform a qualitative assessment of a reporting unit, a quantitative analysis is performed, in which the fair value of the reporting unit is compared to its net book value. If the net book value of the reporting unit exceeds its fair value, an impairment loss is recognized equal to the excess, limited to the amount of goodwill allocated to that reporting unit.

We performed a qualitative assessment of our single reporting unit as of October 31, 2020. As part of this analysis, we evaluated factors including, but not limited to, our market capitalization and stock price performance, macro-economic conditions, market and industry conditions, cost factors, the competitive environment, and the operational stability and overall financial performance of our reporting unit. The assessment indicated that it was more likely than not that the fair value of our reporting unit exceeded its respective carrying value, and as such, a quantitative assessment was not required.

We do not believe that our reporting unit is at risk for impairment. However, changes to the factors considered above could affect the estimated fair value of our reporting unit and could result in a goodwill impairment charge in a future period. As of December 31, 2020, we have \$61,860 of goodwill recorded on our consolidated balance sheet, representing approximately 18% of total assets. A 1% write-down of our goodwill would decrease our 2020 net income approximately \$450, or \$0.05 per diluted share.

Business Combinations

The Company allocates the purchase price of an acquired company, including when applicable, the acquisition date fair value of contingent consideration between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. Third party appraisal firms and other consultants are engaged to assist management in determining the fair values of certain assets acquired and liabilities assumed. Estimating fair values requires significant judgments, estimates and assumptions, including but not limited to: discount rates, future cash flows and the economic lives of trade names, technology, customer relationships, and property, plant and equipment. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Stock-based Compensation

Compensation expense for time-based restricted stock units is measured at the grant date and recognized ratably over the vesting period. We determine the fair value of time-based and performance-based restricted stock units based on the closing market price of our common stock on the grant date. The recognition of compensation expense associated with performance-based restricted stock units requires judgment in assessing the probability of meeting the performance goals, as well as defined criteria for assessing achievement of the performance-related goals. For purposes of measuring compensation expense, the number of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. The performance shares begin vesting only upon the achievement of the performance criteria. The achievement of the performance goals can impact the valuation and associated expense of the restricted stock units.

The assumptions used in accounting for the share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if circumstances change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Impact of Recently Issued Accounting Pronouncements

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

Operating Results

The following discussion is a comparison between fiscal year 2020 and fiscal year 2019 results. For a discussion of our results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018, please refer to Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which was filed with the SEC on March 11, 2020.

Year 2020 compared to 2019

(Dollars in thousands, except per share data)	For the year ended December 31,		2020 vs. 2019 Variance	
	2020	2019	\$	%
Revenues	\$ 366,694	\$ 371,084	\$ (4,390)	(1)%
Cost of goods sold	258,119	258,500	(381)	(0)%
Gross profit	108,575	112,584	(4,009)	(4)%
Gross margin percentage	29.6 %	30.3 %		
Operating costs and expenses:				
Selling	15,392	16,536	(1,144)	(7)%
General and administrative	38,301	37,688	613	2 %
Engineering and development	25,487	23,086	2,401	10 %
Business development	473	113	360	319 %
Amortization of intangible assets	5,928	5,718	210	4 %
Total operating costs and expenses	85,581	83,141	2,440	3 %
Operating income	22,994	29,443	(6,449)	(22)%
Interest expense	3,716	5,134	(1,418)	(28)%
Other expense, net	502	468	34	7 %
Total other expense	4,218	5,602	(1,384)	(25)%
Income before income taxes	18,776	23,841	(5,065)	(21)%
Provision for income taxes	(5,133)	(6,819)	1,686	(25)%
Net income	\$ 13,643	\$ 17,022	\$ (3,379)	(20)%
Effective tax rate	27.3 %	28.6 %	(1.3)	(5)%
Diluted earnings per share	\$ 1.43	\$ 1.80	\$ (0.37)	(21)%
Bookings	\$ 370,712	\$ 366,103	\$ 4,609	1 %
Backlog	\$ 141,344	\$ 124,950	\$ 16,394	13 %

REVENUES: During 2020, the decrease in revenues reflects growth in the Medical market, including the contribution from Dynamic Controls, offset by declines in all other markets we serve due to reduced demand as a result of the global economic impact of the COVID-19 pandemic. Our sales for 2020 were comprised of 53% to US customers and 47% to customers primarily in Europe, Canada and Asia. The overall decrease in revenue was due to a 1.7% volume decrease partially offset with a 0.5% favorable currency impact. See information included in “Non – GAAP Measures” below for a discussion of the non-GAAP measure and reconciliation of revenue to revenue excluding foreign currency impacts.

ORDER BOOKINGS AND BACKLOG: The increase in orders in 2020 compared to 2019 is due to a 0.8% increase in volume and a 0.5% favorable currency impact. The order volume increases are primarily due to increases in the Medical market, offset by reduced demand in all other markets. The increase in backlog is largely attributable to the Medical market. Included in the current backlog is approximately \$8 million of the previously announced \$325 million of Vehicle market awards. The Company has begun shipments for the first of four, seven-year awards, and all four awards are expected to concurrently be at full rate production in 2024.

GROSS PROFIT AND GROSS MARGIN: The 4% decrease in gross profit was largely driven by reduced volume in our served markets and additional fixed costs associated with Dynamic Controls. The 70 basis point decline in gross margin was due to the impact of lower revenue and higher tariffs, freight, and duties related primarily to the COVID-19 pandemic, offset partially by cost containment efforts also related to the COVID-19 pandemic.

SELLING EXPENSES: Selling expenses declined 7% during 2020 compared to last year. The addition of expenses from Dynamic Controls was offset by cost control efforts related to the COVID-19 pandemic, specifically travel restrictions. Selling expenses as a percentage of revenues were 4% for both 2020 and 2019.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses increased by 2% during 2020 compared to 2019 due to the incremental expenses from Dynamic Controls and costs associated with ensuring employee safety and making other adjustments for the COVID-19 pandemic, partially offset by reduced incentive compensation and travel costs. As a percentage of revenues, general and administrative expenses were 10% for both 2020 and 2019.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 10% in 2020 compared to 2019. The increase is partially due to the addition of Dynamic Controls, whose focus is electronics and software engineering, and partially due to the continued ramp up of development projects to meet the future needs of target markets, as well as supporting growing customer application development needs. As a percentage of revenues, engineering and development expenses increased to 7% for 2020 from 6% for 2019.

BUSINESS DEVELOPMENT COSTS: The Company incurred \$473 of business development costs during 2020 related to the acquisition of Dynamic Controls. The Company incurred \$113 of business development costs during 2019.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets increased 4% in 2020 compared to 2019, from \$5,718 to \$5,928 due to the addition of Dynamic Controls.

INTEREST EXPENSE: Interest expense decreased by 28% in 2020 compared to 2019 as the increase in our outstanding debt was offset by lower interest rates.

INCOME TAXES: The effective income tax rate as a percentage of income before income taxes was 27.3% and 28.6% for the year ended December 31, 2020 and 2019, respectively. For the year ended December 31, 2019, the effective tax rate included a discrete tax provision of 1.8% related to settlement of a tax audit in a foreign jurisdiction. The effective rate before discrete items varies from the statutory rate primarily due to differences in state taxes, the impact of international tax provisions in the US, the difference in US and foreign tax rates and the mix of foreign and domestic income, section 162(m) compensation limits, and the benefit from the R&D tax credit. Refer to Note 9, *Income Taxes*, of the notes to consolidated financial statements for a reconciliation of statutory rates to tax provision rates.

NET INCOME AND ADJUSTED NET INCOME: Net income decreased during 2020 compared to the same period in 2019 reflecting lower revenue resulting from the COVID-19 pandemic's impact on volume and the resulting impact to margins along with increased operating expenses resulting from the Dynamic Controls acquisition.

Adjusted net income for the years ended December 31, 2020, and 2019 was \$14,315 and \$17,999, respectively. Adjusted diluted earnings per share for 2020 and 2019 were \$1.50 and \$1.90, respectively. Adjusted net income and adjusted diluted earnings per share are non-GAAP measures. Adjusted net income for 2020 excludes \$1,035 (\$752 net of tax) and for 2019 excludes \$111 (\$79 net of tax) of foreign currency losses. Adjusted net income for 2020 excludes a non-income based tax assessment gain of \$424. Adjusted net income for 2019 excludes the non-income based tax assessment of \$384 and the income tax charge of \$433 related to a tax assessment in a foreign jurisdiction. Adjusted net income for 2020 excludes \$473 (\$344 net of tax) and for 2019 excludes \$113 (\$81 net of tax) of business development costs. See information included in "Non-GAAP Measures" below for a discussion of the non-GAAP measure and reconciliation of net income to Adjusted net income and diluted earnings per share to Adjusted diluted earnings per share.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$38,477 for 2020 compared to \$43,832 for 2019. Adjusted EBITDA was \$43,111 and \$47,643 for 2020 and 2019, respectively. EBITDA and Adjusted EBITDA are non-GAAP measures. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense, foreign currency gain/loss and certain other items. Refer to information included in "Non-GAAP Measures" below for a discussion of the non-GAAP measure and a reconciliation of net income to EBITDA and Adjusted EBITDA.

Non-GAAP Measures

Revenue excluding foreign currency exchange impacts, EBITDA and Adjusted EBITDA are provided for information purposes only and are not measures of financial performance under GAAP.

Management believes the presentation of these financial measures reflecting non-GAAP adjustments provides important supplemental information in evaluating the operating results of the Company as distinct from results that include items that are not indicative of ongoing operating results; in particular, those charges and credits that are not directly related to operating unit performance, and that are not a helpful measure of the performance of our underlying business particularly in light of their unpredictable nature. These non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for revenue and 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 that revenue excluding foreign currency exchange impacts is a useful measure in analyzing organic sales results. The Company excludes the effect of currency translation from revenue for this measure because currency translation is not under management's control, is subject to volatility and can obscure underlying business trends. The portion of revenue attributable to currency translation is calculated as the difference between the current period revenue and the current period revenue after applying foreign exchange rates from the prior period.

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

The Company also believes that Adjusted EBITDA provides helpful information about the operating performance of its business. Adjusted EBITDA excludes stock compensation expense, foreign currency gain/loss 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 GAAP.

The Company's calculation of revenues excluding foreign currency exchange impacts for 2020 and 2019 is as follows (in thousands):

	<u>For the year ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Revenue as reported	\$ 366,694	\$ 371,084
Currency impact (favorable) unfavorable	(1,811)	7,845
Revenue excluding foreign currency exchange impacts	<u>\$ 364,883</u>	<u>\$ 378,929</u>

The Company's calculation of EBITDA and Adjusted EBITDA for 2020 and 2019 is as follows:

	Year ended December 31,	
	2020	2019
Net income as reported	\$ 13,643	\$ 17,022
Interest expense	3,716	5,134
Provision for income tax	5,133	6,819
Depreciation and amortization	15,985	14,857
EBITDA	38,477	43,832
Stock compensation expense	3,550	3,203
Business development costs	473	113
Foreign currency loss	1,035	111
Non income-based tax (refund) assessment	(424)	384
Adjusted EBITDA	<u>\$ 43,111</u>	<u>\$ 47,643</u>

Allied Motion's management uses Adjusted net income and Adjusted diluted earnings per share to assess the Company's consolidated financial and operating performance. Adjusted net income and Adjusted diluted earnings per share are provided for informational purposes only and are not a measure of financial performance under GAAP. These measures help management make decisions that are expected to facilitate meeting current financial goals as well as achieving optimal financial performance. Adjusted net income provides management with a measure of financial performance of the Company based on operational factors as it removes the impact of certain non-routine items from the Company's operating results. Adjusted diluted earnings per share provides management with an indication of how Adjusted net income would be reflected on a per share basis for comparison to the GAAP diluted earnings per share measure. Adjusted net income is a key metric used by senior management and the Company's board of directors to review the consolidated financial performance of the business. This measure adjusts net income determined in accordance with GAAP to reflect changes in financial results associated with the highlighted charges and income items.

The Company's calculation of Adjusted net income and Adjusted diluted earnings per share for years ended December 31, 2020 and 2019 is as follows:

	For the year ended December 31,			
	2020	Per diluted share	2019	Per diluted share
Net income as reported	\$ 13,643	1.43	\$ 17,022	\$ 1.80
Non-GAAP adjustments, net of tax				
Non-income based tax assessment	(424)	(0.04)	384	0.04
Income tax provision charge	—	—	433	0.05
Foreign currency loss - net	752	0.08	79	0.01
Business development costs - net	344	0.04	81	0.01
Non-GAAP adjusted net income	<u>\$ 14,315</u>	<u>\$ 1.50</u>	<u>\$ 17,999</u>	<u>\$ 1.90</u>

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents increased by \$9,715 to a balance of \$23,131 at December 31, 2020 from 2019.

	Year Ended December 31,		2020 vs. 2019
	2020	2019	
Net cash provided by operating activities	\$ 24,838	\$ 34,530	\$ (9,692)
Net cash used in investing activities	(24,099)	(14,882)	(9,217)
Net cash provided by (used in) financing activities	7,489	(14,777)	22,266
Effect of foreign exchange rates on cash	1,487	(128)	1,615
Net increase in cash and cash equivalents	<u>\$ 9,715</u>	<u>\$ 4,743</u>	<u>\$ 4,972</u>

Of the \$23,131 cash and cash equivalents on hand at December 31, 2020, \$21,371 was located at our foreign entities and may be subject to withholding tax if repatriated back to the U.S.

During 2020, the decrease in cash provided by operating activities as compared to 2019 was equally impacted by net income, accrued liabilities, and inventories. Moreover, inventories in 2020 increased due to the push out of orders related to the COVID-19 pandemic, building inventory for new product launches and purchasing additional inventory in order to secure supply. Accrued expenses in 2020 decreased based on timing of income tax payments and reduced amounts of incentive compensation.

The significant cash used in investing activities in 2020 reflects the acquisition of Dynamic Controls for \$14,728 net of cash acquired. Purchases of property and equipment were \$9,371 in 2020 compared to \$14,882 during 2019 reflecting cash preservation efforts during the COVID-19 pandemic.

The increase in cash provided by financing activities reflects the Amended Revolving Facility borrowing for the acquisition of Dynamic Controls for approximately \$26,000 in the first quarter of 2020. Subsequent to the acquisition, we have made payments of \$16,897 on the Amended Revolving Facility. During 2019, the Company utilized revolver borrowings to fund working capital needed to support growth, and for the payment of normal year-end accruals. At December 31, 2020, we had \$120,656 of obligations under the Amended Revolving Facility, excluding deferred financing costs.

The Amended Credit Agreement contains certain financial covenants related to minimum interest coverage and total leverage ratio at the end of each quarter. The Amended Credit Agreement also includes other covenants and restrictions, including limits on the amount of additional indebtedness, and restrictions on the ability to merge, consolidate or sell all or substantially all our assets. We were in compliance with all covenants at December 31, 2020.

As of December 31, 2020, the unused Amended Revolving Facility was \$104,344. The amount available to borrow may be lower and may vary from period to period based upon our debt and EBITDA levels, which impacts our covenant calculations. The Amended Credit Agreement matures in February 2025.

There were no borrowings for the China Facility balance during 2020 or 2019.

The Company declared dividends of \$0.03 per share during each quarter of 2020 and 2019. 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 Amended Credit Agreement (refer to Note 7, *Debt Obligations*, of the notes to consolidated financial statements for definition and terms).

Although there is uncertainty related to the anticipated impact of the COVID-19 pandemic on our future results, we believe our diverse market channel strategy and the steps we have taken to strengthen our balance sheet, such as retaining cash to support shorter term needs and extending the maturity of our revolving credit facility leaves us well-positioned to manage our business through the crisis as it continues to unfold. Based on our analysis, we believe our existing balances of cash, the flexibility of our Amended Credit Agreement and our currently anticipated operating cash flows will be sufficient to meet our cash needs arising in the ordinary course of business for the next twelve months.

Contractual Obligations

The following table summarizes contractual obligations and borrowings as of December 31, 2020 and the timing and effect that such commitments are expected to have on our liquidity and capital requirements in future periods. We expect to fund other commitments primarily with operating cash flows generated in the normal course of business. At December 31, 2020, our long-term contractual obligations were limited to debt and leases.

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating leases	\$ 20,975	\$ 5,043	\$ 6,948	\$ 4,378	\$ 4,606
Debt Obligations (1)	120,656	—	—	120,656	—
Interest on Debt (2)	12,243	3,281	5,743	3,219	—
Total	<u>\$ 153,874</u>	<u>\$ 8,324</u>	<u>\$ 12,691</u>	<u>\$ 128,253</u>	<u>\$ 4,606</u>

(1) Amounts represent our debt obligations as of December 31, 2020.

- (2) Amounts represent the estimated interest payments based on the balances as of December 31, 2020 and applicable interest rates under the Amended Revolving Facility.

Item 7A. Qualitative and Quantitative Disclosures about Market Risk

Foreign Currency

We have international operations in The Netherlands, Sweden, Germany, China, Portugal, Canada, Czech Republic, Mexico, the United Kingdom and New Zealand which expose us to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Swedish Krona, Chinese Renminbi, Canadian dollar, Czech Krona, Mexican pesos, British Pound Sterling, and New Zealand dollar, respectively. We continuously evaluate our foreign currency risk and we take action from time to time in order to best mitigate these risks. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have had an impact of approximately \$15,200 on our 2020 sales. This amount is not indicative of the hypothetical net earnings impact due to partially offsetting impacts on cost of sales and operating expenses in those currencies. We estimate that foreign currency exchange rate fluctuations increased sales in 2020 compared to 2019 by approximately \$1,800.

We translate all assets and liabilities of foreign operations, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the consolidated financial statements as comprehensive income. The translation adjustment was a gain of \$8,410 for 2020 and a loss of \$680 for 2019. Translation adjustments are not adjusted for income taxes as they relate to permanent investments in our foreign subsidiaries. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency net assets would have had an impact of approximately \$10,000 and \$7,000 on our foreign net assets as of December 31, 2020 and 2019, respectively.

To the extent that our monetary assets and liabilities, including short-term and long-term intercompany loans, are recorded in a currency other than the functional currency of the subsidiary, these amounts are remeasured each period at the period-end exchange rate, with the resulting gain or loss recorded in other expense, net in the consolidated statement of income and comprehensive income. Net foreign currency transaction gains and losses included in total other expense, net amounted to losses of \$1,035 and \$111 in 2020 and 2019, respectively. In the first quarter of 2021, the Company began a hedging program to help mitigate these foreign currency transaction gains and losses. Accordingly, we expect these gains and losses to be lower in the future.

Interest Rates

Interest rates on our Amended Credit Agreement are based on the LIBOR plus a margin of 1.00% to 1.75% (1.625% at December 31, 2020) or the Prime Rate plus a margin of 0% to 0.75% (0.625% at December 31, 2020), in each case depending on the Company's ratio of total funded indebtedness to Consolidated EBITDA. We use interest rate derivatives to add stability to interest expense and to manage our exposure to interest rate movements. We primarily use interest rate swaps as part of our 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. In February 2017, we entered into three interest rate swaps with a combined notional amount of \$40,000 that matures in February 2022. In March 2020, the Company entered into two additional interest rate swaps with a combined notional amount of \$20,000 that increases to \$60,000 in March 2022 and matures in December 2024.

As of December 31, 2020, we had \$120,656 outstanding under the Amended Revolving Facility (excluding deferred financing fees), of which \$60,000 is currently being hedged. Refer to Note 7, *Debt Obligations*, of the notes to consolidated financial statements for additional information about our outstanding debt. A hypothetical one percentage point (100 basis points) change in the Base Rate on the \$60,656 of unhedged floating rate debt outstanding at December 31, 2020 would have an impact of approximately \$607 on our interest expense for 2020. A hypothetical one percentage point (100 basis points) change in the Base Rate on the \$70,085 of unhedged floating rate debt outstanding at December 31, 2019 would have had an impact of approximately \$701 on our interest expense for 2019.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Allied Motion Technologies Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Allied Motion Technologies Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2021 expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

In fiscal 2019, the Company changed its method of accounting for leases due to the adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended, using the option to not restate comparative periods and apply the standard as of the date of initial application.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventories – Refer to Note 1 to the financial statements

Critical Audit Matter Description

Inventories are measured on a first-in, first-out basis at the lower of cost or net realizable value. The valuation of

inventory requires the Company to estimate obsolete or excess inventory, as well as inventory that is not of saleable quality. The Company's estimate of the appropriate amount of obsolete or excess inventory, as well as inventory that is not of saleable quality, uses certain inputs and involves judgment. Such inputs include data associated with historic trends, the demand forecast for inventory on-hand which includes customer purchase order data, and item-specific estimates about the timing or level of demand for a specific part. Inventories at December 31, 2020 totaled \$63 million.

We identified the estimate of obsolete or excess inventory, as well as inventory that is not of saleable quality, as a critical audit matter because of the significant amount of judgment required by management when evaluating demand forecasts and assumptions for item-specific estimates about the timing or level of demand for a specific part. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of the demand forecast for inventory on-hand and item-specific estimates about the timing or level of demand for a specific part.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the valuation of obsolete or excess inventory, as well as inventory that is not of saleable quality, included the following, among others:

- We tested the effectiveness of controls over management's review of the periodic calculation of the valuation for obsolete or excess inventory, or inventory that is not of saleable quality.
- We tested management's process for determining the valuation of inventory, including:
 - We evaluated the appropriateness of specified inputs supporting management's estimate, including the historic inventory trends and the demand forecasts.
 - We tested the demand forecasts by obtaining documentation to support customer orders, historical and future sales used in the Company's analysis.
 - We evaluated the appropriateness of management's methodology and assumptions used in developing the estimate, including item-specific estimates about the timing or level of demand for a specific part.
 - We evaluated management's ability to accurately estimate obsolete, excess, or inventory that is not of saleable quality by comparing actual results to management's historical estimates.
 - We evaluated inventory write-offs subsequent to December 31, 2020, for indications that the estimate for obsolete, excess, or inventory that is not of saleable quality may be understated.

/s/ Deloitte & Touche LLP

Williamsville, New York
March 10, 2021

We have served as the Company's auditor since 2018.

ALLIED MOTION TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31,	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,131	\$ 13,416
Trade receivables, net of provision for credit losses of \$382 and allowance for doubtful accounts of \$405 at December 31, 2020 and December 31, 2019, respectively	47,377	44,429
Inventories	62,978	53,385
Prepaid expenses and other assets	8,728	4,413
Total current assets	142,214	115,643
Property, plant and equipment, net	55,428	53,008
Deferred income taxes	330	490
Intangible assets, net	65,859	62,497
Goodwill	61,860	52,935
Right of use assets	19,023	16,420
Other long-term assets	4,483	4,835
Total Assets	<u>\$ 349,197</u>	<u>\$ 305,828</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 27,668	\$ 23,640
Accrued liabilities	24,862	23,001
Total current liabilities	52,530	46,641
Long-term debt	120,079	109,765
Deferred income taxes	4,659	3,399
Pension and post-retirement obligations	5,340	5,139
Right of use liabilities	14,975	13,715
Other long-term liabilities	8,558	7,975
Total liabilities	206,141	186,634
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Common stock, no par value, authorized 50,000 shares; 9,754 and 9,599 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	41,278	37,136
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding	—	—
Retained earnings	105,065	92,589
Accumulated other comprehensive loss	(3,287)	(10,531)
Total stockholders' equity	143,056	119,194
Total Liabilities and Stockholders' Equity	<u>\$ 349,197</u>	<u>\$ 305,828</u>

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share data)

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Revenues	\$ 366,694	\$ 371,084	\$ 310,611
Cost of goods sold	258,119	258,500	219,208
Gross profit	108,575	112,584	91,403
Operating costs and expenses:			
Selling	15,392	16,536	11,807
General and administrative	38,301	37,688	32,037
Engineering and development	25,487	23,086	19,913
Business development	473	113	762
Amortization of intangible assets	5,928	5,718	3,655
Total operating costs and expenses	85,581	83,141	68,174
Operating income	22,994	29,443	23,229
Other expense, net:			
Interest expense	3,716	5,134	2,701
Other expense (income), net	502	468	(153)
Total other expense, net	4,218	5,602	2,548
Income before income taxes	18,776	23,841	20,681
Provision for income taxes	(5,133)	(6,819)	(4,756)
Net income	\$ 13,643	\$ 17,022	\$ 15,925
Basic earnings per share:			
Earnings per share	\$ 1.44	\$ 1.81	\$ 1.72
Basic weighted average common shares	9,495	9,398	9,265
Diluted earnings per share:			
Earnings per share	\$ 1.43	\$ 1.80	\$ 1.70
Diluted weighted average common shares	9,555	9,461	9,370
Net income	\$ 13,643	\$ 17,022	\$ 15,925
Foreign currency translation adjustment	8,410	(680)	(3,109)
Change in accumulated income (loss) on derivatives	(1,161)	(711)	238
Pension adjustments	(5)	(622)	(61)
Comprehensive income	\$ 20,887	\$ 15,009	\$ 12,993

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except per share data)

(In thousands except per share data)	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)			Total Stockholders' Equity
	Shares	Amount	Unamortized Cost of Equity Awards		Foreign Currency Translation Adjustments	Accumulated income (loss) on derivatives	Pension Adjustments	
Balances, December 31, 2017	9,427	\$ 34,473	\$ (3,422)	\$ 61,882	\$ (4,837)	\$ 196	\$ (945)	\$ 87,347
Stock transactions under employee benefit stock plans	26	852						852
Issuance of restricted stock, net of forfeitures	92	3,033	(1,859)					1,174
Stock compensation expense			2,115					2,115
Shares withheld for payment of employee payroll taxes	(60)	(1,579)						(1,579)
Comprehensive (loss) income					(3,109)	370	(63)	(2,802)
Tax effect						(132)	2	(130)
Net income				15,925				15,925
Dividends to stockholders - \$0.115 per share				(1,089)				(1,089)
Balances, December 31, 2018	9,485	36,779	(3,166)	76,718	(7,946)	434	(1,006)	101,813
Stock transactions under employee benefit stock plans	27	1,089						1,089
Issuance of restricted stock, net of forfeitures	107	4,520	(4,191)					329
Stock compensation expense			2,851					2,851
Shares withheld for payment of employee payroll taxes	(20)	(746)						(746)
Comprehensive loss					(680)	(929)	(808)	(2,417)
Tax effect						218	186	404
Net income				17,022				17,022
Dividends to stockholders - \$0.12 per share				(1,151)				(1,151)
Balances, December 31, 2019	9,599	41,642	(4,506)	92,589	(8,626)	(277)	(1,628)	119,194
Stock transactions under employee benefit stock plans	32	1,252						1,252
Issuance of restricted stock, net of forfeitures	154	5,223	(4,851)					372
Stock compensation expense			3,550					3,550
Shares withheld for payment of employee payroll taxes	(31)	(1,032)						(1,032)
Comprehensive income (loss)					8,410	(1,526)	(5)	6,879
Tax effect						365		365
Net income				13,643				13,643
Dividends to stockholders - \$0.12 per share				(1,167)				(1,167)
Balances, December 31, 2020	9,754	\$ 47,085	\$ (5,807)	\$ 105,065	\$ (216)	\$ (1,438)	\$ (1,633)	\$ 143,056

See accompanying notes to consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Cash Flows From Operating Activities:			
Net income	\$ 13,643	\$ 17,022	\$ 15,925
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	15,985	14,857	11,576
Deferred income taxes	(519)	(112)	(76)
Loss on sale of assets	97	247	19
Provision for doubtful accounts	91	(5)	192
Provision for excess and obsolete inventory	1,106	408	682
Provision for warranty	34	210	(13)
Debt issue cost amortization recorded in interest expense	144	174	148
Restricted stock compensation	3,550	3,203	2,643
Other	(521)	21	57
Changes in operating assets and liabilities, net of acquisition:			
Trade receivables	2,711	(1,456)	(4,110)
Inventories	(4,686)	70	(17,327)
Prepaid expenses and other assets	(2,264)	(517)	(835)
Accounts payable	(1,874)	(1,809)	6,533
Accrued liabilities	(2,659)	2,217	2,038
Net cash provided by operating activities	24,838	34,530	17,452
Cash Flows From Investing Activities:			
Consideration paid for acquisitions, net of cash acquired	(14,728)	—	(77,413)
Purchase of property and equipment	(9,371)	(14,882)	(14,333)
Net cash used in investing activities	(24,099)	(14,882)	(91,746)
Cash Flows From Financing Activities:			
Repayments on lines of credit	—	—	(454)
Principal payments of long-term debt	(16,897)	(22,500)	(13,278)
Proceeds from issuance of long-term debt	26,979	9,639	83,163
Payment of debt issuance costs	(401)	—	(72)
Sale of restricted stock	—	—	1,076
Dividends paid to stockholders	(1,160)	(1,170)	(1,079)
Tax withholdings related to net share settlements of restricted stock	(1,032)	(746)	(1,579)
Net cash provided by (used in) financing activities	7,489	(14,777)	67,777
Effect of foreign exchange rate changes on cash	1,487	(128)	(400)
Net increase (decrease) in cash and cash equivalents	9,715	4,743	(6,917)
Cash and cash equivalents at beginning of period	13,416	8,673	15,590
Cash and cash equivalents at end of period	\$ 23,131	\$ 13,416	\$ 8,673
Supplemental disclosure of cash flow information:			
Interest paid	\$ 3,586	\$ 5,342	\$ 2,272
Income taxes paid	\$ 8,563	\$ 2,051	\$ 7,014
Property, plant and equipment purchases in accounts payable or accrued expenses	\$ 596	\$ 378	\$ 599

See accompanying notes to consolidated financial statements.

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

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Allied Motion Technologies Inc. (“Allied Motion” or the “Company”) is engaged in the business of designing, manufacturing and selling precision and specialty controlled motion components and systems, which include integrated system solutions as well as individual controlled motion products, to a broad spectrum of customers throughout the world primarily for the vehicle, medical, aerospace and defense, and industrial markets.

Principles of Consolidation

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

For business combinations, we record net assets acquired and liabilities assumed at their estimated fair values.

Cash and Cash Equivalents

Cash and cash equivalents include instruments which are readily convertible into cash (original maturities of three months or less) and which are not subject to significant risk of changes in interest rates.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The provision for credit losses is the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional provisions in the future. Activity in the provision for credit losses for 2020 and 2019 was as follows (in thousands):

	December 31, 2020	December 31, 2019
Beginning balance	\$ 405	\$ 530
Additional reserves	91	(5)
Write-offs	(123)	(132)
Effect of foreign currency translation	9	12
Ending balance	<u>\$ 382</u>	<u>\$ 405</u>

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 net realizable value, as follows (in thousands):

	December 31, 2020	December 31, 2019
Parts and raw materials	\$ 44,750	\$ 35,849
Work-in-process	6,186	6,951
Finished goods	12,042	10,585
	<u>\$ 62,978</u>	<u>\$ 53,385</u>

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Property, Plant and Equipment

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

	<u>Useful lives</u>	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Land		\$ 999	\$ 977
Building and improvements	5 - 39 years	14,169	13,366
Machinery, equipment, tools and dies	3 - 15 years	79,738	58,358
Construction work in progress		6,821	15,536
Furniture, fixtures and other	3 - 10 years	16,313	15,797
		118,040	104,034
Less accumulated depreciation		(62,612)	(51,026)
Property, plant and equipment, net		<u>\$ 55,428</u>	<u>\$ 53,008</u>

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

Depreciation expense was \$10,057, \$9,139 and \$7,921 in 2020, 2019 and 2018, respectively.

Intangible Assets

Intangible assets, other than goodwill, are recorded at cost and are amortized over their estimated useful lives using an accelerated or straight-line method which approximates the pattern of expected cash flows over the remaining useful lives of the intangible assets.

Impairment of Long-Lived Assets

The Company reviews the carrying values of its long-lived assets, including property, plant and equipment and intangible assets, on an annual basis and whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Long-lived assets are carried at historical cost if the projected cash flows from their use will recover their carrying amounts on an undiscounted basis and without considering interest. If projected cash flows are less than their carrying value, the long-lived assets must be reduced to their estimated fair value. Considerable judgment is required to project such cash flows and, if required, estimate the fair value of the impaired long-lived assets. The Company did not record any impairment charges for the years ended December 31, 2020, 2019 and 2018.

Goodwill

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

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

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elect to forgo the qualitative assessment and perform the quantitative test. If the qualitative assessment indicates that the quantitative analysis should be performed, or if management elects to bypass a qualitative assessment, the Company then evaluates goodwill for impairment by comparing the fair value of the reporting unit to its carrying amount, including goodwill.

At October 31, 2020, we performed our annual goodwill impairment test and determined, after performing a qualitative test of the reporting unit, that it is more likely than not that the fair value of the reporting unit exceeds its carrying amount. Accordingly, there was no indication of impairment and the quantitative impairment test was not performed. The Company did not record any impairment charges for the years ended December 31, 2020, 2019 or 2018.

Other Long-Term Assets

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

Warranty

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

Changes in the Company's reserve for product warranty claims during 2020, 2019 and 2018 were as follows (in thousands):

	December 31, 2020	December 31, 2019	December 31, 2018
Warranty reserve at beginning of the year	\$ 1,075	\$ 971	\$ 922
Warranty reserves acquired	465	—	117
Provision	34	210	(13)
Warranty expenditures	(97)	(101)	(34)
Effect of foreign currency translation	94	(5)	(21)
Warranty reserve at end of year	<u>\$ 1,571</u>	<u>\$ 1,075</u>	<u>\$ 971</u>

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2020	December 31, 2019
Compensation and fringe benefits	\$ 11,184	\$ 12,967
Warranty reserve	1,571	1,075
Income taxes payable	1,459	2,231
Right of use liabilities	4,666	3,203
Other accrued expenses	5,982	3,525
	<u>\$ 24,862</u>	<u>\$ 23,001</u>

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Foreign Currency Translation

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

Revenue Recognition

Refer to Note 3, *Revenue Recognition*, for description of the Company's policies regarding revenue recognition.

Engineering and Development Costs

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

Basic and Diluted Income per Share

Basic income per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method.

Basic and diluted weighted-average shares outstanding are as follows (in thousands):

	Year ended December 31,		
	2020	2019	2018
Basic weighted average shares outstanding	9,495	9,398	9,265
Dilutive effect of equity awards	60	63	105
Diluted weighted average shares outstanding	9,555	9,461	9,370

For 2020, 2019 and 2018, the anti-dilutive common shares excluded from the calculation of diluted income per share were immaterial.

Comprehensive Income

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

Fair Value Accounting

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

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

Level 1: Quoted prices for identical assets or liabilities in active markets.

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

Level 3: Significant inputs to the valuation model that are unobservable.

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

The following table presents the Company's financial assets that are accounted for at fair value on a recurring basis as of December 31, 2020 and 2019, respectively, by level within the fair value hierarchy (in thousands):

	December 31, 2020		
	Level 1	Level 2	Level 3
Assets (liabilities)			
Pension plan assets	\$ 6,347	\$ —	\$ —
Deferred compensation plan assets	5,386	—	—
Interest rate swaps	—	(1,889)	—
	December 31, 2019		
	Level 1	Level 2	Level 3
Assets (liabilities)			
Pension plan assets	\$ 6,099	\$ —	\$ —
Deferred compensation plan assets	4,690	—	—
Interest rate swaps	—	(363)	—

Derivative Financial Instruments

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 815, *Derivatives and Hedging* ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow

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hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply, or the Company elects not to apply hedge accounting.

Income Taxes

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

It is the Company's policy to include interest and penalties related to income tax liabilities in income tax expense on the consolidated statements of income and comprehensive Income. In addition, the Company records uncertain tax positions in accordance with ASC 740, *Income Taxes*, ("ASC 740"). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. There were no uncertain tax benefits for the years ended December 31, 2020, 2019 and 2018 and no amounts were recorded for interest and penalties related to unrecognized tax positions for the years ended December 31, 2020, 2019, and 2018.

Pension and Postretirement Welfare Plans

The Company records the service cost component of net benefit costs in Cost of goods sold, Selling, and General and administrative expenses. The interest cost component of net benefit costs is recorded in Interest expense and the remaining components of net benefit costs, amortization of net losses and expected return on plan assets is recorded in Other expense, net.

Concentration of Credit Risk

Trade receivables subject the Company to the potential for credit risk. To reduce this risk, the Company performs evaluations of its customers' financial condition and creditworthiness at the time of sale, and updates those evaluations when necessary. See Note 13, *Segment Information*, for additional information regarding customer concentration.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Recently adopted accounting pronouncements

In June 2016, FASB issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This guidance also requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses. The new guidance is effective for fiscal years beginning after December 15, 2019. The Company adopted this ASU on January 1, 2020 applying the modified retrospective approach and the adoption did not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The guidance in ASU 2017-04 eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. ASU 2017-04 is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company adopted this standard on January 1, 2020 on a prospective basis and the adoption did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which modifies the disclosures on fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. The ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income (loss). The ASU is effective for public entities for fiscal years beginning after December 15, 2019. The Company has not historically had any transfers between Level 1 and Level 2 or assets or liabilities measured at fair value under Level 3. The Company adopted this ASU on January 1, 2020 on a prospective basis and the adoption did not have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides relief for impacted areas as it relates to impending reference rate reform and contains optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other areas or transactions, subject to meeting certain criteria, that are impacted by reference rate reform. This ASU is effective upon issuance for all entities and elections of certain optional expedients are required to apply the provisions of the guidance. The Company adopted this ASU effective January 1, 2020 on a prospective basis, and the Company has elected the expedients related to the probability of hedged interest payments, regardless of any expected future modification in terms related to reference rate reform, as well as the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Should the Company elect further optional expedients as it relates to reference rate reform, disclosure of those elections will be done in the fiscal period in which the elections are made. The adoption did not have a material impact on its consolidated financial statements.

2. ACQUISITIONS

Dynamic Controls

On March 7, 2020, the Company acquired 100% of the issued and outstanding share capital of the Dynamic Controls Group (“Dynamic Controls”), a wholly owned subsidiary of Invacare Corporation, a market-leading designer and manufacturer of equipment for the medical mobility and rehabilitation markets. The purchase price was funded using borrowings under the Amended Revolving Facility (Note 7). The purchase price was subject to adjustments based on a determination of closing net working capital.

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Dynamic Controls brings strong leadership and a very experienced electronics and software engineering design team, providing market leading electronic control solutions and products that will further strengthen the Company's medical market position, as well as enable it to further develop higher level solutions with embedded electronics across our other major served markets.

The Company incurred \$473 of transaction costs related to the acquisition of Dynamic Controls in 2020, which are included in business development expenses on the consolidated statements of income and comprehensive income. The Company accounted for the acquisition pursuant to FASB ASC 805, *Business Combinations*.

The allocation of the purchase price paid for Dynamic Controls is based on estimated fair values of the assets acquired and liabilities assumed of Dynamic Controls as of March 7, 2020 and is as follows (in thousands):

Cash and cash equivalents	\$ 11,437
Accounts receivable	4,129
Inventory	3,329
Other assets, net	769
Property, plant and equipment	1,185
Right of use assets	2,735
Intangible assets	7,800
Goodwill	6,629
Current liabilities	(7,354)
Lease liabilities	(2,739)
Net deferred income tax liabilities	(1,755)
Net purchase price	<u>\$ 26,165</u>

During the second quarter of 2020, measurement period adjustments primarily related to deferred income taxes and the true-up of closing net working capital were recognized, which resulted in a reduction of goodwill by \$268. During the third quarter of 2020, measurement period adjustments related primarily to tax liabilities were recognized, which resulted in an increase of goodwill by \$77. The allocation of the purchase price was finalized during the fourth quarter of 2020.

The intangible assets acquired consist of customer lists of \$4,400, technology of \$1,900 and a trade name of \$1,500, which are being amortized over 16, 13 and 18 years, respectively. Goodwill generated in the acquisition is related to the assembled workforce, synergies between Allied Motion's other operations and Dynamic Controls that are expected to occur as a result of the combined engineering knowledge, the ability of each of the operations to integrate each other's products into more fully integrated system solutions and Allied Motion's ability to utilize Dynamic Controls' management knowledge in providing complementary product offerings to the Company's customers.

The operating results of this acquisition are included in our consolidated financial statements beginning on the date of the acquisition. Included within the consolidated statement of income and comprehensive income for the year ended December 31, 2020, revenues and earnings related to Dynamic Controls were \$24,124 and \$945, respectively.

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The following unaudited pro forma financial information presents the combined results of operations if the Dynamic Controls acquisition had occurred as of January 1, 2019 (in thousands):

	For the year ended December 31,	
	2020	2019
Revenues	\$ 371,856	\$ 401,345
Net income	\$ 14,255	\$ 17,779
Earnings per share - basic	\$ 1.50	\$ 1.89
Earnings per share - diluted	\$ 1.49	\$ 1.88

The pro forma information includes certain adjustments, including depreciation and amortization expense, interest expense, and certain other adjustments, together with related income tax effects. The pro forma amounts 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 have been had these transactions actually occurred on the date presented or to project the combined company's results of operations or financial position for any future period.

The goodwill resulting from the Dynamic Controls acquisition is not tax deductible.

3. REVENUE RECOGNITION

Performance Obligations

Performance Obligations Satisfied at a Point in Time

The Company considers control of most products to transfer at a single point in time when control is transferred to the customer, generally when the products are shipped in accordance with an agreement and/or purchase order. Control is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of the product.

The Company satisfies its performance obligations under a contract with a customer by transferring goods and services in exchange for generally monetary consideration from the customer. The Company considers the customer's purchase order, and the Company's corresponding sales order acknowledgment as the contract with the customer. For some customers, control, and a sale, is transferred at a point in time when the product is delivered to a customer.

Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

Nature of Goods and Services

The Company sells component and integrated controlled motion solutions to end customers and original equipment manufacturers ("OEM's") through the Company's own direct sales force and authorized manufacturers' representatives and distributors. The Company's products include brushed and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, active and passive filters for power quality and harmonic issues, and other controlled motion-related products. The Company's target markets include Vehicle, Medical, Aerospace & Defense and Industrial.

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Determining the Transaction Price

The majority of the Company's contracts have an original duration of less than one year. For these contracts, the Company applies the practical expedient and therefore does not consider the effects of the time value of money. For multiyear contracts, the Company uses judgment to determine whether there is a significant financing component. These contracts are generally those in which the customer has made an up-front payment. Contracts that management determines to include a significant financing component are discounted at the Company's incremental borrowing rate. The Company incurs interest expense and accrues a contract liability. As the Company satisfies performance obligations and recognizes revenue from these contracts, interest expense is recognized simultaneously. Management does not have any contracts that include a significant financing component as of December 31, 2020.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers into geographical regions and target markets. The Company determines that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. As noted in Note 13, *Segment Information*, the Company's business consists of one reportable segment. The revenues by geography in the table below are revenues derived from the Company's foreign subsidiaries as provided in Note 13. A reconciliation of disaggregated revenue to segment revenue as well as revenue by geographical regions is provided in Note 13. The Company's disaggregated revenues are as follows (in thousands):

Target Market	Year ended December 31,	
	2020	2019
Vehicle	\$ 110,365	\$ 126,811
Industrial	114,143	124,196
Medical	83,191	51,586
Aerospace & Defense	39,711	47,748
Other	19,284	20,743
Total	<u>\$ 366,694</u>	<u>\$ 371,084</u>

Geography	Year ended December 31,	
	2020	2019
United States	\$ 214,203	\$ 244,347
Europe	126,985	124,914
Asia-Pacific	25,506	1,823
Total	<u>\$ 366,694</u>	<u>\$ 371,084</u>

Contract Balances

When the timing of the Company's delivery of product is different from the timing of the payments made by customers, the Company recognizes either a contract asset (performance precedes customer payment) or a contract liability (customer payment precedes performance). Typically, contracts are paid in arrears and are recognized as receivables after the Company considers whether a significant financing component exists.

The opening and closing balances of the Company's contract liability are as follows (in thousands):

	December 31, 2020	December 31, 2019
Contract liabilities in accrued liabilities	\$ 898	\$ 454
Contract liabilities in other long-term liabilities	262	-
	<u>\$ 1,160</u>	<u>\$ 454</u>

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The difference between the opening and closing balances of the Company's contract liabilities primarily results from the timing difference between the Company's performance and the customer's payment.

Significant Payment Terms

The Company's contracts with its customers state the final terms of the sale, including the description, quantity, and price of each product or service purchased. Payments are typically due in full within 30-60 days of delivery. Since the customer agrees to a stated rate and price in the contract that do not vary over the contract, the majority of contracts do not contain variable consideration.

Returns, Refunds, and Warranties

In the normal course of business, the Company does not accept product returns unless the item is defective as manufactured. The Company establishes provisions for estimated returns and warranties. All contracts include a standard warranty clause to guarantee that the product complies with agreed specifications.

Practical Expedients

Incremental costs of obtaining a contract - the Company elected to expense the incremental costs of obtaining a contract when the amortization period for such contracts would have been one year or less.

Remaining performance obligations - the Company elected not to disclose the aggregate amount of the transaction price allocated to remaining performance obligations for its contracts that are one year or less, as the revenue is expected to be recognized within the next year.

Time value of money - the Company elected not to adjust the promised amount of consideration for the effects of the time value of money for contracts in which the anticipated period between when the Company transfers the goods or services to the customer and when the customer pays is equal to one year or less.

4. GOODWILL

The change in the carrying amount of goodwill for 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 52,935	\$ 52,639
Goodwill acquired (Note 2)	6,629	614
Effect of foreign currency translation	2,296	(318)
Ending balance	<u>\$ 61,860</u>	<u>\$ 52,935</u>

The purchase price allocation was finalized for the Dynamic Controls acquisition during the fourth quarter of 2020.

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5. INTANGIBLE ASSETS

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

	Life	December 31, 2020			December 31, 2019		
		Gross Amount	Accumulated amortization	Net Book Value	Gross Amount	Accumulated amortization	Net Book Value
Customer lists	8 - 17 years	\$ 69,833	\$ (23,636)	\$ 46,197	\$ 64,314	\$ (19,311)	\$ 45,003
Trade name	10 - 19 years	14,055	(5,061)	8,994	12,222	(4,114)	8,108
Design and technologies	10 - 15 years	15,531	(4,874)	10,657	12,927	(3,554)	9,373
Patents	17 years	24	(13)	11	24	(11)	13
Total		<u>\$ 99,443</u>	<u>\$ (33,584)</u>	<u>\$ 65,859</u>	<u>\$ 89,487</u>	<u>\$ (26,990)</u>	<u>\$ 62,497</u>

Intangible assets resulting from the acquisition of Dynamic Controls were approximately \$7,800 (Note 2). The intangible assets acquired consist of customer lists, technology, and a trade name.

Total amortization expense for intangible assets for the years 2020, 2019 and 2018 was \$5,928, \$5,718 and \$3,655, respectively.

Estimated amortization expense for intangible assets is as follows (in thousands):

	Estimated Amortization Expense
2021	\$ 6,059
2022	6,110
2023	6,127
2024	5,798
2025	5,780
Thereafter	35,985
Total estimated amortization expense	<u>\$ 65,859</u>

6. STOCK-BASED COMPENSATION PLANS

Stock Incentive Plans

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

As of December 31, 2020, the Company had 753,187 shares of common stock available for grant under stock incentive plans.

Restricted Stock

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

For the year ended December 31,	Unvested restricted stock awards	Weighted average grant date fair value	Awards with performance vesting requirements
2020	160,437	\$ 33.51	100,403
2019	109,530	\$ 41.95	76,877
2018	64,656	\$ 35.89	30,603

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The value at the date of award is amortized to compensation expense over the related service period, which is generally three years for time vested grants. Short-term performance based grants can be achieved over a period of one year, and long-term performance grants can be earned through December 31, 2022. Earned grants are then subject to either a 3 year or 5 year service period. Shares of non-vested restricted stock are forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards. For performance-based awards, the Company assesses the probability of the achievement of the awards during the year and recognizes expense accordingly.

The following is a summary of restricted stock activity during years 2020, 2019 and 2018:

	Number of shares
Balance, December 31, 2017	221,968
Awarded	64,656
Forfeited	(18,867)
Vested	(112,015)
Balance, December 31, 2018	155,742
Awarded	109,530
Forfeited	(3,166)
Vested	(75,404)
Balance, December 31, 2019	186,702
Awarded	160,437
Forfeited	(2,446)
Vested	(106,465)
Balance, December 31, 2020	238,228

The following is a summary of performance based restricted stock activity during years 2020, 2019 and 2018:

	Total performance grants
Outstanding, December 31, 2017	37,782
Awarded	30,603
Performance criteria met	(66,525)
Forfeited	(1,860)
Outstanding, December 31, 2018	—
Awarded	76,877
Performance criteria met	(50,852)
Forfeited	(549)
Outstanding, December 31, 2019	25,476
Awarded	100,403
Performance criteria met	(64,384)
Forfeited	(2,155)
Outstanding, December 31, 2020	59,340

The performance criteria and forfeitures in the above table did not occur until the Board of Directors approved them during the March 2021, and February 2020 and 2019 meetings.

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Share-Based Compensation Expense

Restricted Stock

During 2020, 2019 and 2018 compensation expense net of forfeitures of \$3,550, \$3,203 and \$2,643 was recorded, respectively. As of December 31, 2020, there was \$4,100 of total unrecognized compensation expense related to restricted stock awards, of which approximately \$2,236 is expected to be recognized in 2021.

Employee Stock Ownership Plan

The Company sponsors an Employee Stock Ownership Plan (“ESOP”) that covers all non-union U.S. employees who work over 1,000 hours per year. The terms of the ESOP require the Company to make an annual contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in 2020, 2019 and 2018) or ii) the annual interest payable on any loan outstanding to the Company from the ESOP. Company contributions to the Plan accrued for 2020, 2019 and 2018, were \$988, \$1,189 and \$1,090, respectively. These amounts are included in general and administrative costs in the consolidated statements of income and comprehensive income.

Defined Contribution Plan

The Company sponsors the Allied Motion 401(k) Tax Advantaged Investment Plan (“401(k)”) which covers substantially all its U.S. based employees. The plan provides for the deferral of employee compensation under Section 401(k) and a discretionary Company match. In 2020, 2019 and 2018 this match was 100% per dollar of the first 3% of participant deferral and 50% per dollar of the next 2% contribution, up to 4% of a total 5% participant deferral. Net costs related to this defined contribution plan were \$1,774, \$1,362 and \$1,182 in 2020, 2019 and 2018, respectively.

Dividends

For each of the years ended December 31, 2020 and 2019 a total of \$0.12 per share on all outstanding shares was declared and paid, respectively. For the year ended December 31, 2018 a total of \$0.115 per share on all outstanding shares was declared and paid. Total dividends paid for the years ended December 31, 2020, 2019 and 2018 were \$1,160, \$1,170 and \$1,079, respectively. Based on the terms of the Company’s Credit Agreement, dividends paid to shareholders are acceptable, subject to the Company’s compliance with the covenants under the Credit Agreement.

7. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	December 31, 2020	December 31, 2019
Long-term Debt		
Revolving Credit Facility, long-term (1)	\$ 120,656	\$ 110,085
Unamortized debt issuance costs	(577)	(320)
Long-term debt	<u>\$ 120,079</u>	<u>\$ 109,765</u>

- (1) The effective rate of the Revolving Credit Facility is 2.5% at December 31, 2020 including the impact of the Company's interest rate swaps.

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Amended Revolving Credit Facility

On February 12, 2020, the Company entered into a First Amended and Restated Credit Agreement (the “Amended Credit Agreement”) for a \$225 million revolving credit facility (the “Amended Revolving Facility”). The significant changes made to the Company’s prior credit facility by the Amended Credit Agreement include (i) increasing the maximum principal amount from \$175 million to \$225 million, (ii) providing for a \$75 million accordion amount, (iii) decreasing certain interest-rate margins and fees, and (iv) extending the term to February 2025 from the original term of October 2021. HSBC Bank USA, National Association is the administrative agent, and HSBC Securities (USA) Inc., KeyBank N.A, Wells Fargo Bank, N.A and Citizens Bank, N.A. are joint lead arrangers.

Borrowings under the Amended Revolving Facility bear interest at the LIBOR Rate (as defined in the Amended Credit Agreement) plus a margin of 1.00% to 1.75% or the Prime Rate (as defined in the Amended Credit Agreement) plus a margin of 0% to 0.75%, in each case depending on the Company’s ratio of total funded indebtedness (as defined in the Amended Credit Agreement) to Consolidated trailing twelve-month EBITDA (the “Total Leverage Ratio”). At December 31, 2020, the applicable margin for LIBOR Rate borrowings was 1.625% and the applicable margin for Prime Rate borrowings was 0.625%. In addition, the Company is required to pay a commitment fee of between 0.10% and 0.225% quarterly (0.20% at December 31, 2020) on the unused portion of the Amended Revolving Facility, also based on the Company’s Total Leverage Ratio. The Amended Revolving Facility is secured by substantially all of the Company’s non-realty assets and is fully and unconditionally guaranteed by certain of the Company’s subsidiaries.

The Amended Credit Agreement contains certain financial covenants related to minimum interest coverage and total leverage ratio at the end of each quarter. The Amended Credit Agreement also includes other covenants and restrictions, including limits on the amount of additional indebtedness, and restrictions on the Company’s ability to merge or sell all, or substantially all, of its assets. The Company was in compliance with all covenants at December 31, 2020.

As of December 31, 2020, the unused Amended Revolving Facility was \$104,344. The amount available to borrow may be reduced based upon our debt and EBITDA levels, which impacts our covenant calculations.

Other

The China Credit Facility provides credit of \$1,467 (Chinese Renminbi 10,000) (“the China Facility”). The China Facility is a demand revolving facility used for working capital and capital equipment needs at the Company’s China operations. The term is annual and may be cancelled at the bank’s discretion. The interest rate shall be agreed upon by the Lender and the Borrower before the Utilization Date (as defined in the China Facility) and shall be specified in the Utilization Request (as defined in the China Facility). Collateral for the facility is a guarantee issued by the Company. There were no borrowings under the China Facility during 2020 or 2019.

Deferred Financing Fees

Deferred financing costs net of accumulated amortization were \$577 as of December 31, 2020. These costs will be amortized over the term of the Amended Credit Facility.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, and foreign exchange risk primarily through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial

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instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to the Company's borrowings.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. In February 2017, the Company entered into three interest rate swaps with a combined notional of \$40,000 that mature in February 2022. In March 2020, the Company entered into two additional interest rate swaps with a combined notional amount of \$20,000 that increases to \$60,000 in March 2022 and matures in December 2024.

The changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2020 and 2019, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

The Company estimates that an additional \$904 will be reclassified as an increase to interest expense over the next twelve months. 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 consolidated balance sheets as of December 31, 2020, and 2019 (in thousands):

Derivatives designated as hedging instruments	Balance Sheet Location	Liability Derivatives Fair value as of: December 31,	
		2020	2019
Interest rate products	Other long-term liabilities	\$ 1,889	\$ 363

The table below presents the effect of cash flow hedge accounting on other comprehensive income (loss) (OCI) for the years ended December 31, 2020, 2019 and 2018 (in thousands):

Derivatives in cash flow hedging relationships	Amount of pre-tax loss recognized in OCI on derivatives Year ended December 31,	
	2020	2019
Interest rate products	\$ (2,163)	\$ (816)

Location of (loss) gain reclassified from accumulated OCI into income	Amount of pre-tax (loss) gain reclassified from accumulated OCI into income Year ended December 31,		
	2020	2019	2018
Interest expense	\$ (637)	\$ 113	\$ 6

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The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of income and comprehensive income for the years ended December 31, 2020, 2019 and 2018 (in thousands):

Derivatives designated as hedging instruments	Income Statement Location	Total amounts of income and expense line items presented that reflect the effects of cash flow hedges recorded		
		Year ended December 31,		
		2020	2019	2018
Interest rate products	Interest Expense	\$ 3,716	\$ 5,134	\$ 2,701

The tables below present a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of December 31, 2020 and 2019. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the consolidated balance sheets (in thousands).

As of December 31, 2020	Gross amounts of recognized liabilities	Gross amounts offset in the consolidated balance sheets	Net amounts of liabilities presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets		
				Financial instruments	Cash collateral received	Net amount
Derivatives	\$ 1,889	\$ —	\$ 1,889	\$ —	\$ —	\$ 1,889

As of December 31, 2019	Gross amounts of recognized liabilities	Gross amounts offset in the consolidated balance sheets	Net amounts of liabilities presented in the consolidated balance sheets	Gross amounts not offset in the consolidated balance sheets		
				Financial instruments	Cash collateral received	Net amount
Derivatives	\$ 363	\$ —	\$ 363	\$ —	\$ —	\$ 363

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

9. INCOME TAXES

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

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Domestic	\$ 8,478	\$ 17,188	\$ 10,894
Foreign	10,298	6,653	9,787
Income before income taxes	\$ 18,776	\$ 23,841	\$ 20,681

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

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Current provision			
Domestic	\$ 2,167	\$ 4,313	\$ 1,663
Foreign	3,485	2,618	3,169
Total current provision	5,652	6,931	4,832
Deferred provision			
Domestic	288	199	675
Foreign	(807)	(311)	(751)
Total deferred provision	(519)	(112)	(76)
Provision for income taxes	<u>\$ 5,133</u>	<u>\$ 6,819</u>	<u>\$ 4,756</u>

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

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Tax provision, computed at statutory rate	21.0 %	21.0 %	21.0 %
State tax, net of federal impact	4.2 %	4.5 %	3.0 %
Change in valuation allowance	0.0 %	0.3 %	2.8 %
Effect of foreign tax rate differences	4.3 %	1.5 %	3.4 %
Permanent items, other	(0.2)%	1.4 %	0.8 %
Section 162(m) compensation	2.2 %	1.1 %	0.1 %
R&D Credit	(3.6)%	(2.5)%	(0.8)%
Restricted stock awards	0.6 %	(0.1)%	(2.3)%
Effect of Tax Cuts and Jobs Act	(1.3)%	(0.4)%	(5.1)%
Subpart F income	1.3 %	0.0 %	0.0 %
Tax examinations	0.0 %	1.8 %	0.0 %
Other	(1.2)%	0.0 %	0.1 %
Provision for income taxes	<u>27.3 %</u>	<u>28.6 %</u>	<u>23.0 %</u>

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

	December 31, 2020	December 31, 2019
Noncurrent deferred tax assets:		
Employee benefit plans	\$ 2,500	\$ 2,440
Net operating loss and tax credit carryforwards	2,217	1,675
Accrued expenses and reserves	969	795
Other	697	428
Total noncurrent deferred tax assets	6,383	5,338
Valuation allowance	(1,176)	(1,077)
Net noncurrent deferred tax assets:	<u>\$ 5,207</u>	<u>\$ 4,261</u>
Net noncurrent deferred tax liabilities:		
Property and equipment	\$ 3,448	\$ 3,901
Goodwill and intangibles	5,629	2,885
Other	459	384
Total noncurrent deferred tax liabilities	<u>\$ 9,536</u>	<u>\$ 7,170</u>
Net deferred tax asset/(deferred tax liability)	<u>\$ (4,329)</u>	<u>\$ (2,909)</u>
Presented as follows:		
Noncurrent deferred income tax assets	\$ 330	\$ 490
Noncurrent deferred income tax liabilities	(4,659)	(3,399)
Net deferred tax liability	<u>\$ (4,329)</u>	<u>\$ (2,909)</u>

As of December 31, 2020, the Company has the following gross carryforwards available:

Jurisdiction	Tax Attribute	Amount (in thousands)	Begin to expire
U.S. State	Net Operating Losses ⁽¹⁾	\$ 4,139	2024
International	Net Operating Losses ⁽¹⁾	\$ 1,519	2025
International	Net Operating Losses - Unlimited Carryforward ⁽¹⁾	\$ 718	No expiration
U.S. Federal	Foreign Tax Credits	\$ 1,003	2027
International	R&D Tax Credits	\$ 574	2025

(1) Net operating losses (NOL's) are presented as pre-tax amounts.

Realization of the Company's recorded deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from utilization of net operating losses and tax credit carryforwards. The Company generated excess foreign tax credits in 2017 due to the one-time transition tax required by enactment of the Tax Cuts and Jobs Act in the amount of \$0.9 million. The Company determined it is more likely than not that it will not realize a tax benefit from these credits. Additionally, the Company has incurred net operating losses in certain states that it is more likely than not will not be realized. The tax effect of these losses is \$0.2 million. Therefore, the Company recognized a full valuation allowance related to these foreign tax credits and state net operating losses.

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 believes that it is more likely than not that it will realize the benefits of its

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deferred tax assets, net of valuation allowances as of December 31, 2020.

The Company files income tax returns in various U.S. and foreign taxing jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state tax examinations in its major tax jurisdictions for periods before 2017. With few exceptions, the Company is no longer subject to tax examinations in the foreign jurisdictions for periods prior to 2017. The Company completed an IRS tax audit for tax year 2017 with no adjustments made to taxable income.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-domestic subsidiaries in activities outside the United States. Exceptions may be made on a year-by-year basis to repatriate earnings of certain foreign subsidiaries based on cash needs in the United States. The Company intends to distribute a portion of these foreign earnings which have been previously taxed in the United States. As of December 31, 2020, foreign withholding taxes of \$275 have been provided for unremitted earnings of foreign subsidiaries based on the amounts of anticipated distributions. The Company does not intend to distribute the remaining previously taxed earnings resulting from the one-time transition tax under the Tax Cuts and Jobs Act, and has not recorded any deferred taxes related to such amounts. The remaining excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries is permanently reinvested, and the determination of any deferred tax liability on this amount is not practicable.

It is the Company's policy to include interest and penalties related to income tax liabilities in income tax expense on the consolidated statements of income and comprehensive income. In addition, the Company records uncertain tax positions in accordance with ASC 740. ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. There were no uncertain tax benefits for the years ended December 31, 2020, 2019 and 2018 and no amounts were recorded for interest and penalties related to unrecognized tax positions for the years ended December 31, 2020, 2019, and 2018.

10. LEASES

The Company has operating leases for office space, manufacturing equipment, computer equipment and automobiles. The Company did not have any finance leases in 2020 or 2019. Many leases include one or more options to renew, some of which include options to extend the leases for a long-term period, and some leases include options to terminate the leases within 30 days. In certain of the Company's lease agreements, the rental payments are adjusted periodically to reflect actual charges incurred for capital area maintenance, utilities, inflation and/or changes in other indexes.

For the years ended December 31, 2020 and 2019, the components of operating lease expense were as follows (in thousands):

	December 31, 2020	December 31, 2019
Fixed operating lease expense	\$ 4,548	\$ 4,018
Variable operating lease expense	\$ 547	\$ 499
Short-term lease expense	\$ 234	\$ 234

Supplemental cash flow information related to the Company's operating leases for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	December 31, 2020	December 31, 2019
Cash paid for amounts included in the measurement of operating leases	\$ 4,601	\$ 4,886
Right of use ("ROU") assets obtained in exchange for operating lease obligations	\$ 3,626	\$ 373
ROU assets recorded upon adoption of ASC 842, <i>Leases</i>	\$ —	\$ 20,344
ROU assets obtained in acquisitions (Note 2)	\$ 2,735	\$ —

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The following table presents weighted average remaining lease term and discount rates related to the Company's operating leases as of December 31, 2020 and 2019:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Weighted average remaining lease term (in years)	6.83	8.27
Weighted average discount rate	2.25 %	2.91 %

The following table presents the maturity of the Company's operating lease liabilities as of December 31, 2020 (in thousands):

2021	\$ 5,043
2022	4,013
2023	2,935
2024	2,282
2025	2,096
Thereafter	4,606
Total undiscounted cash flows	\$ 20,975
Less: present value discount	(1,334)
Total lease liabilities	<u>\$ 19,641</u>

As of December 31, 2020, the Company had no additional significant operating or finance leases that had not yet commenced.

11. COMMITMENTS AND CONTINGENCIES

Severance Benefit Agreements

As of December 31, 2020, the Company has annually renewable severance benefit agreements with key employees which, among other things, provide inducement to the employees to continue to work for the Company during and after any period of a potential change in control of the Company. The agreements provide the employees with specified benefits upon the subsequent severance of employment in the event of change in control of the Company and are effective for 24 months thereafter.

Litigation

The Company is involved in certain actions that have arisen out of the ordinary course of business. Management believes that resolution of the actions will not have a significant adverse effect on the Company's consolidated financial statements.

12. DEFERRED COMPENSATION ARRANGEMENTS

The Company has deferred compensation arrangements with certain key members of management. These arrangements provide the Board and its committees with another mechanism to provide pay for performance based incentive compensation to certain executive participants. It also allows for the participants to make certain deferrals into the plan. The amount of the liability is comprised of liabilities from previous contributions. Amounts accrued relating to previous periods are \$5,386 and \$4,695 as of December 31, 2020 and 2019, respectively, of which \$4,329 and \$4,695 are included in other long-term liabilities in the consolidated balance sheets at December 31, 2020 and 2019 and \$1,057 is included within accrued liabilities as of December 31, 2020, relating to the amounts to be paid in 2021.

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13. SEGMENT INFORMATION

The Company operates in one segment for the manufacture and marketing of controlled motion products for OEM and end user applications. 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.

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

	For the year ended December 31,		
	2020	2019	2018
Revenues derived from foreign subsidiaries	<u>\$ 152,491</u>	<u>\$ 126,737</u>	<u>\$ 126,104</u>

Identifiable assets outside of the United States are \$133,466 and \$95,777 as of December 31, 2020 and 2019, respectively.

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

Sales to customers outside of the United States by all subsidiaries were \$171,847, \$159,365 and \$146,835 during 2020, 2019 and 2018, respectively.

For 2020, 2019 and 2018 one customer accounted for 15%, 16% and 19% of revenues, respectively, and as of December 31, 2020 and 2019 for 22% and 17% of trade receivables, respectively.

14. SUBSEQUENT EVENT

On March 10, 2021, the Board of Directors approved a 3-for-2 common stock split to be paid in the form of a stock dividend to holders of record on April 16, 2021. The additional shares are expected to be issued on April 30, 2021. In lieu of fractional shares, shareholders will receive a cash payment based on the closing share price of the common stock on the record date.

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15. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for each of the four quarters in years 2020 and 2019 is as follows (in thousands, except per share data):

Year 2020	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 92,382	\$ 86,661	\$ 94,653	\$ 92,998
Gross profit	28,042	26,460	28,140	25,933
Net income	4,035	2,896	4,013	2,699
Basic earnings per share	0.43	0.30	0.42	0.28
Diluted earnings per share	0.42	0.30	0.42	0.28

Year 2019	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 93,896	\$ 92,630	\$ 96,633	\$ 87,925
Gross profit	27,662	28,422	30,030	26,470
Net income	4,470	4,445	4,618	3,489
Basic earnings per share	0.48	0.47	0.49	0.37
Diluted earnings per share	0.48	0.47	0.49	0.37

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

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

Not applicable.

Item 9A. Controls and Procedures.

Conclusion regarding the effectiveness of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal accounting officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of December 31, 2020. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on management’s evaluation of our disclosure controls and procedures as of December 31, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Management’s report on Internal Control Over Financial Reporting.

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

In making our assessment of the Company’s internal control over financial reporting as of December 31, 2020, we have excluded the operations of Dynamic Controls. We are currently assessing the control environment of this acquired business. Our consolidated financial statements reflect Dynamic Controls’ operations from March 7, 2020. As of and for the year ended December 31, 2020, Dynamic Controls constituted 13% of net assets, 8% of total assets, 7% of revenues, and 7% of net income of the consolidated financial statement amounts.

Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation report which is included below.

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

Changes in Internal Control Over Financial Reporting

In response to the COVID-19 pandemic, many of our team members began working from home during the first quarter of 2020 and continuing, in certain locations, into the fourth quarter. Team members have returned to the office more

regularly in the third and fourth quarters under our social distancing protocols that are based on local regulatory restrictions. Management has taken measures to ensure that our internal controls over financial reporting remained effective and were not materially affected during 2020. We are continually monitoring and assessing the impact on our operating and internal control environment resulting from the COVID-19 pandemic to assure the operating effectiveness of our internal controls.

During the quarter ended December 31, 2020, there have been no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Allied Motion Technologies Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Allied Motion Technologies Inc. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated March 10, 2021, expressed an unqualified opinion on those consolidated financial statements.

As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Dynamic Controls Group, which was acquired on March 7, 2020, and whose financial statements constitute 13% and 8% of net and total assets, respectively, 7% revenues, and 7% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2020. Accordingly, our audit did not include the internal control over financial reporting at Dynamic Controls Group.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting

principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Deloitte & Touche LLP

Williamsville, New York
March 10, 2021

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

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

Item 11. Executive Compensation.

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

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

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

Equity Compensation Plan Information

The following table shows the equity compensation plan information of the Company at December 31, 2020:

<u>Plan category</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Equity compensation plans approved by security holders	753,187

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

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

Item 14. Principal Accountant Fees and Services.

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

1. Consolidated Financial Statements

- a) Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019.
- b) Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2020, 2019 and 2018.
- c) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2020, 2019 and 2018.
- d) Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018.
- e) Notes to Consolidated Financial Statements.
- f) Reports of Independent Registered Public Accounting Firm.

2. Financial Statement Schedules

Financial statement schedules have been omitted because either they are not applicable, or the required information is included in the financial statements or the notes thereto.

3. Exhibits

<u>Exhibit No.</u>	<u>Subject</u>
3.1	Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed June 16, 2010.)
3.2	Bylaws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Form 8-K filed November 4, 2019.)
4.1	Description of Securities of Allied Motion Technologies Inc. (filed herewith.)
10.1*	2007 Stock Incentive Plan as amended. (Incorporated by reference to Exhibit 10 to the Company's Registration Statement on Form S-8 filed with the SEC on March 19, 2014.)
10.2*	2017 Omnibus Incentive Plan. (Incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 4, 2017.)
10.3*	Employment Agreement between Allied Motion Technologies Inc. and Richard S. Warzala, as Amended and Restated, effective March 22, 2016. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2016.)
10.4*	Change of Control Agreement between Allied Motion Technologies Inc. and Richard S. Warzala, as Amended and Restated, effective December 22, 2008. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-K for the year ended December 31, 2008.)
10.5*	Amendment to Employment Agreement and Change of Control Agreement for Richard S. Warzala dated and effective as of December 28, 2017 between Allied Motion Technologies Inc. and Richard S. Warzala. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed January 3, 2018.)

Exhibit No.	Subject
10.6*	Second Amendment to Employment Agreement for Richard S. Warzala dated and effective as of August 6, 2020 between Allied Motion Technologies Inc. and Richard S. Warzala. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed August 11, 2020.)
10.7*	Deferred Compensation Plan, as Amended and Restated, effective May 31, 2011. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2011.)
10.8*	Form of Change of Control Agreement. The Company entered into such an agreement with Robert P. Maida, dated and effective as of October 1, 2012 and Michael R. Leach (effective July 7, 2015). (Incorporated by reference to Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 2012.)
10.9*	Director Compensation Program, Stock Ownership Requirements and Stock-in-Lieu of Cash Retainer Plan (filed herewith).
10.10	First Amended and Restated Credit Agreement dated as of February 12, 2020 among Allied Motion Technologies Inc. and Allied Motion Technologies B.V. as Borrowers, HSBC Bank USA, National Association, as Administrative Agent and The Other Lenders Party thereto, and HSBC Securities (USA) Inc., KeyBank National Association, Wells Fargo Bank, National Association and Citizens Bank, N.A., as Joint Lead Arrangers. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed February 13, 2020.)
10.11	First Amendment to First Amended and Restated Credit Agreement dated as of March 6, 2020 among Allied Motion Technologies Inc. and Allied Motion Technologies B.V. as Borrowers, HSBC Bank USA, National Association, as Administrative Agent and The Other Lenders Party thereto, and HSBC Securities (USA) Inc., KeyBank National Association, Wells Fargo Bank, National Association and Citizens Bank, N.A., as Joint Lead Arrangers (filed herewith).
10.12	Second Amendment to First Amended and Restated Credit Agreement dated as of February 1, 2021 among Allied Motion Technologies Inc. and Allied Motion Technologies B.V. as Borrowers, HSBC Bank USA, National Association, as Administrative Agent and The Other Lenders Party thereto, and HSBC Securities (USA) Inc., KeyBank National Association, Wells Fargo Bank, National Association and Citizens Bank, N.A., as Joint Lead Arrangers (filed herewith).
21	List of Subsidiaries (filed herewith).
23.1	Consent of Deloitte & Touche LLP (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1 SCH	Inline XBRL Taxonomy Extension Schema Document <i>(filed herewith)</i> .

Exhibit No.	Subject
101.2 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document <i>(filed herewith)</i> .
101.3 DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document <i>(filed herewith)</i> .
101.4 LAB	Inline XBRL Taxonomy Extension Label Linkbase Document <i>(filed herewith)</i> .
101.5 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document <i>(filed herewith)</i> .
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in exhibits 101.*) <i>(filed herewith)</i> .

* Denotes management contract or compensatory plan or arrangement.

SIGNATURES

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

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ MICHAEL R. LEACH

Michael R. Leach

Chief Financial Officer

Date: March 10, 2021

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

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ RICHARD S. WARZALA</u> Richard S. Warzala	President, Chief Executive Officer and Chairman of the Board	March 10, 2021
<u>/s/ MICHAEL R. LEACH</u> Michael R. Leach	Chief Financial Officer	March 10, 2021
<u>/s/ RICHARD D. FEDERICO</u> Richard D. Federico	Lead Director of the Independent Directors	March 10, 2021
<u>/s/ LINDA P. DUCH</u> Linda P. Duch	Director	March 10, 2021
<u>/s/ ROBERT B. ENGEL</u> Robert B. Engel	Director	March 10, 2021
<u>/s/ GERALD J. LABER</u> Gerald J. Laber	Director	March 10, 2021
<u>/s/ JAMES J. TANOUS</u> James J. Tanous	Director	March 10, 2021
<u>/s/ MICHAEL R. WINTER</u> Michael R. Winter	Director	March 10, 2021

LIST OF SUBSIDIARIES

Allied Motion Changzhou Motors Company, Ltd., incorporated in China

Allied Motion Changzhou Trading Co. Ltd., incorporated in China

Allied Motion Canada Inc., incorporated in Ontario, Canada

Allied Motion Christchurch, a limited liability company, incorporated in New Zealand

Allied Motion Dordrecht BV, incorporated in The Netherlands

Allied Motion Portugal Lda, incorporated in Portugal

Allied Motion Stockholm AB, incorporated in Sweden

Allied Motion Twinsburg, LLC, a limited liability company, incorporated in Delaware

Dynamic Connect (Suzhou) Hi-Tech Electronics Co. Ltd, incorporated in China

Dynamic Controls Suzhou Holdings New Zealand, incorporated in New Zealand

Dynamic Controls, incorporated in New Zealand

Dynamic Europe Limited, incorporated in the United Kingdom

Emoteq Corporation, incorporated in Colorado

Globe Motors de Mexico, S.A. de C.V., incorporated in Mexico

Globe Motors, Inc., a Delaware Corporation

Heidrive GmbH, a German limited liability company, incorporated in Germany

Heidrive s.r.o., a Czech limited liability company, incorporated in Czech Republic

Motor Products Corporation, a Delaware Corporation

Pasotec GmbH, a German limited liability company, incorporated in Germany

Stature Electric, Inc., incorporated in Pennsylvania

TCI, LLC, a limited liability company, incorporated in Wisconsin

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-149279, 333-155889, 333-170563, 333-187369, and 333-217654 on Form S-8, and Registration Statement Nos. 333-119090 and 333-229029 on Form S-3 of our reports dated March 10, 2021, relating to the consolidated financial statements of Allied Motion Technologies Inc. (the “Company”), and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K of Allied Motion Technologies Inc. for the year ended December 31, 2020.

/s/ Deloitte & Touche LLP
Williamsville, New York
March 10, 2021

CERTIFICATION

I, Richard S. Warzala, certify that:

1. I have reviewed this annual report on Form 10-K of Allied Motion Technologies Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Date: March 10, 2021

/s/ RICHARD S. WARZALA

Richard S. Warzala

President, Chief Executive Officer and Chairman of the Board

EXHIBIT 31.2

CERTIFICATION

I, Michael R. Leach, certify that:

1. I have reviewed this annual report on Form 10-K of Allied Motion Technologies Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Date: March 10, 2021

/s/ MICHAEL R. LEACH

Michael R. Leach

Chief Financial Officer

**Certification of Periodic Financial Reports
Pursuant to 18 U.S.C. Section 1350**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Allied Motion Technologies Inc. (the “Company”) certifies to his knowledge that:

- (1) The Annual Report on Form 10-K of the Company for the year ended December 31, 2020 fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2021

/s/ RICHARD S. WARZALA

Richard S. Warzala

President, Chief Executive Officer and Chairman of the Board

**Certification of Periodic Financial Reports
Pursuant to 18 U.S.C. Section 1350**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Allied Motion Technologies Inc. (the “Company”) certifies to his knowledge that:

- (1) The Annual Report on Form 10-K of the Company for the year ended December 31, 2020 fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2021

/s/ MICHAEL R. LEACH

Michael R. Leach
Chief Financial Officer

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SHAREHOLDER INFORMATION

Corporate Headquarters

Allied Motion Technologies Inc.
495 Commerce Drive
Amherst, NY 14228
716.242.8634
716.242.8638 Fax

Stock Exchange Listing

The Company's stock is traded on the Nasdaq Global Market tier of the Nasdaq Stock Market under the symbol AMOT.

Virtual Annual Meeting

The Annual Meeting will be held virtually on Wednesday, May 5, 2021, at 9:00 a.m. (ET). The meeting can be accessed by visiting www.virtualshareholdermeeting.com/AMOT2021, where you will be able to listen to the meeting live, submit questions and vote online.

Investor Relations

Investors, stockbrokers, security analysts and others seeking information about Allied Motion should contact:

Deborah K. Pawlowski
Kei Advisors LLC
716.843.3908
dpawlowski@keiadvisors.com

Independent Auditors

Deloitte & Touche LLP
Williamsville, NY

Transfer Agent

For information on ownership, lost/missing shares or other information regarding Allied Motion stock certificates, please contact our transfer agent. For additional assistance, please contact Allied Motion directly.

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
800.937.5449
info@amstock.com

Corporate Leadership

Richard S. Warzala
*Chairman of the Board
President and Chief Executive Officer*

Michael R. Leach
Senior Vice President and Chief Financial Officer

Robert P. Maida
Senior Vice President and Group President

Ashish Bendre
Vice President and Group President

Helmut Pirthauer
Vice President and Group President

Geoff Rondeau
Vice President of Operational Excellence

Brendan Neill
Corporate Attorney and Assistant Secretary

Christopher J. Thome
Corporate Controller and Treasurer

Board of Directors

Richard S. Warzala
*Chairman of the Board
President and Chief Executive Officer*

Richard D. Federico
*Lead Director of the Independent Directors
Co-Founder and Chairman, Microsonic Solutions
Founder and Chairman, Cetan Partners*

Linda P. Duch
President, Partners for Business

Robert B. Engel
*Chief Executive Officer and Managing
Director, BLT Advisory Services, LLC*

Gerald J. Laber
Retired Partner, Arthur Andersen LLP

James J. Tanous
*Executive Director of the Prentice Family
Foundation*

Michael R. Winter, CPA
Retired Partner, PriceWaterhouseCoopers, LLP



Motion Solutions That Change the Game

Nasdaq: AMOT

**495 Commerce Drive • Amherst, NY 14228
716.242.8634 • www.alliedmotion.com**