UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2023.

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)

(716) 242-8634
(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant has submitted electronically 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, 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 Securities Exchange Act.

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of Shares of the only class of Common Stock outstanding: 16,180,170 as of August 2, 2023

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

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 24,120	$ 30,614
Trade receivables, net of provision for credit losses of $1,155 and $1,192 at June 30, 2023 and December 31, 2022, respectively	87,245	76,213
Inventories	116,098	117,108
Prepaid expenses and other assets	11,781	12,072
Total current assets	239,244	236,007
Property, plant, and equipment, net	68,518	68,640
Deferred income taxes	3,765	4,199
Intangible assets, net	113,160	119,075
Goodwill	127,987	126,366
Operating lease assets	21,852	22,807
Other long-term assets	10,968	11,253
Total Assets	$ 585,494	$ 588,347
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 42,368	$ 39,467
Accrued liabilities	45,389	48,121
Total current liabilities	87,757	87,588
Long-term debt	227,106	235,454
Deferred income taxes	6,024	6,262
Pension and post-retirement obligations	2,861	3,009
Operating lease liabilities	17,557	18,795
Other long-term liabilities	7,395	21,774
Total liabilities	348,700	372,882
Stockholders' Equity:		
Common stock, no par value, authorized 50,000 shares; 16,268 and 15,978 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	92,483	83,852
Preferred stock, par value $1.00 per share, authorized 5,000 shares; no shares issued or outstanding	—	—
Retained earnings	155,772	143,576
Accumulated other comprehensive loss	(11,461)	(11,963)
Total stockholders' equity	236,794	215,465
Total Liabilities and Stockholders' Equity	$ 585,494	$ 588,347

See accompanying notes to condensed consolidated financial statements.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Revenues	$ 146,769	$ 122,722	$ 292,318	$ 237,507
Cost of goods sold	100,792	82,948	200,507	164,273
Gross profit	45,977	39,774	91,811	73,234
Operating costs and expenses:				
Selling	6,301	5,808	12,333	10,839
General and administrative	14,162	12,595	28,982	24,091
Engineering and development	9,952	9,791	20,339	19,177
Business development	400	1,417	597	2,265
Amortization of intangible assets	3,142	2,645	6,151	5,079
Total operating costs and expenses	33,957	32,256	68,402	61,451
Operating income	12,020	7,518	23,409	11,783
Other expense, net:				
Interest expense	3,162	1,525	6,145	2,563
Other (income) expense, net	(42)	(279)	145	(234)
Total other expense, net	3,120	1,246	6,290	2,329
Income before income taxes	8,900	6,272	17,119	9,454
Income tax provision	(2,131)	(1,691)	(4,035)	(2,370)
Net income	$ 6,769	$ 4,581	$ 13,084	$ 7,084
Basic earnings per share:				
Earnings per share	$ 0.42	$ 0.30	$ 0.82	$ 0.47
Basic weighted average common shares	15,969	15,355	15,921	15,226
Diluted earnings per share:				
Earnings per share	$ 0.42	$ 0.29	$ 0.81	$ 0.45
Diluted weighted average common shares	16,219	15,932	16,178	15,752
Net income	$ 6,769	$ 4,581	$ 13,084	$ 7,084
Other comprehensive income (loss):				
Foreign currency translation adjustment	(426)	(8,699)	928	(9,932)
Gain (loss) on derivatives, net of tax	707	974	(426)	3,576
Comprehensive income (loss)	$ 7,050	$ (3,144)	$ 13,586	$ 728

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock					Accumulated Other Comprehensive (Loss) Income			
(In thousands except per share data)	**Shares**	**Amount**	**Unamortized Cost of Equity Awards**	**Common Stock and Paid-in Capital**	**Retained Earnings**	**Foreign Currency Translation Adjustments**	**Accumulated income (loss) on derivatives**	**Pension adjustments**	**Total Stockholders' Equity**
Balances, December 31, 2022	15,978	$ 89,522	$ (5,670)	$ 83,852	$ 143,576	$ (16,925)	$ 5,556	$ (594)	$ 215,465
Stock transactions under employee benefit stock plans	31	1,246		1,246					1,246
Issuance of restricted stock, net of forfeitures	103	4,621	(4,655)	(34)					(34)
Share issuance in connection with acquisition	185		6,250	6,250					6,250
Stock-based compensation expense			1,267	1,267					1,267
Shares withheld for payment of employee payroll taxes	(4)	(146)		(146)					(146)
Comprehensive income (loss)						1,354	(1,565)		(211)
Tax effect of derivative transactions							432		432
Net income					6,315				6,315
Dividends to stockholders - $0.025					(403)				(403)
Balances, March 31, 2023	16,293	$ 95,243	$ (2,808)	$ 92,435	$ 149,488	$ (15,571)	$ 4,423	$ (594)	$ 230,181
Issuance of restricted stock, net of forfeitures	14	455	(444)	11					11
Stock-based compensation expense			1,544	1,544					1,544
Shares withheld for payment of employee payroll taxes	(39)	(1,507)		(1,507)					(1,507)
Comprehensive (loss) income						(426)	930		504
Tax effect of derivative transactions							(223)		(223)
Net income					6,769				6,769
Dividends to stockholders - $0.03					(485)				(485)
Balances, June 30, 2023	16,268	$ 94,191	$ (1,708)	$ 92,483	$ 155,772	$ (15,997)	$ 5,130	$ (594)	$ 236,794

	Common Stock					Accumulated Other Comprehensive (Loss) Income			
(In thousands except per share data)	**Shares**	**Amount**	**Unamortized Cost of Equity Awards**	**Common Stock and Paid-in Capital**	**Retained Earnings**	**Foreign Currency Translation Adjustments**	**Accumulated income (loss) on derivatives**	**Pension adjustments**	**Total Stockholders' Equity**
Balances, December 31, 2021	15,361	$ 73,106	$ (5,009)	$ 68,097	$ 127,757	$ (7,409)	$ 180	$ (863)	$ 187,762
Stock transactions under employee benefit stock plans	36	1,217		1,217					1,217
Issuance of restricted stock, net of forfeitures	141	5,140	(5,144)	(4)					(4)
Stock-based compensation expense			1,349	1,349					1,349
Shares withheld for payment of employee payroll taxes	(4)	(137)		(137)					(137)
Comprehensive (loss) income						(1,233)	3,423		2,190
Tax effect of derivative transactions							(822)		(822)
Net income					2,504				2,504
Dividends to stockholders - $0.025					(388)				(388)
Balances, March 31, 2022	15,534	$ 79,326	$ (8,804)	$ 70,522	$ 129,873	$ (8,642)	$ 2,781	$ (863)	$ 193,671
Issuance of restricted stock, net of forfeitures	16	313	(314)	(1)					(1)
Share issuance in connection with acquisitions	463	11,103		11,103					11,103
Stock-based compensation expense			1,141	1,141					1,141
Shares withheld for payment of employee payroll taxes	(35)	(1,103)		(1,103)					(1,103)
Comprehensive (loss) income						(8,699)	1,284		(7,415)
Tax effect of derivative transactions							(310)		(310)
Net income					4,581				4,581
Dividends to stockholders - $0.025					(388)				(388)
Balances, June 30, 2022	15,978	$ 89,639	$ (7,977)	$ 81,662	$ 134,066	$ (17,341)	$ 3,755	$ (863)	$ 201,279

See accompanying notes to condensed consolidated financial statements.

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

	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Cash Flows From Operating Activities:		
Net income	$ 13,084	$ 7,084
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	12,535	12,531
Deferred income taxes	(14)	1,222
Stock-based compensation expense	2,811	2,490
Debt issue cost amortization recorded in interest expense	150	71
Other	685	793
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	(11,151)	(15,407)
Inventories	832	(22,003)
Prepaid expenses and other assets	287	1,601
Accounts payable	2,822	9,850
Accrued liabilities	(4,768)	1,478
Net cash provided by (used in) operating activities	17,273	(290)
Cash Flows From Investing Activities:		
Consideration paid for acquisitions, net of cash acquired	(6,250)	(44,569)
Purchase of property and equipment	(6,118)	(6,354)
Net cash used in investing activities	(12,368)	(50,923)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	4,000	64,203
Principal payments of long-term debt and finance lease obligations	(12,567)	(3,406)
Dividends paid to stockholders	(872)	(776)
Tax withholdings related to net share settlements of restricted stock	(1,653)	(1,240)
Net cash (used in) provided by financing activities	(11,092)	58,781
Effect of foreign exchange rate changes on cash	(307)	(1,185)
Net (decrease) increase in cash and cash equivalents	(6,494)	6,383
Cash and cash equivalents at beginning of period	30,614	22,463
Cash and cash equivalents at end of period	$ 24,120	$ 28,846
Supplemental disclosure of cash flow information:		
Stock issued for acquisition	$ 6,250	$ 11,103
Property, plant and equipment purchases in accounts payable or accrued expenses	$ 660	$ 1,444

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PREPARATION AND PRESENTATION

Allied Motion Technologies Inc. ("Allied Motion" or the "Company") is engaged in the business of designing, manufacturing, and selling 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.

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

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using end of period exchange rates. Changes in reported amounts of assets and liabilities of foreign subsidiaries that occur as a result of changes in exchange rates between the 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 condensed 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 foreign subsidiaries are included in the results of operations as incurred in other (income) expense, net.

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

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

It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2022 that was previously filed by the Company.

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

2. ACQUISITIONS

On May 30, 2022, the Company acquired 100% of the direct and indirect legal and beneficial ownership of the shares of FPH Group Inc., a corporation incorporated pursuant to the laws of the Province of Ontario and the membership interests of Transtar International, LLC, a Michigan limited liability company, collectively "FPH". The final purchase price for FPH was $41,316, including a measurement period adjustment during the three months ended June 30, 2023, resulting in a decrease to inventories of $1,080 an increase to purchase price of $276, and an increase to goodwill of $1,356. The final allocation of the purchase price paid for FPH is based on fair values of the assets acquired and liabilities assumed of FPH and is as follows (in thousands):

Cash and cash equivalents	$ 1,755
Trade receivables	3,100
Inventories	3,496
Other assets, net	174
Property, plant, and equipment	624
Right of use assets	4,165
Intangible assets	22,611
Goodwill	15,840
Other current liabilities	(1,577)
Deferred revenue	(776)
Lease liabilities	(4,165)
Net deferred income tax liabilities	(3,931)
Net purchase price	$ 41,316

On May 24, 2022, the Company acquired 100% of the outstanding stock of ThinGap, Inc. ("ThinGap"), a privately-owned California headquartered developer and manufacturer of high performance, zero cogging slotless motors for use in aerospace, defense, and medical applications that require precise performance in a compact, yet high-torque-to-volume solutions.

On June 17, 2022, the Company acquired 100% of the membership interests of Airex, LLC ("Airex"), a privately-owned New Hampshire headquartered developer of high precision electromagnetic components and solutions for the aerospace and defense, life sciences, semiconductor, and commercial industrial applications. The purchase price, collectively, for ThinGap and Airex was $16,618.

There were no additional measurement period adjustments during the six months ended June 30, 2023 related to the ThinGap and Airex acquisitions. The purchase price allocations of each of these acquisitions are final.

The December 30, 2021 acquisition of Spectrum Controls, Inc. ("Spectrum Controls") included two deferred acquisition payments of which $12,500 (comprised of 50% cash and 50% Company stock) was paid in January 2023. One remaining payment of $12,500 is to be paid no later than January 3, 2024, comprised 50% cash and 50% in Company stock. As of June 30, 2023, $12,444 is included in accrued liabilities on the condensed consolidated balance sheet. As of December 31, 2022, $12,500 is included in accrued liabilities and $12,277 is included in other long-term liabilities on the condensed consolidated balance sheet.

The following pro forma financial information presents the combined resulted of operations if the FPH, ThinGap, and Airex acquisitions had occurred as of January 1, 2021:

	Three months ended June 30, 2022	Six months ended June 30, 2022
Revenues	$ 127,492	$ 248,322
Income before income taxes	$ 8,225	$ 12,943

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

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 expected to or has subsequently achieved as a result of these acquisitions. 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 future periods.

3. REVENUE RECOGNITION

Performance Obligations

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 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. For a limited number of contracts, for which revenue derived is not material in the periods presented, the Company recognizes revenue over time in proportion to costs incurred.

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 Industrial, Vehicle, Medical, and Aerospace & Defense.

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 June 30, 2023 and December 31, 2022.

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 below in Note 18, *Segment Information*, the Company's business consists of one reportable segment. Revenue by geographic region is based on point of shipment origin.

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

A disaggregation of revenue by target market and geography is provided below:

Target Market	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Industrial	$ 65,588	$ 47,135	$ 128,845	$ 92,911
Vehicle	34,739	32,555	65,570	65,137
Medical	20,887	20,194	44,562	41,513
Aerospace & Defense	18,979	17,149	40,266	26,593
Distribution and Other	6,576	5,689	13,075	11,353
Total	$ 146,769	$ 122,722	$ 292,318	$ 237,507

Geography	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
North America (primarily U.S.)	$ 100,965	$ 84,052	$ 198,332	$ 156,430
Europe	38,326	32,122	78,223	65,871
Asia-Pacific	7,478	6,548	15,763	15,206
Total	$ 146,769	$ 122,722	$ 292,318	$ 237,507

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 liabilities are as follows:

	June 30, 2023	December 31, 2022
Contract liabilities in accrued liabilities	$ 3,620	$ 4,807
Contract liabilities in other long-term liabilities	14	19
	$ 3,634	$ 4,826

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. In the six months ended June 30, 2023 and 2022, the Company recognized revenue of $3,414 and $1,865, respectively, that was included in the opening contract liabilities balance.

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.

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

4. 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:

	June 30, 2023	December 31, 2022
Parts and raw materials	$ 85,742	$ 89,100
Work-in-process	13,387	11,686
Finished goods	16,969	16,322
	$ 116,098	$ 117,108

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment is classified as follows:

	June 30, 2023	December 31, 2022
Land	$ 969	$ 965
Building and improvements	25,539	25,093
Machinery, equipment, tools and dies	92,580	89,144
Construction work in progress	15,290	14,197
Furniture, fixtures and other	22,339	22,461
	156,717	151,860
Less accumulated depreciation	(88,199)	(83,220)
Property, plant, and equipment, net	$ 68,518	$ 68,640

Depreciation expense was approximately $3,248 and $3,181 for the three months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, depreciation expense was approximately $6,384 and $6,404, respectively.

6. GOODWILL

The change in the carrying amount of goodwill for the six months ended June 30, 2023 is as follows:

	June 30, 2023
Beginning balance	$ 126,366
Impact of measurement period adjustments of acquisitions (Note 2)	1,356
Effect of foreign currency translation	265
Ending balance	$ 127,987

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

7. INTANGIBLE ASSETS

Intangible assets on the Company's condensed consolidated balance sheets consist of the following:

		June 30, 2023			December 31, 2022		
	Life	Gross Amount	Accumulated Amortization	Net Book Value	Gross Amount	Accumulated Amortization	Net Book Value
Customer lists	5 - 18 years	$ 112,676	$ (38,336)	$ 74,340	$ 112,378	$ (34,377)	$ 78,001
Trade name	10 - 19 years	15,295	(7,435)	7,860	15,320	(6,900)	8,420
Design and technologies	10 - 15 years	41,327	(10,367)	30,960	41,212	(8,558)	32,654
Total		$ 169,298	$ (56,138)	$ 113,160	$ 168,910	$ (49,835)	$ 119,075

Amortization expense for intangible assets was $3,142 and $2,645 for the three months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, amortization expense was $6,151 and $5,079, respectively.

Estimated future intangible asset amortization expense as of June 30, 2023 is as follows:

	Estimated Amortization Expense
Remainder of 2023	$ 6,073
2024	11,908
2025	11,892
2026	11,795
2027	11,352
Thereafter	60,140
Total estimated amortization expense	$ 113,160

8. STOCK-BASED COMPENSATION

Stock Incentive Plans

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

Restricted Stock

For the six months ended June 30, 2023, 123,601 shares of unvested restricted stock were awarded at a weighted average market value of $41.53. Of the restricted shares granted, 74,495 shares have performance-based vesting conditions. The value of the shares expected to vest is amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of unvested restricted stock are generally forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

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

The following is a summary of restricted stock activity for the six months ended June 30, 2023:

	Number of shares
Outstanding at beginning of period	403,974
Awarded	123,601
Vested	(114,261)
Forfeited	(1,498)
Outstanding at end of period	411,816

Stock-based compensation expense, net of forfeitures, of $1,544 and $1,141 was recorded for the three months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, stock based compensation expense, net of forfeitures, of $2,811 and $2,490 was recorded, respectively.

9. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	June 30, 2023	December 31, 2022
Compensation and fringe benefits	$ 13,292	$ 15,818
Accrued business acquisition consideration	12,444	12,500
Warranty reserve	2,225	2,160
Income taxes payable	1,710	3,934
Operating lease liabilities - current	4,575	4,224
Finance lease obligations - current	394	377
Contract liabilities	3,620	4,807
Other accrued expenses	7,129	4,301
	$ 45,389	$ 48,121

10. DEBT OBLIGATIONS

Debt obligations consisted of the following:

	June 30, 2023	December 31, 2022
Long-term Debt		
Revolving Credit Facility, long-term (1)	$ 218,766	$ 227,060
Unamortized debt issuance costs	(475)	(625)
Finance lease obligations - noncurrent	8,815	9,019
Long-term debt	$ 227,106	$ 235,454

(1) The effective rate of the Amended Revolving Facility is 5.06% at June 30, 2023.

Amended Revolving Credit Facility

The Second Amended and Restated Credit Agreement (the “Amended Credit Agreement”), effective August 23, 2022, includes a $280 million revolving credit facility (the “Amended Revolving Facility”). In the Amended Credit Agreement, the referenced index was amended to the Term Standard Overnight Financing Rate (“SOFR”), whereas the previous credit agreement utilized the London Interbank Offering Rate (LIBOR) as the referenced interest rate. The Amended Credit Agreement has a maturity date of February 2025.

Borrowings under the Amended Revolving Facility bear interest at an annual rate equal to the Adjusted SOFR (as defined in the Amended Credit Agreement) which is subject to a floor of 0.00% plus an applicable margin spread ranging from 1.00% to 2.25% (1.75% at June 30, 2023) based on the Company's ratio of total funded indebtedness to consolidated trailing twelve-month EBITDA (the "Total Leverage Ratio"). In addition, the Company is required to pay a commitment fee of between 0.10% and 0.275% annually 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 includes covenants and restrictions that limit the Company's ability to incur additional indebtedness, make certain investments, create, incur or assume certain liens, merge, consolidate or sell all or substantially all of its assets and enter into transactions with an affiliate of the Company on other than an arms' length transaction. These covenants, which are described more fully in the Amended Credit Agreement, to which reference is made for a complete statement of the covenants, are subject to certain exceptions. The Amended Credit Agreement contains financial covenants that require that the Company maintain a minimum interest coverage ratio of at least 3.0 to 1.0 at the end of each fiscal quarter. In addition, the Company's Leverage Ratio at the end of any fiscal quarter shall not be greater than 4.0 to 1.0 ratio (reduced to 3.5:1.0 for quarters ending on or after December 31, 2023); provided that the Company may elect to temporarily increase the Leverage Ratio by 0.5x during the twelve-month period following a material acquisition under the Amended Credit Agreement ("acquisition leverage increase"), subject to certain exceptions. The Company was in compliance with all covenants as of June 30, 2023.

As of June 30, 2023, the unused Amended Revolving Facility was $61,234. The amount available to borrow may be limited by the Company's debt and EBITDA levels, which impacts its covenant calculations.

Other

The China Credit Facility ("the China Facility") provided credit of $1,444 (Chinese Renminbi 10,000). The China Facility was a demand revolving facility used for working capital and capital equipment needs at the Company's China operations. The term was annual and cancelleable 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 the three and six months ended June 30, 2023 or 2022, respectively, and the Company closed the China Facility during the three months ended June 30, 2023.

11. 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.

The Company enters into foreign currency contracts with 30-day maturities to hedge its short-term balance sheet exposure, primarily intercompany, that are denominated in currencies (Euro, Mexican Peso, New Zealand Dollar, Chinese Renminbi, Swedish Krona, Canadian Dollar) other than the subsidiary's functional currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in other expense, net in the condensed consolidated statements of income and comprehensive (loss) income. To minimize foreign currency exposure, the Company had foreign currency contracts with notional amounts of $17,872 and $18,891 at June 30, 2023 and December 31, 2022, respectively. The foreign currency contracts are recorded in the condensed consolidated balance sheets at fair value and resulting gains or losses are recorded in other expense, net in the condensed consolidated statements of income and comprehensive income. During the three and six months ended June 30, 2023, the Company had losses of $90 and $96, respectively, and during the three and six months ended June 30, 2022, the Company had losses of $750 and $696, respectively, on foreign currency contracts which is included in other expense, net and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other expense, net.

(In thousands, except per share data)

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 on its variable-rate debt. 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 amount of $40,000 that matured in February 2022. In March 2020, the Company entered into two additional interest rate swaps with a combined notional amount of $20,000 that increased to $60,000 in March 2022 and matures in December 2024. In March 2022 the Company entered into an additional interest rate swap with a notional amount of $40,000 that matures in December 2026. In March 2023, the Company executed amendments to the existing swaps to amend the index on the interest rate derivatives from LIBOR to SOFR, in line with the existing Amended Revolving Facility. These amendments had no material financial impact to the Company's operations or financial position.

The changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2023 and 2022, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

The Company estimates that $3,930 will be reclassified as a decrease to interest expense over the next twelve months related to its interest rate derivatives. The Company does not use derivatives for trading or speculative purposes.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022:

		Asset Derivatives	
		Fair value as of:	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**June 30, 2023**	**December 31, 2022**
Foreign currency contracts	Prepaid expenses and other assets	$ 30	$ 48
Interest rate swaps	Other long-term assets	6,675	7,236
		$ 6,705	$ 7,284

		Liability Derivatives	
		Fair value as of:	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**June 30, 2023**	**December 31, 2022**
Foreign currency contracts	Accrued liabilities	$ 27	$ —

The tables below present the effect of cash flow hedge accounting on other comprehensive income ("OCI") for the three and six months ended June 30, 2023 and 2022:

	Amount of pre-tax (loss) gain recognized in OCI on derivatives		Amount of pre-tax (loss) gain recognized in OCI on derivatives	
Derivatives in cash flow hedging relationships	**Three months ended June 30,**		**Six months ended June 30,**	
	2023	**2022**	**2023**	**2022**
Interest rate swaps	$ 1,877	$ 1,182	$ 1,131	$ 4,419

	Amount of pre-tax gain (loss) reclassified from accumulated OCI into income		Amount of pre-tax gain (loss) reclassified from accumulated OCI into income	
Location of gain (loss) reclassified from accumulated OCI into income	**Three months ended June 30,**		**Six months ended June 30,**	
	2023	**2022**	**2023**	**2022**
Interest expense	$ 947	$ (102)	$ 1,766	$ (288)

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The table below presents the line items that reflect the effect of the Company's derivative financial instruments on the condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2023 and 2022:

		Total amounts of income and expense line items presented that reflect the effects of cash flow hedges recorded		Total amounts of income and expense line items presented that reflect the effects of cash flow hedges recorded	
		Three months ended June 30,		Six months ended June 30,	
Derivatives designated as hedging instruments	**Income Statement Location**	**2023**	**2022**	**2023**	**2022**
Interest rate swaps	Interest Expense	$ 3,162	$ 1,525	$ 6,145	$ 2,563

The tables below present a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of June 30, 2023 and December 31, 2022. 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 in the condensed consolidated balance sheets:

Derivative assets:

				Gross amounts not offset in the consolidated balance sheets		
As of June 30, 2023	**Gross amounts of recognized assets**	**Gross amounts offset in the consolidated balance sheets**	**Net amounts of assets presented in the consolidated balance sheets**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives	$ 6,705	$ —	$ 6,705	$ —	$ —	$ 6,705

				Gross amounts not offset in the consolidated balance sheets		
As of December 31, 2022	**Gross amounts of recognized assets**	**Gross amounts offset in the consolidated balance sheets**	**Net amounts of assets presented in the consolidated balance sheets**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives	$ 7,284	$ —	$ 7,284	$ —	$ —	$ 7,284

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.

12. FAIR VALUE

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

The guidance establishes a framework for measuring fair value which utilizes observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Preference is given to observable inputs.

These two types of inputs create the following three - level fair value hierarchy:

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

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

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

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

(In thousands, except per share data)

The following tables presents the Company's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2023 and December 31, 2022, respectively, by level within the fair value hierarchy:

	June 30, 2023		
	Level 1	Level 2	Level 3
Assets (liabilities)			
Pension plan assets	$ 5,730	$ —	$ —
Deferred compensation plan assets	4,141	—	—
Foreign currency hedge contract assets	—	30	—
Foreign currency hedge contract liabilities	—	(27)	—
Interest rate swaps, net	—	6,675	—
Contingent consideration	—	—	(4,100)

	December 31, 2022		
	Level 1	Level 2	Level 3
Assets (liabilities)			
Pension plan assets	$ 5,324	$ —	$ —
Deferred compensation plan assets	3,870	—	—
Foreign currency hedge contracts	—	48	—
Interest rate swaps, net	—	7,236	—
Contingent consideration	—	—	(4,100)

The contingent consideration fair value measurement in connection with the acquisition of ALIO Industries ("ALIO") is based on significant inputs not observable in the market and therefore constitute Level 3 inputs within the fair value hierarchy. The Company determines the initial fair value of contingent consideration liabilities using a Monte Carlo valuation model, which involves a simulation of future earnings generated during the earn-out period using management's best estimates, or a probability-weighted discounted cash flow analysis. There were no change to the estimated fair value of contingent consideration during the three and six months ended June 30, 2023, and the contingent consideration of $4,100 as of June 30, 2023 is included in other long-term liabilities on the condensed consolidated balance sheet.

13. INCOME TAXES

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

The effective income tax rate was 23.9% and 27.0% for the three months ended June 30, 2023 and 2022, respectively. The effective tax rate for both the three months ended June 30, 2023 and June 30, 2022 includes discrete tax benefits of (1.6%), related primarily to share-based awards. For the six months ended June 30, 2023 and 2022, the effective income tax rate was 23.6% and 25.1%, respectively. The effective tax rate for the six months ended June 30, 2023 and June 30, 2022 includes discrete tax benefits of (2.2%) and (3.5%), respectively, related primarily to share-based awards and the reversal in prior years of uncertain tax positions.

14. LEASES

The Company has operating leases for office space, manufacturing facilities and equipment, computer equipment and automobiles. 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.

(In thousands, except per share data)

Supplemental cash flow information related to the Company's operating and finance leases for the six months ended June 30, 2023 and 2022 was as follows:

	June 30, 2023	June 30, 2022
Cash paid for operating leases	$ 2,796	$ 2,290
Cash paid for interest on finance lease obligations	$ 214	$ 368
Assets acquired under operating leases	$ 1,888	$ 2,770
Assets acquired under finance leases	$ —	$ 9,471
ROU assets obtained in acquisitions	$ —	$ 5,053

The Company's finance lease obligations relate to a manufacturing facility. As of June 30, 2023, finance lease assets of $8,524 are included in property, plant and equipment, net, finance lease obligations of $394 are included in accrued liabilities, and $8,815 are included in long-term debt on the condensed consolidated balance sheet. During the three months ended June 30, 2023, the Company entered into a lease amendement for one manufacturing facility which modified the term of the lease, resulting in a reduction of both the ROU asset and lease liability of $700.

The following table presents the maturity of the Company's operating and finance lease liabilities as of June 30, 2023:

	Operating Leases	Finance Leases
Remainder of 2023	2,705	399
2024	5,028	815
2025	4,067	831
2026	3,487	848
2027	2,908	867
Thereafter	6,488	8,751
Total undiscounted cash flows	$ 24,683	$ 12,511
Less: present value discount	(2,551)	(3,302)
Total lease liabilities	$ 22,132	$ 9,209

The Company has operating leases certain facilities from companies for which a member of management is a part owner. In connection with such leases, the Company made fixed minimum lease payments to the lessor of $220 and $441 during the three and six months ended June 30, 2023 and is obligated to make payments of $517 during the remainder of 2023. Future fixed minimum lease payments under these leases as of June 30, 2023 are $15,668.

15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated Other Comprehensive (Loss) Income ("AOCI") for the three months ended June 30, 2023 and 2022 is comprised of the following:

	Defined Benefit Plan Liability	Cash Flow Hedges	Tax Effect of Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At March 31, 2023	$ (594)	$ 5,745	$ (1,322)	$ (15,571)	$ (11,742)
Unrealized (loss) gain on cash flow hedges	—	1,877	(450)	—	1,427
Amounts reclassified from AOCI	—	(947)	227	—	(720)
Foreign currency translation loss	—	—	—	(426)	(426)
At June 30, 2023	$ (594)	$ 6,675	$ (1,545)	$ (15,997)	$ (11,461)

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	Defined Benefit Plan Liability	Cash Flow Hedges	Tax Effect of Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At March 31, 2022	$ (863)	$ 3,644	$ (863)	$ (8,642)	$ (6,724)
Unrealized gain (loss) on cash flow hedges	—	1,182	(285)	—	897
Amounts reclassified from AOCI	—	102	(25)	—	77
Foreign currency translation loss	—	—	—	(8,699)	(8,699)
At June 30, 2022	$ (863)	$ 4,928	$ (1,173)	$ (17,341)	$ (14,449)

AOCI for the six months ended June 30, 2023 and 2022 is comprised of the following:

	Defined Benefit Plan Liability	Cash Flow Hedges	Tax Effect of Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2022	$ (594)	$ 7,310	$ (1,754)	$ (16,925)	$ (11,963)
Unrealized gain (loss) on cash flow hedges	—	1,131	(248)	—	883
Amounts reclassified from AOCI	—	(1,766)	457	—	(1,309)
Foreign currency translation loss	—	—	—	928	928
At June 30, 2023	$ (594)	$ 6,675	$ (1,545)	$ (15,997)	$ (11,461)

	Defined Benefit Plan Liability	Cash Flow Hedges	Tax Effect of Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2021	$ (863)	$ 221	$ (41)	$ (7,409)	$ (8,092)
Unrealized gain (loss) on cash flow hedges	—	4,419	(1,062)	—	3,357
Amounts reclassified from AOCI	—	288	(70)	—	218
Foreign currency translation gain	—	—	—	(9,932)	(9,932)
At June 30, 2022	$ (863)	$ 4,928	$ (1,173)	$ (17,341)	$ (14,449)

The realized gains and losses relating to the Company’s interest rate swap hedges were reclassified from AOCI and included in interest expense in the condensed consolidated statements of income and comprehensive income.

16. DIVIDENDS PER SHARE

The Company declared a quarterly dividend of $0.03 per share in the second quarter of 2023 and $0.025 per share in first quarter of 2023 and the first and second quarters of 2022. Total dividends declared were $879 and $776 in the six months ended June 30, 2023 and 2022, respectively.

(In thousands, except per share data)

17. EARNINGS PER SHARE

Basic and diluted weighted-average shares outstanding are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Basic weighted average shares outstanding	15,969	15,355	15,921	15,226
Dilutive effect of potential common shares	250	577	257	526
Diluted weighted average shares outstanding	16,219	15,932	16,178	15,752

For the three and six months ended June 30, 2023 and 2022, the anti-dilutive common shares excluded from the calculation of diluted earnings per share were immaterial.

18. SEGMENT INFORMATION

The Company operates in one segment for the manufacture and marketing of controlled motion products for end user and OEM applications. The Company's chief operating decision maker is the Chief Executive Officer, 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 in which the entity holds material assets and reports revenue.

Revenue for each of the three months ended June 30, 2023 and 2022 was comprised of 58% shipped to U.S. customers. For each of the six months ended June 30, 2023 and 2022, revenues was comprised of 57% shipped to U.S. customers. The remainder of revenues for all periods were shipped to foreign customers, primarily in Europe, Canada, and Asia-Pacific.

Identifiable foreign fixed assets were $36,391 and $34,879 as of June 30, 2023 and December 31, 2022, respectively. Identifiable assets outside of the U.S. are attributable to Europe, China, Mexico, and Asia-Pacific.

For the three months ended June 30, 2023, one customer (Customer A) accounted for 12% of revenues and one customer (Customer B) accounted for 10% of revenues. Both Customer A and Customer B accounted for 10% of revenues for the six months ended June 30, 2023. For the three and six months ended June 30, 2022, Customer B accounted for 11% and 12% of revenues, respectively. As of June 30, 2023, Customer A represented 16% of trade receivables.

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

All statements contained herein that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word "believe," "anticipate," "expect," "project," "intend," "will continue," "will likely result," "should" or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from the expected results described in the forward-looking statements. The risks and uncertainties include those associated with: the domestic and foreign general business and economic conditions in the markets we serve, including political and currency risks and adverse changes in local legal and regulatory environments; the severity, magnitude and duration of the 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; failure of a key information technology system, process or site or a breach of information security, including a cybersecurity breach, ransomware, or failure of one or more key information technology systems, networks, processes, associated sites or service providers; 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, and in particular those 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 region manufacturing and component sourcing capabilities; and in the Company's Annual Report in Form 10 K. Actual results, events and performance may differ materially from the Company's forward-looking statements. 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.

Overview

We are a global company that designs, manufactures, and sells precision and specialty-controlled motion products and solutions used in a broad range of industries. Our target markets include Industrial, Vehicle, Medical, and Aerospace & Defense (A&D). 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 nano precision positioning systems, servo control systems, motion controllers, digital servo amplifiers and drives, brushless servo, torque, and coreless motors, brush motors, integrated motor-drives, gear motors, gearing, incremental and absolute optical encoders, active (electronic) and passive (magnetic) filters for power quality and harmonic issues, Industrial safety rated input/output Modules, Universal Industrial Communications Gateways, light-weighting technologies, and other controlled motion-related products.

Business Environment

Recent Events

The ongoing threat of COVID-19 has and will likely continue to create uncertainties and disruptions to the Company as well as the global economy. This has resulted in operational and financial challenges and risks. In response, we have implemented extensive additional health and safety protocols from time to time in keeping with governmental requirements and best practices. As a result of the continued threat of variants of the virus, and related global impacts, there are likely to be ongoing disruptions to certain supply chains as well as impacts on customer demand that may present additional challenges and volatility to our business.

During 2022 and into the first half of 2023, inflation negatively impacted our input costs and pricing, primarily for labor and materials. We, our customers, and our suppliers also began to experience the effect of a higher interest rate environment. Gross domestic product growth slowed throughout 2022 and continuing into 2023 largely due to the widespread impacts of inflation, increasing interest rates, and more restrictive financial conditions. Supply chain disruptions, labor shortages, and global inflation remain persistent, along with elevated geopolitical instability.

Specifically, the current conflict in Ukraine has created geopolitical unrest resulting in economic uncertainty and volatility with regard to energy prices, interest rates and our supply chain. We are monitoring the developments as they unfold in order to react accordingly. The impact of the conflict on our operational and financial performance will depend on future developments that cannot be predicted. The Company does not believe the impact on our results to be material at this time.

In 2022, certain regions of China have experienced energy shortages which have, for brief periods of time, impacted our facilities. The impact was not material to our results, however there continue to be uncertainties related to the energy shortages that may impact us in the future. We have been able to proactively mitigate the impact of the restrictions on energy usage to date by managing our scheduling at the impacted facilities.

The Company completed three acquisitions during the second quarter 2022 and three acquisitions during the fourth quarter of 2021, (collectively the “recent acquisitions”). These recent acquisitions are important to executing on the Company’s strategic plan, and we remain focused in the near term will be on successfully integrating these acquisitions and leveraging the synergies that will be important drivers of our future growth and profitability.

Operating Results

Three months ended June 30, 2023 compared to three months ended June 30, 2022

(Dollars in thousands, except per share data)	For the three months ended June 30, 2023	2022	2023 vs. 2022 Variance $	%
Revenues	$ 146,769	$ 122,722	$ 24,047	20 %
Cost of goods sold	100,792	82,948	17,844	22 %
Gross profit	45,977	39,774	6,203	16 %
Gross margin percentage	31.3 %	32.4 %		
Operating costs and expenses:				
Selling	6,301	5,808	493	8 %
General and administrative	14,162	12,595	1,567	12 %
Engineering and development	9,952	9,791	161	2 %
Business development	400	1,417	(1,017)	(72)%
Amortization of intangible assets	3,142	2,645	497	19 %
Total operating costs and expenses	33,957	32,256	1,701	5 %
Operating income	12,020	7,518	4,502	60 %
Interest expense	3,162	1,525	1,637	107 %
Other (income) expense, net	(42)	(279)	237	(85)%
Total other expense	3,120	1,246	1,874	150 %
Income before income taxes	8,900	6,272	2,628	42 %
Income tax provision	(2,131)	(1,691)	(440)	26 %
Net income	$ 6,769	$ 4,581	$ 2,188	48 %
Effective tax rate	23.9 %	27.0 %		
Diluted earnings per share	$ 0.42	$ 0.29	$ 0.13	45 %
Bookings	$ 137,008	$ 139,209	$ (2,201)	(2)%
Backlog	$ 298,695	$ 323,873	$ (25,178)	(8)%

REVENUES: The increase in revenues during the second quarter 2023 reflects increases primarily within Industrial and, to a lesser extent, A&D and Vehicle, and includes a full quarter of the impact of the recent acquisitions. Our revenue for the second quarter of 2023 was comprised of 58% to U.S. customers and 42% to customers primarily in Europe, Canada, and Asia-Pacific. The overall increase in revenue was due to a 20% volume increase, partially offset by a minimal unfavorable currency impact. Organic growth was 17% during the second quarter 2023. 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 2% decrease in bookings in the second quarter 2023 compared to 2022 is due primarily to a decrease in volume as the unfavorable currency impact was minimal. The decrease in bookings during the second quarter 2023 compared to 2022 is primarily due to more normalization of order patterns as supply-chain constraints and longer lead times had a greater impact in the prior year period.

GROSS PROFIT AND GROSS MARGIN: Gross profit increased to $45,977 in the second quarter of 2023 from $39,774 in the second quarter of 2022 driven by higher sales volume, including the recent acquisitions, and gross margins decreased to 31.3% for 2023, compared to 32.4% for 2022. The decrease in gross margin percentage was driven by unfavorable mix and continued raw material pricing increases.

SELLING EXPENSES: Selling expenses increased 8% during the second quarter of 2023 compared to 2022 primarily due to increased costs in connection with our recent acquisitions as well as sales commissions related to the increased revenue growth. Selling expenses as a percentage of revenues were 4% in the six months ended June 30, 2023 and 5% in the six months ended June 30, 2022.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses increased by 12% during the second quarter 2023 compared to 2022 due primarily to increased costs related to the inclusion of our recent acquisitions. As a percentage of revenues, general and administrative expenses were 10% in the six months ended June 30, 2023 and 2022.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 2% in the second quarter 2023 compared to 2022. The increase is primarily due to the inclusion of our recent acquisitions along with the continued ramp up of development projects to meet the future needs of our target markets, as well as supporting growing customer application development needs. As a percentage of revenues, engineering and development expenses were 7% and 8% for the six months ended June 30, 2023 and 2022, respectively.

BUSINESS DEVELOPMENT COSTS: The decrease in business development costs in the second quarter of 2023 compared to 2022 is largely due costs recognized in the prior year related to the recent acquisition activities and manufacturing footprint rationalization.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets increased in the second quarter 2023 compared to 2022 due to incremental intangible amortization attributable to the recent acquisitions.

INTEREST EXPENSE: Interest expense increased in the second quarter of 2023 compared to 2022 due to a combination of increased average debt levels due to funding of acquisition activity as well as capital expenditures and higher interest rates. The increase in interest expense is partially offset by reductions to interest expense realized through our interest rate swaps.

INCOME TAXES: The effective income tax rate was 23.9% and 27.0% for the three months ended June 30, 2023 and 2022, respectively. The effective tax rate for each of the three months ended June 30, 2023 and 2022 includes discrete tax benefit of (1.6%), primarily related to share-based payment awards. The Company expects its income tax rate for the full year 2023 to be approximately 24% to 26%.

NET INCOME AND ADJUSTED NET INCOME: Net income increased during the second quarter of 2023 compared to 2022, due in large part to organic growth as well as from the recent acquisitions, as reflected primarily in our gross profit increase, and partially offset by higher operating expenses and costs driven by the recent acquisitions, inflationary pressures, subsequent increases to intangible amortization as well as an increase in interest expense.

Adjusted net income for the quarters ended June 30, 2023 and 2022 was $9,471 and $7,705, respectively. Adjusted diluted earnings per share for the second quarter of 2023 and 2022 were $0.58 and $0.48, respectively. Adjusted net income and adjusted diluted earnings per share are non-GAAP measures. 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 $18,452 for the second quarter of 2023 compared to $13,893 for the second quarter of 2022. Adjusted EBITDA was $20,381 and $16,197 for the second quarters of 2023 and 2022, 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-based 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.

Six months ended June 30, 2023 compared to six months ended June 30, 2022

(Dollars in thousands, except per share data)	For the six months ended June 30, 2023	2022	2023 vs. 2022 Variance $	%
Revenues	$ 292,318	$ 237,507	$ 54,811	23 %
Cost of goods sold	200,507	164,273	36,234	22 %
Gross profit	91,811	73,234	18,577	25 %
Gross margin percentage	31.4 %	30.8 %		
Operating costs and expenses:				
Selling	12,333	10,839	1,494	14 %
General and administrative	28,982	24,091	4,891	20 %
Engineering and development	20,339	19,177	1,162	6 %
Business development	597	2,265	(1,668)	(74)%
Amortization of intangible assets	6,151	5,079	1,072	21 %
Total operating costs and expenses	68,402	61,451	6,951	11 %
Operating income	23,409	11,783	11,626	99 %
Interest expense	6,145	2,563	3,582	140 %
Other expense (income), net	145	(234)	379	(162)%
Total other expense, net	6,290	2,329	3,961	170 %
Income before income taxes	17,119	9,454	7,665	81 %
Income tax (provision) benefit	(4,035)	(2,370)	(1,665)	70 %
Net income	$ 13,084	$ 7,084	$ 6,000	85 %
Effective tax rate	23.6 %	25.1 %		
Diluted earnings per share	$ 0.81	$ 0.45	$ 0.360	80 %
Bookings	$ 260,206	$ 294,505	$ (34,299)	(12)%
Backlog	$ 298,695	$ 323,873	$ (25,178)	(8)%

REVENUES: The increase in revenues for the year to date 2023 reflects increases in our Industrial and A&D served markets and includes the full impact of the 2022 acquisitions. Our revenues for the period ended June 30, 2023 was comprised of 57% to U.S. customers and 43% to customers primarily in Europe, Canada and Asia-Pacific. The overall increase in revenue was due to a 25% volume increase offset partially by a 2% unfavorable currency impact. Organic growth was 21% during the year to date 2023. 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 12% decrease in orders for the year to date 2023 compared to 2022 is due to a 10% decrease in volume and a 2% unfavorable currency impact. The decrease in bookings during year to date 2023 compared to 2022 is primarily due to more normalization of order patterns as supply-chain constraints and longer lead times had a greater impact in the prior year period.

GROSS PROFIT AND GROSS MARGIN: Gross profit increased to $91,811 for year to date 2023 from $73,234 in 2022 driven by higher sales volume, including the full period impact from the 2022 acquisitions, and gross margins increased to 31.4% for 2023, compared to 30.8% for 2022. The increase in gross margin percentage was driven by cost absorption on higher sales volume, pricing, and favorable mix, notably from accretive acquisitions, when comparing the year to date periods.

SELLING EXPENSES: Selling expenses increased 14% during year to date 2023 compared to 2022 primarily due to increased costs in connection with our recently completed acquisitions as well as sales commissions related to the increased revenue growth. Selling expenses as a percentage of revenues were comparable at 4% and 5% during year to date 2023 and 2022, respectively.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses increased by 20% during the six months ended June 30, 2023 compared to the same period of 2022 due primarily to increased costs related to the inclusion of our 2022 acquisitions and increased incentive compensation driven by higher revenue and profitability. As a percentage of revenues, general and administrative expenses were 10% in 2023 and 2022.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 6% during the year to date 2023 compared to 2022. The increase is due primarily to the inclusion and nature of our recent acquisitions along with our continued investment in new product development. As a percentage of revenues, engineering and development expenses were 7% for the six months ended June 30, 2023 compared to 8% for the six months ended June 30, 2022.

BUSINESS DEVELOPMENT COSTS: The decrease in business development costs for year to date 2023 compared to 2022 is due to increased costs in the prior year related to the 2022 acquisition activities.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets increased for year to date 2023 compared to 2022 due to incremental intangible amortization attributable to the 2022 acquisitions.

INTEREST EXPENSE: Interest expense increased by 140% for the year to date 2023 compared to 2022 primarily due to an increase in average debt levels to fund acquisitions as well as capital expenditures combined, to a lesser extent, with increased interest rates, offset in part by interest rate swaps.

INCOME TAXES: For the six months ended June 30, 2023 and 2022, the effective income tax rate was 23.6% and 25.1, respectively. The effective tax rate includes a discrete tax benefit of (2.2%) and (3.5%), respectively, primarily related to the reversal of uncertain tax positions and share-based payment awards.

NET INCOME AND ADJUSTED NET INCOME: Net income increased during year to date 2023 compared to 2022, due in large part to organic growth as well as from the recent acquisitions, as reflected primarily in our gross profit increase, and partially offset by higher operating expenses and costs driven by the recent acquisitions, inflationary pressures, subsequent increases to intangible amortization as well as an increase in interest expense.

Adjusted net income for the six month periods ended June 30, 2023 and 2022 was $18,405 and $13,357, respectively. Adjusted diluted earnings per share for year to date 2023 and 2022 were $1.14 and $0.85, respectively. Adjusted net income and adjusted diluted earnings per share are non-GAAP measures. 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 $35,799 for year to date 2023 compared to $24,548 for year to date 2022. Adjusted EBITDA was $39,406 and $29,100 for year to date 2023 and 2022, 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-based 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, Adjusted EBITDA, Adjusted net income and Adjusted diluted earnings per share are provided for information purposes only and are not measures of financial performance under GAAP.
Management believes the presentation of these financial measures reflecting non-GAAP adjustments provides important supplemental information to investors and other users of our financial statements 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 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 a Company's operating performance and is a significant basis used by the Company's management to measure the operating performance of the Company's business because EBITDA excludes charges for depreciation, amortization and interest expense that have resulted from our debt financings, acquisitions, 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-based compensation expense, as well as business development costs, foreign currency gains/losses on short-term assets and liabilities, and other items that are not indicative of the Company's core operating performance. 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.

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 expense and income items.

The Company's calculation of revenues excluding foreign currency exchange impacts for the three and six months ended June 30, 2023 is as follows (in thousands):

	Three months ended June 30, 2023	Six months ended June 30, 2023
Revenue as reported	$ 146,769	$ 292,318
Currency impact unfavorable (favorable)	410	3,662
Revenue excluding foreign currency exchange impacts	$ 147,179	$ 295,980

The Company's calculation of EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2023 and 2022 is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Net income as reported	$ 6,769	$ 4,581	$ 13,084	$ 7,084
Interest expense	3,162	1,525	6,145	2,563
Provision for income tax	2,131	1,691	4,035	2,370
Depreciation and amortization	6,390	6,096	12,535	12,531
EBITDA	18,452	13,893	35,799	24,548
Stock-based compensation expense	1,544	1,141	2,811	2,490
Business development costs	400	1,417	597	2,265
Foreign currency (loss) gain	(15)	(254)	199	(203)
Adjusted EBITDA	$ 20,381	$ 16,197	$ 39,406	$ 29,100

The Company's calculation of Adjusted net income and Adjusted diluted earnings per share for the three and six months ended June 30, 2023 and 2022 is as follows (in thousands except per share amounts):

	For the three months ended June 30,			
	2023	Per diluted share	2022	Per diluted share
Net income as reported	$ 6,769	$ 0.42	$ 4,581	$ 0.29
Non-GAAP adjustments, net of tax (1)				
Amortization of intangible assets – net	2,407	0.14	2,233	0.14
Foreign currency gain – net	(11)	-	(194)	(0.01)
Business development costs – net	306	0.02	1,085	0.06
Non-GAAP adjusted net income and adjusted diluted earnings per share	$ 9,471	$ 0.58	$ 7,705	$ 0.48

(1) Applies a blended federal, state, and foreign tax rate of approximately 23% applicable to the non-GAAP adjustments.

	For the six months ended June 30,			
	2023	Per diluted share	2022	Per diluted share
Net income as reported	$ 13,084	$ 0.81	$ 7,084	$ 0.45
Non-GAAP adjustments, net of tax				
Amortization of intangible assets – net	4,712	0.29	4,693	0.30
Foreign currency loss (gain) - net	152	0.01	(155)	(0.01)
Business development costs - net	457	0.03	1,735	0.11
Non-GAAP adjusted net income and adjusted diluted earnings per share	$ 18,405	$ 1.14	$ 13,357	$ 0.85

(1) Applies a blended federal, state, and foreign tax rate of approximately 23% applicable to the non-GAAP adjustments.

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents decreased by $6,494 to a balance of $24,120 at June 30, 2023 from December 31, 2022.

	Six Months Ended June 30,		2023 vs. 2022 Variance
(in thousands):	2023	2022	$
Net cash provided by (used in) operating activities	$ 17,273	$ (290)	$ 17,563
Net cash used in investing activities	(12,368)	(50,923)	38,555
Net cash (used in) provided by financing activities	(11,092)	58,781	(69,873)
Effect of foreign exchange rates on cash	(307)	(1,185)	878
Net (decrease) increase in cash and cash equivalents	$ (6,494)	$ 6,383	$ (12,877)

Of the $24,120 of cash and cash equivalents at June 30, 2023, $21,314 was located at our foreign subsidiaries and may be subject to withholding tax if repatriated back to the U.S.

During the six months ended June 30, 2023, the increase in cash provided by operating activities is primarily due to increased sales and more efficient conversion of working capital with the easing of supply chain constraints.

The decrease in cash used in investing activities in 2023 relates primarily to the $44,569 cash considerations paid in the second quarter of 2022 for the ThinGap, FPH, and Airex acquisitions, offset in part by the $6,250 cash consideration paid relating to the Spectrum acquisition in the first quarter of 2023. Cash used in investing activities in the six months ended June 30, 2023 includes $6,118 for purchases of property and equipment compared to $6,354 during the six months ended June 30, 2022. Capital expenditures are expected to be between $16,000 and $20,000 for the full year 2023.

The decrease in cash provided by financing activities during the six months ended June 30, 2023 is primarily due to Amended Revolving Facility borrowings of $47,583 to fund the three acquisitions in the second quarter of 2022. Debt payments of $12,567 were made during the six months ended June 30, 2023 compared to $3,406 made during the six months ended June 30, 2022. At June 30, 2023 and 2022, we had $218,766 and $220,057, respectively, of obligations under the Amended Revolving Facility, excluding deferred financing costs.

The Amended Credit Agreement contains certain financial covenants related to minimum interest coverage, total leverage ratio, and non-material subsidiaries assets to consolidated total assets 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, of our assets. The Amended Credit Agreement contains financial covenants that require that the Company maintain a minimum interest coverage ratio of at least 3.0 to 1.0 at the end of each fiscal quarter. In addition, the Company's Leverage Ratio at the end of any fiscal quarter shall not be greater than 4.0 to 1.0 ratio (reduced to 3.5:1.0 for quarters ending on or after December 31, 2023); provided that the Company may elect to temporarily increase the Leverage Ratio by 0.5x during the twelve-month period following a material acquisition under the Amended Credit Agreement ("acquisition leverage increase"), subject to certain exceptions. The Company was in compliance with all covenants as of June 30, 2023.

As of June 30, 2023, the unused Amended Revolving Facility was $61,234. The amount available to borrow may be limited by our debt and EBITDA levels, which impacts our covenant calculations. The Amended Credit Agreement matures in February 2025.

There were no borrowings under the China Facility during the six months ended June 30, 2023 and 2022, respectively. The Company closed the China Facility during the three months ended June 30, 2023.

The Company declared dividends of $0.055 and $0.050 per share during the six months ended June 30, 2023 and 2022, respectively. 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.

Although there is ongoing uncertainty related to the current conflict in Ukraine and the continued threat of COVID-19 and variants on our future results, we believe our diverse markets, our strong market position in many of our businesses, and the steps we have taken to strengthen our balance sheet leaves us well-positioned to manage our business through the crisis as it continues to unfold. We continually assess our liquidity and cash positions and have assessed the impact of global events on our Company. 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 more than sufficient to meet our cash needs arising in the ordinary course of business for the next twelve months.

Item 3. 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 $4,914 on our sales for the three months ended June 30, 2023 and $10,016 on our sales for the six months ended June 30, 2023. This amount is not indicative of the hypothetical net earnings impact due to partially offsetting impacts on cost of sales and operating expenses in those currencies. We estimate that foreign currency exchange rate fluctuations during the three months ended June 30, 2023 decreased revenues in comparison to the quarter ended June 30, 2022 by $410. For the six months ended June 30, 2023, we estimate that foreign currency exchange rate fluctuations decreased revenues $3,662 in 2023 compared to 2022

We translate all assets and liabilities of our foreign operations, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the condensed consolidated financial statements as comprehensive (loss) income. The translation adjustment were losses of $426 and $8,699 for the three months ended June 30, 2023 and 2022, respectively. The translation adjustment were gains of $928 and losses of $9,932 for the six months ended June 30, 2023 and 2022, respectively 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 $15,735 on our foreign net assets as of June 30, 2023.

We have contracts to hedge our short-term balance sheet exposure, primarily intercompany, that are denominated in currencies (Euro, Mexican Peso, New Zealand Dollar, Chinese Renminbi, Swedish Krona) other than the subsidiary's functional currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in other (income) expense, net in the consolidated statements of income and comprehensive (loss) income. To minimize foreign currency exposure, the Company had foreign currency contracts with notional amounts of $17,872 at June 30, 2023. The foreign currency contracts are recorded in the condensed consolidated balance sheets at fair value and resulting gains or losses are recorded in other expense (income), net in the condensed consolidated statements of income and comprehensive (loss) income. During the three and six months ended June 30, 2023, we recorded losses of $90 and $96, respectively, on foreign currency contracts which are included in other (income) expense, net and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other (income) expense, net. Net foreign currency transaction gains and losses included in other expense, net amounted to a loss of $199 and a gain of $203 for the six months ended June 30, 2023 and 2022, respectively.

Interest Rates

Interest rates on our Amended Credit Agreement are based on Term SOFR plus a margin of 1.00% to 2.25% (1.75% at June 30, 2023), 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, the Company entered into three interest rate swaps with a combined notional amount of $40,000 that matured in February 2022. In March 2020, the Company entered into two additional interest rate swaps with a combined notional amount of $20,000 that increased to $60,000 in March 2022 and matures in December 2024. In March 2022 the Company entered into an additional interest rate swap with a notional amount of $40,000 that matures in December 2026.

As of June 30, 2023, we had $218,766 outstanding under the Amended Revolving Facility (excluding deferred financing fees), of which $100,000 is currently being hedged. Refer to Note 10, 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 $118,766 of unhedged floating rate debt outstanding at June 30, 2023 would have approximately a $300 and $600 impact on our interest expense for the three and six months ended June 30, 2023.

Item 4. Controls and Procedures

Conclusion regarding the effectiveness of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (principal accounting officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2023. 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 June 30, 2023, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

During the quarter ended June 30, 2023, there were 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.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Form 10-K for the year ended December 31, 2022, except to the extent factual information disclosed elsewhere in this Form 10-Q relates to such risk factors. For a full discussion of these risk factors, please refer to "Item 1A. Risk Factors" in the 2022 Annual Report and 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Unregistered 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
04/01/23 to 04/30/23	38,774	$ 38.65	—	—
05/01/23 to 05/31/23	233	35.37	—	—
06/01/23 to 06/30/23	—	—	—	—
Total	39,007	$ 38.63	—	—

(1) As permitted under the Company's equity compensation plan, these shares were withheld by the Company to satisfy tax withholding obligations 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 June 30, 2023, the Company did not have an authorized stock repurchase plan in place.

Item 6. Exhibits

(a) Exhibits

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1 SCH	Inline XBRL Taxonomy Extension Schema Document *(filed herewith)*.
101.2 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *(filed herewith)*.
101.3 DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *(filed herewith)*.
101.4 LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *(filed herewith)*.
101.5 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *(filed herewith)*.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in exhibits 101.) *(filed herewith)*.

SIGNATURES

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

DATE: August 2, 2023

ALLIED MOTION TECHNOLOGIES INC.
By: /s/ Michael R. Leach
Michael R. Leach
Senior Vice President & Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION

I, Richard S. Warzala, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 other verifying officer, the 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: August 2, 2023

/s/ Richard S. Warzala
Richard S. Warzala
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Michael R. Leach, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 other certifying officer, the 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: August 2, 2023

/s/ Michael R. Leach

Michael R. Leach
Chief Financial Officer

EXHIBIT 32.1

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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2023 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2023

/s/ Richard S. Warzala
Richard S. Warzala
Chief Executive Officer

EXHIBIT 32.2

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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2023 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2023

/s/ Michael R. Leach
Michael R. Leach
Chief Financial Officer