

**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 September 30, 2019**

**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)

(Former Address, if Changed Since Last Report)

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. (Check one):

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

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

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

Number of Shares of the only class of Common Stock outstanding: 9,599,920 as of October 31, 2019

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

	September 30, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,578	\$ 8,673
Trade receivables, net of allowance for doubtful accounts of \$576 and \$530 at September 30, 2019 and December 31, 2018, respectively	56,004	43,247
Inventories	51,376	54,971
Prepaid expenses and other assets	4,082	4,003
Total current assets	120,040	110,894
Property, plant and equipment, net	49,471	48,035
Deferred income taxes	456	341
Intangible assets, net	63,762	68,354
Goodwill	52,523	52,639
Right of use asset	17,358	—
Other long-term assets	4,632	5,038
Total Assets	<u>\$ 308,242</u>	<u>\$ 285,301</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	24,677	25,867
Accrued liabilities	23,571	18,722
Total current liabilities	48,248	44,589
Long-term debt	116,486	122,516
Deferred income taxes	3,317	3,860
Pension and post-retirement obligations	4,279	4,293
Right of use liability	14,107	—
Other long-term liabilities	8,009	8,230
Total liabilities	194,446	183,488
Stockholders' Equity:		
Common stock, no par value, authorized 50,000 shares; 9,600 and 9,485 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	36,437	33,613
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding	—	—
Retained earnings	89,388	76,718
Accumulated other comprehensive loss	(12,029)	(8,518)
Total stockholders' equity	113,796	101,813
Total Liabilities and Stockholders' Equity	<u>\$ 308,242</u>	<u>\$ 285,301</u>

See accompanying notes to condensed consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(In thousands)  
(Unaudited)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenues	\$ 96,633	\$ 80,092	\$ 283,159	\$ 236,649
Cost of goods sold	66,603	56,330	197,045	166,816
Gross profit	30,030	23,762	86,114	69,833
Operating costs and expenses:				
Selling	4,144	2,762	12,373	8,402
General and administrative	9,932	8,177	28,451	23,969
Engineering and development	5,705	4,692	17,188	14,610
Business development	8	33	64	349
Amortization of intangible assets	1,429	872	4,291	2,634
Total operating costs and expenses	21,218	16,536	62,367	49,964
Operating income	8,812	7,226	23,747	19,869
Other expense (income):				
Interest expense	1,359	623	3,974	1,839
Other expense (income), net	140	(24)	121	(118)
Total other expense, net	1,499	599	4,095	1,721
Income before income taxes	7,313	6,627	19,652	18,148
Provision for income taxes	(2,695)	(1,767)	(6,119)	(4,859)
Net income	\$ 4,618	\$ 4,860	\$ 13,533	\$ 13,289
Basic earnings per share:				
Earnings per share	\$ 0.49	\$ 0.52	\$ 1.44	\$ 1.44
Basic weighted average common shares	9,414	9,273	9,390	9,251
Diluted earnings per share:				
Earnings per share	\$ 0.49	\$ 0.52	\$ 1.43	\$ 1.42
Diluted weighted average common shares	9,464	9,371	9,435	9,337
Net income	\$ 4,618	\$ 4,860	\$ 13,533	\$ 13,289
Foreign currency translation adjustment	(2,369)	(307)	(2,708)	(2,152)
(Loss) income on derivatives	(105)	137	(803)	988
Comprehensive income	\$ 2,144	\$ 4,690	\$ 10,022	\$ 12,125

See accompanying notes to condensed consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands)  
(Unaudited)

(In thousands)	Common Stock				Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Unamortized Cost of Equity Awards	Common Stock and Paid-in Capital			
Balances, June 30, 2019	9,600	\$ 41,632	\$ (5,935)	\$ 35,697	\$ 85,058	\$ (9,555)	\$ 111,200
Issuance of restricted stock, net of forfeitures							—
Stock-based compensation expense			740	740			740
Shares withheld for payment of employee payroll taxes							—
Foreign currency translation adjustments						(2,369)	(2,369)
Accumulated loss on derivatives						(135)	(135)
Tax effect of derivative transactions						30	30
Net income					4,618		4,618
Dividends to stockholders - \$0.03 per share					(288)		(288)
Balances, September 30, 2019	9,600	\$ 41,632	\$ (5,195)	\$ 36,437	\$ 89,388	\$ (12,029)	\$ 113,796

(In thousands)	Common Stock				Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Unamortized Cost of Equity Awards	Common Stock and Paid-in Capital			
Balances, June 30, 2018	9,475	\$ 36,628	\$ (4,313)	\$ 32,315	\$ 69,790	\$ (6,580)	\$ 95,525
Issuance of restricted stock, net of forfeitures	1	(361)	361	—			—
Stock-based compensation expense			552	552			552
Shares withheld for payment of employee payroll taxes							—
Foreign currency translation adjustments						(307)	(307)
Accumulated loss on derivatives						137	137
Tax effect of derivative transactions							—
Net income					4,860		4,860
Dividends to stockholders - \$0.03 per share					(284)		(284)
Balances, September 30, 2018	9,476	\$ 36,267	\$ (3,400)	\$ 32,867	\$ 74,366	\$ (6,750)	\$ 100,483

See accompanying notes to condensed consolidated financial statements.

ALLIED MOTION TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands)  
(Unaudited)

(In thousands)	Common Stock				Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Unamortized Cost of Equity Awards	Common Stock and Paid-in Capital			
Balances, December 31, 2018	9,485	\$ 36,779	\$ (3,166)	\$ 33,613	\$ 76,718	\$ (8,518)	\$ 101,813
Stock transactions under employee benefit stock plans	27	1,088		1,088			1,088
Issuance of restricted stock, net of forfeitures	107	4,475	(4,146)	329			329
Stock-based compensation expense			2,117	2,117			2,117
Shares withheld for payment of employee payroll taxes	(19)	(710)		(710)			(710)
Foreign currency translation adjustments						(2,708)	(2,708)
Accumulated loss on derivatives						(1,042)	(1,042)
Tax effect of derivative transactions						239	239
Net income					13,533		13,533
Dividends to stockholders - \$0.03 per share					(863)		(863)
Balances, September 30, 2019	9,600	\$ 41,632	\$ (5,195)	\$ 36,437	\$ 89,388	\$ (12,029)	\$ 113,796

(In thousands)	Common Stock				Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Unamortized Cost of Equity Awards	Common Stock and Paid-in Capital			
Balances, December 31, 2017	9,427	\$ 34,473	\$ (3,422)	\$ 31,051	\$ 61,882	\$ (5,586)	\$ 87,347
Stock transactions under employee benefit stock plans	26	849		849			849
Issuance of restricted stock, net of forfeitures	40	1,535	(1,533)	2			2
Stock-based compensation expense			1,555	1,555			1,555
Shares withheld for payment of employee payroll taxes	(17)	(590)		(590)			(590)
Foreign currency translation adjustments						(2,152)	(2,152)
Accumulated loss on derivatives						988	988
Net income					13,289		13,289
Dividends to stockholders					(805)		(805)
Balances, September 30, 2018	9,476	\$ 36,267	\$ (3,400)	\$ 32,867	\$ 74,366	\$ (6,750)	\$ 100,483

See accompanying notes to condensed consolidated financial statements.

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

	For the nine months ended	
	September 30,	
	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 13,533	\$ 13,289
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	11,071	8,454
Deferred income taxes	(563)	(484)
Stock compensation expense	2,374	1,787
Debt issue cost amortization recorded in interest expense	131	113
Other	581	521
Changes in operating assets and liabilities, net of acquisition:		
Trade receivables	(13,643)	(11,727)
Inventories	1,664	(11,067)
Prepaid expenses and other assets	(232)	(1,610)
Accounts payable	(727)	8,093
Accrued liabilities	2,815	3,917
Net cash provided by operating activities	<u>17,004</u>	<u>11,286</u>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(9,280)	(10,581)
Cash paid for acquisition, net of cash acquired	—	(13,312)
Net cash used in investing activities	<u>(9,280)</u>	<u>(23,893)</u>
<b>Cash Flows From Financing Activities:</b>		
Borrowings on long-term debt	9,091	17,658
Principal payments of long-term debt	(15,000)	(8,350)
Dividends paid to stockholders	(887)	(800)
Stock transactions under employee benefit stock plans	(717)	262
Net cash (used in) provided by financing activities	<u>(7,513)</u>	<u>8,770</u>
Effect of foreign exchange rate changes on cash	(306)	(396)
Net decrease in cash and cash equivalents	(95)	(4,233)
Cash and cash equivalents at beginning of period	8,673	15,590
Cash and cash equivalents at end of period	<u>\$ 8,578</u>	<u>\$ 11,357</u>

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 motion control solutions, which include integrated system solutions as well as individual motion control products, to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion, automotive control, medical, and aerospace and defense markets.

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

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

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and include all adjustments which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in condensed consolidated 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 condensed consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the consolidated financial statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2018 that was previously filed by the Company.

## 2. ACQUISITIONS

### *TCI*

On December 6, 2018, the Company entered into a Unit Purchase Agreement (the "Purchase Agreement") with TCI, LLC, a Wisconsin limited liability company ("TCI"), and the members of TCI ("Sellers"), pursuant to which Allied Motion acquired 100% of the issued and outstanding common units of TCI from Sellers (the "Acquisition") in a transaction valued at \$64,100. The Acquisition consideration is subject to adjustments based on a determination of closing net working capital, cash, indebtedness and other TCI liabilities. A portion of the Acquisition consideration was placed in escrow to secure payment of any post-closing adjustments to the purchase price and to secure the Sellers' indemnification obligations to Allied Motion. Cash consideration was funded from borrowings on the Company's existing credit facilities.

The TCI acquisition broadens and strengthens the Company's position as a leading global diversified solutions provider in the controlled motion market. TCI has adjacent technologies and capabilities that enable more efficient and longer life solutions for motion devices in a wide variety of demanding applications. TCI's technology and products are expected to be a valuable addition to the Company's expanding suite of solution offerings.

The Company incurred \$413 of transaction costs related to the acquisition of TCI. Transaction costs are included in business development expenses on the consolidated statements of income and comprehensive income. The Company accounted for



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

the acquisition pursuant to ASC 805, “Business Combinations.” The preliminary allocation of the purchase price paid for TCI is based on estimated fair values of the assets acquired and liabilities assumed of TCI as of December 6, 2018 (in thousands):

Inventory	\$	3,718
Accounts receivable		5,822
Other assets, net		303
Property, plant and equipment		3,464
Amortizable intangible assets		36,400
Goodwill		18,457
Current liabilities		(4,029)
Net purchase price	\$	<u>64,135</u>

The purchase price excluded any cash on hand and any debt of TCI. The allocation of the purchase price is preliminary as the valuation of both the tangible and identifiable intangible assets is being finalized.

During the second quarter 2019, the purchase price allocation was revised to reflect an updated valuation of inventory.

The intangible assets acquired consist of customer lists, technology and a trade name, which are being amortized over 16, 15 and 19 years, respectively. Goodwill generated in the acquisition is related to the assembled workforce, synergies between Allied Motion’s other TUs and TCI that are expected to occur as a result of the combined engineering knowledge, the ability of each of the TUs to integrate each other’s products into more fully integrated system solutions and Allied Motion’s ability to utilize TCI’s management knowledge in providing complementary product offerings to the Company’s customers.

The goodwill resulting from the TCI acquisition is tax deductible.

#### ***Pro forma Condensed Combined Financial Information***

The following presents the Company’s unaudited pro forma financial information for the three months ended September 30, 2018 giving effect to the acquisition of TCI as if it had occurred at January 1, 2018. Included in the pro forma information is: the additional depreciation and amortization resulting from the valuation of amortizable tangible and intangible assets; interest on borrowings made by the Company; amortization of deferred finance costs incurred to issue the borrowings; and removal of acquisition related transaction costs.

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Revenues	\$ 91,436	\$ 270,261
Net income	\$ 5,348	\$ 14,889
Diluted earnings per share	\$ 0.57	\$ 1.59

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

#### ***Maval OE Steering***

On January 19, 2018, the Company purchased substantially all of the operating assets associated with the original equipment steering business of Maval Industries, LLC (“Maval”) for \$13,312 in cash. Consistent with the Company’s strategy to provide higher level system solutions, the addition of the Maval OE steering (“Maval OE Steering”) product line enables Allied to provide a fully integrated steering system solution to its customers.

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

The following table represents the purchase price allocation and summarizes the aggregate estimated fair value of the assets acquired (in thousands):

	January 19, 2018
Intangible assets	\$ 3,870
Goodwill	6,001
Assets acquired (net of liabilities assumed)	3,441
Fair value of net assets acquired	\$ 13,312

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The purchase price allocation was completed during the fourth quarter 2018.

The goodwill resulting from the Maval OE Steering acquisition is tax deductible.

### 3. REVENUE RECOGNITION

#### *Performance Obligations*

##### **Performance Obligations Satisfied at a Point in Time**

The Company's standard delivery method is "free on board" shipping point. Consequently, 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.

Sales, value add, and other taxes we collect 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 brush and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, active and passive filters for power quality and harmonic issues, and other controlled motion-related products. The Company's target markets include Vehicle, Medical, Aerospace & Defense and Industrial.

#### *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. The Company does not have any contracts that include a significant financing component as of September 30, 2019.

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

### Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers into geographical regions and target markets. The Company determines that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. As noted in the Segment Information footnote, the Company's business consists of one reportable segment. A reconciliation of disaggregated revenue to market revenue as well as revenue by geographical regions is provided in *Note 18, Segment Information*.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Target Market</b>				
Vehicle	\$ 33,001	\$ 31,717	\$ 97,375	\$ 95,071
Industrial	30,572	24,668	94,076	76,633
Medical	14,550	10,732	39,180	31,214
Aerospace & Defense	12,621	10,332	36,018	26,701
Other	5,889	2,643	16,510	7,030
<b>Total</b>	<b>\$ 96,633</b>	<b>\$ 80,092</b>	<b>\$ 283,159</b>	<b>\$ 236,649</b>

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Geography</b>				
United States	\$ 64,739	\$ 49,375	\$ 186,697	\$ 140,031
Europe	31,448	29,975	95,010	94,754
Asia	446	742	1,452	1,864
<b>Total</b>	<b>\$ 96,633</b>	<b>\$ 80,092</b>	<b>\$ 283,159</b>	<b>\$ 236,649</b>

### 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 receivables, contract asset, and contract liability are as follows (in thousands):

	Receivables	Contract Asset	Contract Liability
Opening balance at July 1, 2019	\$ —	\$ —	\$ 388
Closing balance at September 30, 2019	—	—	323
Increase/(decrease)	\$ —	\$ —	\$ (65)
Opening balance at July 1, 2018	\$ —	\$ —	\$ 623
Closing balance at September 30, 2018	—	—	579
Increase/(decrease)	\$ —	\$ —	\$ (44)

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

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

**Significant Payment Terms**

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

**Returns, Refunds, and Warranties**

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

**Practical Expedients**

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

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

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

**4. INVENTORIES**

Inventories include costs of materials, direct labor and manufacturing overhead, and are stated at the lower of cost (first-in, first-out basis) or net realizable value, as follows (in thousands):

	September 30, 2019	December 31, 2018
Parts and raw materials	\$ 33,769	\$ 34,449
Work-in-process	7,383	7,557
Finished goods	10,224	12,965
	<u>51,376</u>	<u>54,971</u>

**5. PROPERTY, PLANT AND EQUIPMENT**

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

	September 30, 2019	December 31, 2018
Land	\$ 970	\$ 981
Building and improvements	13,080	13,054
Machinery, equipment, tools and dies	68,196	60,755
Furniture, fixtures and other	15,515	15,571
	<u>97,761</u>	<u>90,361</u>
Less accumulated depreciation	(48,290)	(42,326)
Property, plant and equipment, net	<u>\$ 49,471</u>	<u>\$ 48,035</u>

Depreciation expense was \$2,315 and \$1,960 for the quarters ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, depreciation expense was \$6,780 and \$5,820, respectively.

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## 6. GOODWILL

The change in the carrying amount of goodwill for the nine months ended September 30, 2019 and year ended December 31, 2018 is as follows (in thousands):

	September 30, 2019	December 31, 2018
Beginning balance	\$ 52,639	\$ 29,531
Adjustment to or acquisition of goodwill (Note 2)	—	23,844
Effect of foreign currency translation	(116)	(736)
Ending balance	<u>\$ 52,523</u>	<u>\$ 52,639</u>

## 7. INTANGIBLE ASSETS

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

	Life	September 30, 2019			December 31, 2018		
		Gross Amount	Accumulated amortization	Net Book Value	Gross Amount	Accumulated amortization	Net Book Value
Customer lists	8 - 17 years	\$ 64,151	\$ (18,231)	\$ 45,920	\$ 64,439	\$ (15,343)	\$ 49,096
Trade name	10 - 19 years	12,185	(3,899)	8,286	12,249	(3,305)	8,944
Design and technologies	10 - 15 years	12,802	(3,259)	9,543	13,023	(2,723)	10,300
Patents	17 years	24	(11)	13	24	(10)	14
Total		<u>\$ 89,162</u>	<u>\$ (25,400)</u>	<u>\$ 63,762</u>	<u>\$ 89,735</u>	<u>\$ (21,381)</u>	<u>\$ 68,354</u>

Intangible assets resulting from the acquisition of TCI were approximately \$36,400 (Note 2). The intangible assets acquired consist of customer lists, a trade name and technology. The valuation and useful life of the purchased intangibles has not been finalized.

Intangible assets from the acquisition of the Maval OE Steering business were approximately \$3,870 (Note 2). The

intangible assets acquired consist of customer lists.

Amortization expense for intangible assets was \$1,429 and \$872 for the quarters ending September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, amortization expense was \$4,291 and \$2,634, respectively.

Estimated future intangible asset amortization expense as of September 30, 2019 is as follows (in thousands):

	Estimated Amortization Expense
Remainder of 2019	\$ 1,424
2020	5,698
2021	5,454
2022	5,454
2023	5,374
2024	5,072
Thereafter	35,286
Total estimated amortization expense	<u>\$ 63,762</u>

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## 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 nine months ended September 30, 2019, 108,801 shares of unvested restricted stock were awarded at a weighted average market value of \$41.98. Of the restricted shares granted, 76,877 shares have performance based vesting conditions. The value of the shares is amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of unvested restricted stock are generally forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

The following is a summary of restricted stock activity for the nine months ended September 30, 2019:

	Number of shares
Outstanding at beginning of period	155,742
Awarded	108,801
Vested	(70,410)
Forfeited	(1,989)
Outstanding at end of period	192,144

Stock-based compensation expense, net of forfeitures of \$834 and \$694 was recorded for the quarter ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, stock-based compensation expense, net of forfeitures, of \$2,374 and \$1,787 was recorded, respectively.

## 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Compensation and fringe benefits	\$ 11,367	\$ 11,642
Warranty reserve	884	971
Income taxes payable	3,044	1,182
Right of use liability	3,261	—
Other accrued expenses	5,015	4,927
	<u>\$ 23,571</u>	<u>\$ 18,722</u>

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## 10. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
<b>Long-term Debt</b>		
Revolving Credit Facility, long-term (1)	\$ 116,849	\$ 123,010
Unamortized debt issuance costs	(363)	(494)
Long-term debt	<u>\$ 116,486</u>	<u>\$ 122,516</u>

(1) The effective rate of the Revolver is 3.7% at September 30, 2019.

### Credit Agreement

On October 28, 2016, the Company entered into a \$125,000 revolving credit facility (the “Revolving Credit Facility”), with an initial term of five years.

On December 6, 2018, the Company and certain of its subsidiaries entered into a Second Amendment to Credit Agreement to exercise the \$50 million accordion feature of its existing senior secured revolving credit facility and to add TCI as an additional guarantor. The Company’s credit facility, which matures in October 2021, increased capacity from \$125 million to \$175 million with the additional borrowing capacity being provided by the existing lenders. Other terms and conditions under the credit facility remain unchanged. At September 30, 2019 there was approximately \$59,608 available under the Revolving Credit Facility.

Borrowings under the Revolving Credit Facility bear interest at the LIBOR Rate (as defined in the Credit Agreement) plus a margin of 1.00% to 2.25% or the Prime Rate (as defined in the Credit Agreement) plus a margin of 0% to 1.25%, in each case depending on the Company’s ratio of total funded indebtedness (as defined in the Credit Agreement) to consolidated trailing twelve-month EBITDA (the “Total Leverage Ratio”). At September 30, 2019, the applicable margin for LIBOR Rate borrowings was 1.75% and the applicable margin for Prime Rate borrowings was 0.75%. In addition, the Company is required to pay a commitment fee of between 0.10% and 0.25% quarterly (currently 0.175%) on the unused portion of the Revolving facility, also based on the Company’s Total Leverage Ratio. The 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 Credit Agreement contains certain financial covenants related to minimum interest coverage and total leverage ratio at the end of each quarter. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of additional indebtedness, and restrictions on the Company’s ability to merge or sell all or substantially all of its assets. The Company was in compliance with all covenants at September 30, 2019.

### Other

The China Credit Facility provides credit of approximately \$1,457 (Chinese Renminbi 10,000) (“the China Facility”). The China Facility is used for working capital and capital equipment needs at the Company’s China operations. There have been no borrowings on the China Credit Facility in 2019. The balance of the China Facility was zero as of December 31, 2018.

## 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, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s investments and borrowings.

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income (Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2019 and 2018, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. There was no hedge ineffectiveness recorded in the Company's earnings during the quarters ended September 30, 2019 and 2018.

The Company estimates that an additional \$135 will be reclassified as an increase to interest expense over the next twelve months. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018 (in thousands):

Derivatives designated as hedging instruments	Balance Sheet Location	Asset Derivatives		Balance Sheet Location	Liability Derivatives	
		Fair value as of:			Fair value as of:	
		September 30, 2019	December 31, 2018		September 30, 2019	December 31, 2018
Interest rate products	Other long-term assets	\$ —	\$ 566	Other long-term liabilities	\$ 476	\$ —

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive income (OCI) for the three and nine months ended September 30, 2019 and 2018 (in thousands):

Derivatives in cash flow hedging relationships	Amount of gain (loss) recognized in OCI on derivative		Amount of gain (loss) recognized in OCI on derivative	
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest rate products	\$ (78)	\$ 121	\$ (675)	\$ 936

  

Location of gain (loss) reclassified from accumulated OCI into income	Amount of gain (loss) reclassified from accumulated OCI into income (effective portion)		Amount of gain (loss) reclassified from accumulated OCI into income (effective portion)	
	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest expense	\$ (27)	\$ 16	\$ (128)	\$ 52



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The table below presents the effect of the Company's derivative financial instruments on the condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2019 and 2018:

Derivatives designated as hedging instruments	Balance Sheet Location	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 September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Interest rate products	Other long-term assets and other long-term liabilities	\$ 1,359	\$ 623	\$ 3,974	\$ 1,839

The tables below present a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of September 30, 2019 and December 31, 2018. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the condensed consolidated balance sheets.

As of September 30, 2019	Gross amounts of recognized liabilities	Gross amounts offset in the condensed consolidated balance sheets	Net amounts of assets presented in the condensed consolidated balance sheets	Gross amounts not offset in the condensed consolidated balance sheets		
				Financial instruments	Cash collateral received	Net amount
				Derivatives	\$ 476	\$ —

As of December 31, 2018	Gross amounts of recognized assets	Gross amounts offset in the condensed consolidated balance sheets	Net amounts of assets presented in the condensed consolidated balance sheets	Gross amounts not offset in the condensed consolidated balance sheets		
				Financial instruments	Cash collateral received	Net amount
				Derivatives	\$ 566	\$ —

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.

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

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

The following table presents the Company's financial assets that are accounted for at fair value on a recurring basis as of September 30, 2019 and December 31, 2018, respectively, by level within the fair value hierarchy (in thousands):

	September 30, 2019		
	Level 1	Level 2	Level 3
<b>Assets (liabilities)</b>			
Pension plan assets	\$ 5,820	\$ —	\$ —
Other long-term assets	4,490	—	—
Interest rate swaps	—	(476)	—
<b>December 31, 2018</b>			
	Level 1	Level 2	Level 3
<b>Assets</b>			
Pension plan assets	\$ 5,231	\$ —	\$ —
Other long-term assets	3,962	—	—
Interest rate swaps	—	434	—

### 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 a potential for volatility of the effective tax rate due to several factors, including changes in the mix of the pre-tax income and the jurisdictions to which it relates, changes in tax laws, settlements with taxing authorities and foreign currency fluctuations.

The effective income tax rate as a percentage of income before income taxes was 36.9% and 26.7% in the third quarter 2019 and 2018, respectively. The effective tax rate includes a discrete tax provision of 5.9% for the third quarter of 2019 related to settlement of a tax audit in a foreign jurisdiction and is net of a discrete tax benefit of (0.6%) for the third quarter of 2018 related to the recognition of excess tax benefits for share-based payment awards. For the nine months ended September 30, 2019 and 2018, the effective income tax rate as a percentage of income before income taxes was 31.1% and 26.8%, respectively. For the nine-month period ended September 30, 2019 the effective rate includes a discrete tax provision of 2.2% related to settlement of a tax audit in a foreign jurisdiction and for nine-month periods ended September 30, 2019 and 2018, the effective rate is net of a discrete tax benefit of (0.7%) and (1.1%), respectively, related primarily to the recognition of excess tax benefits for share-based payment awards.

The effective rate before discrete items varies from the statutory rate primarily due to differences in state taxes, the impact of international tax provisions in the US, the difference in foreign tax rates and the mix of foreign and domestic income. The increase in the effective income tax rate as a percentage of income before income taxes from third quarter 2018 to 2019 is a result of limited deductibility of Executive Compensation and Global Intangible Low-Taxed Income, both of which are on-going provisions of the Tax Cuts and Jobs Act that was enacted on December 22, 2017.

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In relation to the tax audit settlement in a foreign jurisdiction during the third quarter of 2019, the Company also received a \$384 assessment of a non-income-based tax expense that is included in other expense (income) in the condensed consolidated statements of income and comprehensive income for the quarter and nine months ended September 30, 2019.

#### 14. LEASES

Accounting Standards Update ASU No. 2016-02, *Leases (Topic 842)*, requires the Company to recognize a right of use (“ROU”) asset and a lease liability for all leases with terms greater than 12 months. Refer to Note 19 — Recent Accounting Pronouncements for discussion on the adoption of Topic 842.

The Company has operating leases for office space, manufacturing 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.

For the three and nine months ended September 30, 2019, the components of operating lease expense were as follows (in thousands):

	<u>Three months ended September 30, 2019</u>	<u>Nine months ended September 30, 2019</u>
Fixed operating lease expense	\$ 1,018	\$ 3,057
Variable operating lease expense	39	118
	<u>\$ 1,057</u>	<u>\$ 3,175</u>

Supplemental cash flow information related to the Company’s operating leases for the nine-month period ended September 30, 2019 was as follows (in thousands):

Cash paid for amounts included in the measurement of operating leases	\$ 3,101
ROU assets obtained in exchange for operating lease obligations	\$ 20,604

The following table presents the lease balances within the condensed consolidated balance sheet, weighted average remaining lease term, and weighted average discount rates related to the Company’s operating leases as of September 30, 2019 (in thousands except for the weighted average remaining lease term and weighted average discount rate):

<u>Lease assets and liabilities</u>	<u>Classification</u>	<u>Amount</u>
<b>Assets:</b>		
Right of use asset	Other long-term assets	\$ 17,358
<b>Liabilities:</b>		
Current		
Right of use liability, current	Accrued liabilities	\$ 3,261
Long-term		
Right of use liability, long-term	Other long-term liabilities	14,107
Total ROU lease liabilities		<u>\$ 17,368</u>
Weighted average remaining lease term		8.35
Weighted average discount rate		2.95%

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The following table presents the maturity of the Company's operating lease liabilities as of September 30, 2019 (in thousands):

2020	\$	3,711
2021		3,004
2022		2,419
2023		2,065
2024		1,682
Thereafter		6,349
Total undiscounted cash flows		19,230
Less: present value discount		(1,862)
Total lease liabilities	\$	<u>17,368</u>

As of September 30, 2019, the Company had no additional significant operating or finance leases that had not yet commenced.

#### 15. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated Other Comprehensive Income ("AOCI") for the quarter ended September 30, 2019 and 2018 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2019	\$ (1,006)	\$ (264)	\$ (8,285)	\$ (9,555)
Unrealized loss on cash flow hedges		(78)		(78)
Amounts reclassified from AOCI		(27)		(27)
Foreign currency translation loss			(2,369)	(2,369)
At September 30, 2019	<u>\$ (1,006)</u>	<u>\$ (369)</u>	<u>\$ (10,654)</u>	<u>\$ (12,029)</u>

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2018	\$ (945)	\$ 1,047	\$ (6,682)	(6,580)
Unrealized gain on cash flow hedges		121		121
Amounts reclassified from AOCI		16		16
Foreign currency translation loss			(307)	(307)
At September 30, 2018	<u>\$ (945)</u>	<u>\$ 1,184</u>	<u>\$ (6,989)</u>	<u>\$ (6,750)</u>

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AOCI for the nine months ended September 30, 2019 and 2018 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2018	\$ (1,006)	\$ 434	\$ (7,946)	\$ (8,518)
Unrealized loss on cash flow hedges		(675)		(675)
Amounts reclassified from AOCI		(128)		(128)
Foreign currency translation loss			(2,708)	(2,708)
At September 30, 2019	<u>\$ (1,006)</u>	<u>\$ (369)</u>	<u>\$ (10,654)</u>	<u>\$ (12,029)</u>
	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2017	\$ (945)	\$ 196	\$ (4,837)	\$ (5,586)
Unrealized gain on cash flow hedges		936		936
Amounts reclassified from AOCI		52		52
Foreign currency translation loss			(2,152)	(2,152)
At September 30, 2018	<u>\$ (945)</u>	<u>\$ 1,184</u>	<u>\$ (6,989)</u>	<u>\$ (6,750)</u>

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

#### 16. DIVIDENDS PER SHARE

The Company declared a quarterly dividend of \$0.030 per share for the first three quarters of 2019. Dividends declared in the first quarter of 2018 were \$0.025 per share and \$0.030 per share in the second and third quarters of 2018. Total dividends declared in the first nine months of 2019 and 2018 were \$863 and \$805, respectively.

#### 17. EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basic weighted average shares outstanding	9,414	9,273	9,390	9,251
Dilutive effect of equity awards	50	98	45	86
Diluted weighted average shares outstanding	<u>9,464</u>	<u>9,371</u>	<u>9,435</u>	<u>9,337</u>

For the three and nine months ended September 30, 2019, 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 original equipment manufacturers and end user applications. The Company's chief operating decision maker has been identified as the Chief Executive Officer and President, who reviews operating results to make decisions about allocating resources and

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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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues derived from foreign subsidiaries	\$ 31,894	\$ 30,717	\$ 96,461	\$ 96,618

Identifiable foreign assets were \$92,403 and \$88,400 as of September 30, 2019 and December 31, 2018, respectively.

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

Sales to customers outside of the United States by all subsidiaries were \$39,534 and \$36,216 during the quarters ended September 30, 2019 and 2018, respectively; and \$122,020 and \$111,073 for the nine months ended September 30, 2019 and 2018, respectively.

For third quarter 2019 and 2018, one customer accounted for 17% and 20% of revenues, respectively; and for the year to date 2019 and 2018 for 16% and 20% of revenues, respectively. As of September 30, 2019, and December 31, 2018 this customer represented 17% and 13% of trade receivables, respectively.

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## 19. RECENT ACCOUNTING PRONOUNCEMENTS

### *Recently adopted accounting pronouncements*

In February 2016, the FASB issued Accounting Standards Update ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use (“ROU”) asset and a lease liability for all leases with terms greater than 12 months and also requires disclosures by lessees and lessors about the amount, timing and uncertainty of cash flows arising from leases. Subsequent to the issuance of Topic 842, the FASB clarified the guidance through several ASUs; hereinafter the collection of lease guidance is referred to as “ASC 842”.

On January 1, 2019, the Company adopted ASC 842 using the modified retrospective method for all lease arrangements at the beginning of the period of adoption. Results for reporting periods beginning January 1, 2019 are presented under ASC 842, while prior period amounts were not adjusted and continue to be reported in accordance with the Company’s historic accounting under ASC 840, *Leases*. The standard had a material impact on the Company’s consolidated condensed balance sheet but did not have a significant impact on the Company’s consolidated net income and cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. For leases that commenced before the effective date of ASC 842, the Company elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The Company also elected to exclude leases with a term of 12 months or less in the recognized ROU assets and lease liabilities, when the likelihood of renewal is not probable.

As a result of the cumulative impact of adopting ASC 842, the Company recorded operating lease ROU assets of \$19,728 and operating lease liabilities of \$20,350 as of January 1, 2019, primarily related to real estate, equipment and automobile leases, based on the present value of the future lease payments on the date of adoption. Refer to Note 14 - Leases for the additional disclosures required by ASC 842.

The Company determines if an arrangement is a lease at inception. ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of the Company’s leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The ROU asset also consists of any prepaid lease payments and deferred rent liabilities. The lease terms used to calculate the ROU asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense. The Company has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component.

### *Recently issued accounting pronouncements*

In August 2018, the FASB issued ASU No. 2018-13, “*Fair Value Measurement (Topic 820)*”, which modifies the disclosures on fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. The ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income (loss). The ASU is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted. Management has not yet completed its assessment of the impact of the new standard on the Company’s consolidated financial statements.

In September 2016, the FASB issued ASU 2016-13, “*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*”. This guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This guidance also requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses. The new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

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

*All statements contained herein that are not statements of historical fact constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word “believe,” “anticipate,” “expect,” “project,” “intend,” “will continue,” “will likely result,” “should” or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from the expected results described in the forward-looking statements. The risks and uncertainties include those associated with: the domestic and foreign general business and economic conditions in the markets we serve, including political and currency risks and adverse changes in local legal and regulatory environments; the introduction of new technologies and the impact of competitive products; the ability to protect the Company’s intellectual property; our ability to sustain, manage or forecast its growth and product acceptance to accurately align capacity with demand; the continued success of our customers and the ability to realize the full amounts reflected in our order backlog as revenue; the loss of significant customers or the enforceability of the Company’s contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise; our ability to meet the technical specifications of our customers; the performance of subcontractors or suppliers and the continued availability of parts and components; changes in government regulations; the availability of financing and our access to capital markets, borrowings, or financial transactions to hedge certain risks; the ability to attract and retain qualified personnel who can design new applications and products for the motion industry; the ability to implement our corporate strategies designed for growth and improvement in profits including to identify and consummate favorable acquisitions to support external growth and the development of new technologies; the ability to successfully integrate an acquired business into our business model without substantial costs, delays, or problems; our the ability to control costs, including the establishment and operation of low cost region manufacturing and component sourcing capabilities; and the additional risk factors discussed under “Item 1A. Risk Factors” in Part II of this report and in the Company’s Annual Report in Form 10-K. Actual results, events and performance may differ materially. Readers are cautioned not to place undue reliance on these forward- looking statements as a prediction of actual results. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. The Company has no obligation or intent to release publicly any revisions to any forward-looking statements, whether as a result of new information, future events, or otherwise.*

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

### **Overview**

We are a global company that designs, manufactures and sells precision and specialty controlled motion components and systems used in a broad range of industries. Our target markets include Vehicle, Medical, Aerospace & Defense, and Industrial. We are headquartered in Amherst, NY, and have operations in the United States, Canada, Mexico, Europe and Asia. 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 original equipment manufacturers (“OEMs”) through our own direct sales force and authorized manufacturers’ representatives and distributors. Our products include brush and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, active and passive filters for power quality and harmonic issues, and other controlled motion-related products.

### **Financial overview**

Growth across all the Company’s served markets led to leveraging of costs and expansion of margins. Revenue for the three and nine-month periods ended September 30, 2019 was \$96,633 and \$283,159, respectively. Excluding the unfavorable effects of foreign currency exchange (“FX”) of \$1,567, third quarter revenue was \$98,200, up 22.6%. For the nine months ended September 30, 2019, excluding the unfavorable effects of FX of \$6,717, revenue was \$289,876, up 22.5%. Revenue excluding foreign currency exchange impacts is a non-GAAP measurement. Refer to information included in “Non - GAAP Measures” below for a reconciliation of revenue to revenue excluding foreign currency exchange impacts.

Our *One Allied* strategy to gain market share with our unique ability to provide engineered solutions for our customers is the primary driver of our growth in 2019. Our business operating system, Allied Systematic Tools (AST), is contributing to



stronger margins. Improved product mix helped to overcome expense associated with an ongoing supplier issue. Our recent acquisition, TCI continues to be a strong contributor to sales and earnings and has strategically expanded our market access.

## Operating Results

### Quarter ended September 30, 2019 compared to quarter ended September 30, 2018

(in thousands)	For the quarter ended September 30,		2019 vs. 2018 Variance	
	2019	2018	\$	%
Revenues	\$ 96,633	\$ 80,092	\$ 16,541	21%
Cost of goods sold	66,603	56,330	10,273	18%
Gross profit	30,030	23,762	6,268	26%
Gross margin percentage	31.1%	29.7%		
Operating costs and expenses:				
Selling	4,144	2,762	1,382	50%
General and administrative	9,932	8,177	1,755	21%
Engineering and development	5,705	4,692	1,013	22%
Business development	8	33	(25)	(76)%
Amortization of intangible assets	1,429	872	557	64%
Total operating costs and expenses	21,218	16,536	4,682	28%
Operating income	8,812	7,226	1,586	22%
Interest expense	1,359	623	736	118%
Other expense (income), net	140	(24)	164	(683)%
Total other expense	1,499	599	900	150%
Income before income taxes	7,313	6,627	686	10%
Provision for income taxes	(2,695)	(1,767)	(928)	53%
Net Income	\$ 4,618	\$ 4,860	\$ (242)	(5)%
Effective tax rate	36.9%	26.7%	10%	38%
Diluted earnings per share	\$ 0.49	\$ 0.52	\$ (0.03)	(6)%
Bookings	\$ 90,726	\$ 85,081	\$ 5,645	7%
Backlog	\$ 125,821	\$ 115,713	\$ 10,108	9%

**NET INCOME:** Net income increased during the third quarter of 2019 reflecting a significant increase in revenues partially offset by increased selling and general administrative costs to support growth along with incremental interest and amortization associated with the TCI and Maval acquisitions.

**EBITDA AND ADJUSTED EBITDA:** EBITDA was \$12,416 for the third quarter of 2019 compared to \$10,082 for the same quarter last year. Adjusted EBITDA was \$13,641 and \$10,809 for the third quarter of 2019 and 2018, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense and certain other items. Refer to information included in "Non - GAAP Measures" below for a reconciliation of net income to EBITDA and adjusted EBITDA.

**REVENUES:** For the quarter, the increase in revenues reflects increased sales in most of our served markets, including contributions from the TCI acquisition made in December 2018.

Sales to U.S. customers were 59% of total sales for the quarter compared with 55% for the same period last year, with the balance of sales to customers primarily in Europe, Canada and Asia. The overall increase in revenue was due to an 22.7% volume increase offset by a 2.0% unfavorable currency impact.

**ORDER BOOKINGS AND BACKLOG:** The increase in bookings in the third quarter of 2019 compared to the third quarter of 2018 is largely due to growth across all of the major markets served by the company, including contributions from the TCI acquisition made in December 2018. The increase of backlog as of September 30, 2019, compared to September 30, 2018 was attributable to the same factors.

**GROSS MARGIN:** Gross margin increased 140 basis points to 31.1% for the third quarter of 2019 compared to 29.7% for the same quarter last year. This is due to higher volumes, favorable product mix across a number of served markets, as well as the recent acquisition of TCI.

**SELLING EXPENSES:** Selling expenses increased in the third quarter of 2019 compared to the same period of 2018. This was attributable to higher commissioned sales and the additional selling organizations associated with the TCI acquisition. Selling expenses as a percentage of revenues were 4.3% in the third quarter of 2019 compared to 3.4% for the same period last year.

**GENERAL AND ADMINISTRATIVE EXPENSES:** General and administrative expenses increased by 21% in the third quarter 2019 from the third quarter 2018 largely due to the addition of TCI. As a percentage of revenues, general and administrative expenses remained constant near 10% for the period ended September 30, 2019 compared to the same period in 2018.

**ENGINEERING AND DEVELOPMENT EXPENSES:** Engineering and development expenses increased by 22% in the third quarter of 2019 compared to the same quarter last year, however remained constant near 6.0% as a percentage of sales. The increase in expenses is primarily due to added resources, the continued ramp up of development projects to meet the future needs of customers and target markets along with the engineering resources associated with the acquired businesses in 2018.

**AMORTIZATION OF INTANGIBLE ASSETS:** Amortization expense increased 64% to \$1,429 in the third quarter of 2019 compared to the third quarter of 2018 due to the increase in intangible assets from the acquisition of TCI.

**INCOME TAXES:** The effective income tax rate as a percentage of income before income taxes was 36.9% and 26.7% in the third quarter 2019 and 2018, respectively. The effective tax rate for the third quarter of 2019 includes a discrete tax provision of 5.9% related to settlement of a tax audit in a foreign jurisdiction and for the third quarter of 2018 is net of a discrete tax benefit of (0.6%) related to the recognition of excess tax benefits for share-based payment awards. The effective rate before discrete items varies from the statutory rate primarily due to differences in state taxes, the impact of international tax provisions in the US, the difference in foreign tax rates and the mix of foreign and domestic income.

**Nine months ended September 30, 2019 compared to nine months ended September 30, 2018**

(in thousands)	For the nine months ended September 30,		2019 vs. 2018 Variance	
	2019	2018	\$	%
Revenues	\$ 283,159	\$ 236,649	\$ 46,510	20%
Cost of goods sold	197,045	166,816	30,229	18%
Gross profit	86,114	69,833	16,281	23%
Gross margin percentage	30.4%	29.5%		
Operating costs and expenses:				
Selling	12,373	8,402	3,971	47%
General and administrative	28,451	23,969	4,482	19%
Engineering and development	17,188	14,610	2,578	18%
Business development	64	349	(285)	(82)%
Amortization of intangible assets	4,291	2,634	1,657	63%
Total operating costs and expenses	62,367	49,964	12,403	25%
Operating income	23,747	19,869	3,878	20%
Interest expense	3,974	1,839	2,135	116%
Other expense (income), net	121	(118)	239	(203)%
Total other expense	4,095	1,721	2,374	138%
Income before income taxes	19,652	18,148	1,504	8%
Provision for income taxes	(6,119)	(4,859)	(1,260)	26%
Net Income	\$ 13,533	\$ 13,289	\$ 244	2%
Effective tax rate	31.1%	26.8%	4%	16%
Diluted earnings per share	\$ 1.43	\$ 1.42	\$ 0.01	1%
Bookings	\$ 279,788	\$ 252,018	\$ 27,770	11%
Backlog	\$ 125,821	\$ 115,713	\$ 10,108	9%

**NET INCOME:** Net income increased during 2019 reflecting an increase in revenues partially offset by increased selling and general administrative costs to support growth along with the added infrastructure costs, amortization, and interest related to the acquisitions completed during 2018.

**EBITDA AND ADJUSTED EBITDA:** EBITDA was \$34,697 for 2019 compared to \$28,441 last year. Adjusted EBITDA was \$37,519 and \$30,577 for 2019 and 2018, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock compensation expense and certain other items. Refer to information included in "Non - GAAP Measures" below for a reconciliation of net income to EBITDA and adjusted EBITDA.

**REVENUES:** For 2019, the increase in revenues reflects increased sales in all our served markets, as well as contributions from the TCI acquisition made in December 2018.

Sales to U.S. customers were 57% of total sales for 2019 compared with 53% for the same period last year, with the balance of sales to customers primarily in Europe, Canada and Asia. Sales volume increased by 22.5% for the nine months ended September 30, 2019, offset by a 2.8% unfavorable currency impact.

**ORDER BOOKINGS AND BACKLOG:** The increase in orders in 2019 compared to 2018 is largely due to organic growth across all the major markets served by the company, along with the acquisition of TCI in late 2018. The increase in backlog as of September 30, 2019, compared to September 30, 2018 was attributable to the same factors.

**GROSS MARGIN:** Gross margin increased 90 basis points to 30.4% in 2019 compared to 29.5% in 2018. As noted above, this is due to higher volumes, favorable product mix across a number of served markets, and the recent acquisition of TCI.

**SELLING EXPENSES:** Selling expenses increased in 2019 compared to 2018 primarily due to higher commissioned sales and the additional selling organization associated with the acquisition of TCI. Selling expenses as a percentage of revenues increased to 4.4% for 2019 compared to 3.6% in 2018.

**GENERAL AND ADMINISTRATIVE EXPENSES:** General and administrative expenses increased by 19% in 2019 compared to 2018 largely due to the acquisition of TCI along with higher stock compensation and incentive compensation expense associated with improved performance. As a percentage of revenues, general and administrative expenses were approximately 10% for 2019 and 2018.

**ENGINEERING AND DEVELOPMENT EXPENSES:** Engineering and development expenses increased by 18% in 2019 compared to 2018, however decreased as percentage of sales. The increase in expenses is primarily due to added resources (headcount and consulting), the continued ramp up of development projects to meet the future needs of customers and target markets along with the engineering resources associated with the acquired businesses in 2018. As a percentage of revenues, engineering and development expenses were 6.1% for 2019, down 10 basis points from 6.2% in 2018.

**BUSINESS DEVELOPMENT COSTS:** The Company incurred \$64 of business development costs in 2019 compared to \$349 of business development costs last year. The costs in 2019 relate to activity from the December 2018 acquisition of TCI. The costs in 2018 were related to the acquisition of the Maval OE Steering business and activity associated with other M&A opportunities.

**AMORTIZATION OF INTANGIBLE ASSETS:** Amortization expense increased 63% in 2019 compared to 2018 due to the increase in intangible assets from the acquisition TCI.

**INCOME TAXES:** The effective income tax rate as a percentage of income before income taxes was 31.1% and 26.8% for the nine months ended September 30, 2019 and 2018, respectively. For the nine-month period ending September 30, 2019, the effective tax rate includes a discrete tax provision of 2.2% related to settlement of a tax audit in a foreign jurisdiction and for nine-month periods ended September 30, 2019 and 2018, the effective rate is net of a discrete tax benefit of (0.7%) and (1.1%), respectively, related primarily to the recognition of excess tax benefits for share-based payment awards. The effective rate before discrete items varies from the statutory rate primarily due to differences in state taxes, the impact of international tax provisions in the US, the difference in US and foreign tax rates and the mix of foreign and domestic income.

#### **Non-GAAP Measures**

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

Management believes the presentation of these financial measures reflecting non-GAAP adjustments provides important supplemental information in evaluating the operating results of the Company as distinct from results that include items that are not indicative of ongoing operating results; in particular, those charges and credits that are not directly related to operating unit performance, and that are not a helpful measure of the performance of our underlying business particularly in light of their unpredictable nature. These non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for revenue and net income determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. In addition, supplemental presentation should not be construed as an inference that the Company's future results will be unaffected by similar adjustments to net income determined in accordance with GAAP.

The Company believes that revenue excluding foreign currency exchange impacts is a useful measure in analyzing organic sales results. The Company excludes the effect of currency translation from revenue for this measure because currency translation is not under management's control, is subject to volatility and can obscure underlying business trends. The portion of revenue attributable to currency translation is calculated as the difference between the current period revenue and the current period revenue after applying foreign exchange rates from the prior period.

The Company believes EBITDA is often a useful measure of a Company's operating performance and is a significant basis used by the Company's management to measure the operating performance of the Company's business because EBITDA

excludes charges for depreciation, amortization and interest expense that have resulted from our debt financings, as well as our provision for income tax expense. EBITDA is frequently used as one of the bases for comparing businesses in the Company's industry.

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

The Company's calculation of revenues excluding foreign currency exchange impacts for the quarter ended September 30, 2019 is as follows:

	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
Revenue as reported	\$ 96,633	\$ 283,159
Currency impact	1,567	6,717
Revenue excluding foreign currency exchange impacts	<u>\$ 98,200</u>	<u>\$ 289,876</u>

The Company's calculation of EBITDA and Adjusted EBITDA for the quarters ended September 30, 2019 and 2018 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Net income as reported	\$ 4,618	\$ 4,860	\$ 13,533	\$ 13,289
Interest expense	1,359	623	3,974	1,839
Provision for income tax	2,695	1,767	6,119	4,859
Depreciation and amortization	3,744	2,832	11,071	8,454
EBITDA	<u>12,416</u>	<u>10,082</u>	<u>34,697</u>	<u>28,441</u>
Stock compensation expense	833	694	2,374	1,787
Non income based tax assessment	384	—	384	—
Business development costs	8	33	64	349
Adjusted EBITDA	<u>\$ 13,641</u>	<u>\$ 10,809</u>	<u>\$ 37,519</u>	<u>\$ 30,577</u>

### Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents decreased by \$95 to a balance of \$8,578 at September 30, 2019 from December 31, 2018.

	Nine months ended September 30,		2019 vs. 2018
	2019	2018	\$
Net cash provided by operating activities	\$ 17,004	\$ 11,286	\$ 5,718
Net cash used in investing activities	(9,280)	(23,893)	14,613
Net cash (used in) provided by financing activities	(7,513)	8,770	(16,283)
Effect of foreign exchange rates on cash	(306)	(396)	90
Net decrease in cash and cash equivalents	<u>\$ (95)</u>	<u>\$ (4,233)</u>	<u>\$ 4,138</u>

During the third quarter of 2019, the increase in cash provided by operating activities is primarily due to a decrease in working capital needs primarily for inventories despite increased revenues along with higher levels of orders, particularly in the second quarter of 2019.

The significant cash used in investing activities in 2018 reflects the acquisition the Maval OE Steering business. Purchases of property and equipment were \$9,280 during 2019 compared to \$10,581 for 2018. The Company expects to invest between \$13 million and \$15 million in capital expenditures during 2019.

During the first quarter of 2019, the Company utilized revolver borrowings to fund working capital to support the growth seen from fourth quarter 2018 along with the payment of annual incentive compensation amounts. During the second quarter of 2019, the Company made payments on the revolver that offset all but \$695 of the 2019 borrowings. During the third quarter of 2019, the Company reduced net debt by approximately \$6,700.

The cash used in financing activities in first quarter 2018 reflects the use of the revolver to partially finance the acquisition of the Maval OE Steering business. At September 30, 2019, we had \$116,849 of obligations under the Revolving Facility excluding the unamortized debt issue costs.

The Credit Agreement contains certain financial covenants related to minimum interest coverage and total leverage ratio at the end of each quarter. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of additional indebtedness, and restrictions on the ability to merge, consolidate or sell all or substantially all our assets. We were in compliance with all covenants at September 30, 2019.

As of September 30, 2019, the amount available to borrow under the Credit Agreement was approximately \$59,608. The Credit Agreement matures in October 2021.

There were no borrowings on the China Facility balance during the quarter ended September 30, 2019.

The Company declared dividends of \$0.030 per share during each of the first three quarters of 2019. The Company's working capital, capital expenditure and dividend requirements are expected to be funded from cash provided by operations and amounts available under the Credit Agreement.

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

#### ***Foreign Currency***

We have foreign operations in The Netherlands, Sweden, Germany, China, Portugal, Canada and Mexico, which expose the Company to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Swedish Krona, Chinese Renminbi, Canadian dollar and Mexican pesos, respectively. We continuously evaluate our foreign currency risk and will take action from time to time in order to best mitigate these risks. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have had an impact of approximately \$3,200 on our third quarter 2019 sales and \$9,600 on our sales for the nine months ended September 30, 2019. This amount is not indicative of the hypothetical net earnings impact due to partially offsetting impacts on cost of sales and operating expenses in those currencies. We estimate that foreign currency exchange rate fluctuations during the quarter ended September 30, 2019 decreased sales in comparison to quarter ended September 30, 2018 by approximately \$1,600. For the nine months ended September 30, 2019 we estimate that foreign currency exchange rate fluctuations decreased sales by approximately \$6,700 compared to the nine months ended September 30, 2018.

We translate all assets and liabilities of our foreign operations, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the condensed consolidated financial statements as Comprehensive Income. The translation adjustment was a loss of approximately \$2,369 and \$307 for the third quarter of 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, the translation adjustment was a loss of approximately \$2,708 and \$2,152, respectively. Translation adjustments are not adjusted for income taxes as they relate to permanent investments in our foreign subsidiaries. Net foreign currency transaction gains and losses included in other income, net amounted to a gain of \$214 and \$17 for the third quarter of 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, net foreign currency transaction gains and losses included in other income, net were a gain of \$156 and \$173, respectively. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency net assets would have had an impact of approximately \$6,350 on our foreign net assets as of September 30, 2019.

#### ***Interest Rates***

Interest rates on our Revolving Facility are based on the LIBOR plus a margin of 1.00% to 2.25% (currently 1.75%) or the Prime Rate plus a margin of 0% to 1.25% (currently 0.75%), in each case depending on the Company's ratio of total funded indebtedness to consolidated EBITDA. We use interest rate derivatives to add stability to interest expense and to manage our exposure to interest rate movements. We primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in

exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During October 2013, the Company entered into two interest rate swaps with a combined notional of \$25,000 that amortized quarterly to a notional of \$6,673 at the September 2018 maturity. Neither of these interest rate swaps is currently active, one was liquidated as part of the 2016 debt refinancing and the other matured in September 2018. In February 2017, we entered into three interest rate swaps with a combined notional of \$40,000 that matures in February 2022.

As of September 30, 2019, we had \$116,849 outstanding under the Revolving Facility, of which \$40,000 is currently being hedged. Refer to Note 10 of the notes to the condensed consolidated financial statements for additional information about our outstanding debt. A hypothetical one percentage point (100 basis points) change in the Base Rate on the \$76,849 of unhedged floating rate debt outstanding at September 30, 2019 would have an impact of approximately \$200 on our interest expense for the third quarter of 2019 and \$600 on our interest expense for the nine months ended September 30, 2019.

## **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 September 30, 2019. 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 September 30, 2019, 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 September 30, 2019, 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, 2018, 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 2018 Annual Report in Form 10-K.

### **Item 5. Other Information**

None.

### **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 The following materials from Allied Motion Technologies Inc.’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income and comprehensive income, (iii) condensed consolidated statements of stockholders’ equity, (iv) condensed consolidated statements of cash flows, and (v) the notes to the condensed consolidated financial statements.



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: October 31, 2019

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ Michael R. Leach

Michael R. Leach

*Chief Financial Officer*

## 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 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: October 31, 2019

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

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## 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 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: October 31, 2019

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

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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 September 30, 2019 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: October 31, 2019

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

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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 September 30, 2019 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: October 31, 2019

/s/ Michael R. Leach

Michael R. Leach

*Chief Financial Officer*

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