

ALLIED MOTION TECHNOLOGIES INC  
Form 10-Q  
November 14, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**Form 10-Q**

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

**For the quarterly period ended September 30, 2013**

Commission File Number

0-04041

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**ALLIED MOTION TECHNOLOGIES INC.**

(Exact name of Registrant as Specified in Its Charter)

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

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

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455 Commerce Drive, Suite 4

Amherst, New York 14228

(Address of Principal Executive offices, including zip code)

(716) 242-8634

(Registrant's Telephone Number, Including Area Code)

(Former Address, if Changed Since Last Report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of Shares of the only class of Common Stock outstanding: 9,093,389 as of November 8, 2013

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

(Unaudited)

	September 30, 2013	December 31, 2012
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 11,654	\$ 9,728
Trade receivables, net of allowance for doubtful accounts of \$189 and \$177 at September 30, 2013 and December 31, 2012, respectively	13,429	10,806
Inventories, net	15,167	14,701
Deferred income taxes	731	639
Prepaid expenses and other assets	1,431	2,155
Total Current Assets	42,412	38,029
Property, plant and equipment, net	9,649	8,631
Deferred income taxes	4,115	4,103
Intangible assets, net	2,227	2,431
Other long-term assets, net	2,672	1,991
Goodwill	5,916	5,782
Total Assets	\$ 66,991	\$ 60,967
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Debt obligations	1,141	397
Accounts payable	7,628	5,748
Accrued liabilities	5,485	5,926
Total Current Liabilities	14,254	12,071
Deferred income taxes	885	935
Deferred compensation arrangements	2,692	1,997
Pension and post-retirement obligations	3,694	3,812
Total Liabilities	21,525	18,815
Commitments and Contingencies		
Stockholders Equity:		
Common stock, no par value, authorized 50,000 shares; 8,845 and 8,631 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	23,543	22,547
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	22,494	20,528
Accumulated other comprehensive loss	(571)	(923)
Total Stockholders Equity	45,466	42,152
Total Liabilities and Stockholders Equity	\$ 66,991	\$ 60,967

See accompanying notes to condensed consolidated financial statements.



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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In Thousands, except per share data)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 24,876	\$ 24,316	\$ 75,371	\$ 77,999
Cost of products sold	17,638	17,217	53,075	55,112
Gross margin	7,238	7,099	22,296	22,887
Operating costs and expenses:				
Selling	1,132	1,143	3,640	3,798
General and administrative	2,516	2,343	8,098	8,197
Engineering and development	1,718	1,454	5,123	4,570
Business development costs	596		1,235	
Relocation costs			234	
Amortization of intangible assets	83	126	252	466
Total operating costs and expenses	6,045	5,066	18,582	17,031
Operating income	1,193	2,033	3,714	5,856
Other (expense) income, net:				
Interest expense	(13)	(2)	(30)	(12)
Other expense, net	(38)	(89)	58	230
Total other (expense) income, net	(51)	(91)	28	218
Income before income taxes	1,142	1,942	3,742	6,074
Provision for income taxes	(309)	(621)	(1,130)	(1,778)
Net income	\$ 833	\$ 1,321	\$ 2,612	\$ 4,296
Foreign currency translation adjustment	806	305	352	(135)
Comprehensive income	\$ 1,639	\$ 1,626	\$ 2,964	\$ 4,161
Basic net income per share:				
Net income per share	\$ 0.09	\$ 0.15	\$ 0.30	\$ 0.50
Basic weighted average common shares	8,807	8,673	8,778	8,637
Diluted net income per share:				
Net income per share	\$ 0.09	\$ 0.15	\$ 0.30	\$ 0.50
Diluted weighted average common shares	8,807	8,673	8,778	8,637

See accompanying notes to condensed consolidated financial statements.

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

**(Unaudited)**

	For the nine months ended	
	September 30,	
	2013	2012
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 2,612	\$ 4,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,311	1,361
Stock compensation expense	674	446
Other	(447)	692
Changes in assets and liabilities:		
Trade receivables	(2,510)	(1,244)
Inventories, net	(326)	(1,203)
Prepaid expenses and other assets	(484)	(1,254)
Accounts payable	1,796	(371)
Accrued liabilities	818	(2,076)
Net cash provided by operating activities	3,444	647
<b>Cash Flows From Investing Activities:</b>		
Consideration paid for acquisition		(1,350)
Purchase of property and equipment	(2,055)	(2,021)
Net cash used in investing activities	(2,055)	(3,371)
<b>Cash Flows From Financing Activities:</b>		
Borrowings on line of credit	724	
Dividends paid	(646)	(629)
Stock transactions under employee benefit stock plans	414	355
Net cash provided by (used in) financing activities	492	(274)
Effect of foreign exchange rate changes on cash	45	100
Net increase (decrease) in cash and cash equivalents	1,926	(2,898)
Cash and cash equivalents at beginning of period	9,728	9,155
Cash and cash equivalents at end of period	\$ 11,654	\$ 6,257

See accompanying notes to condensed consolidated financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

**1. Basis of Preparation and Presentation**

Allied Motion Technologies Inc. (the Company) is engaged in the business of designing, manufacturing and selling motion control products to a broad spectrum of customers throughout the world.

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

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

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

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the 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 interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2012 that was previously filed by the Company.

**2. Inventories**



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Inventories, valued at the lower of cost (first-in, first-out basis) or market, are as follows (in thousands):

	September 30,		December 31,	
	2013		2012	
Parts and raw materials	\$	12,345	\$	13,174
Work-in process		1,781		1,504
Finished goods		3,062		2,096
		17,188		16,774
Less reserves		(2,021)		(2,073)
Inventories, net	\$	15,167	\$	14,701

Table of Contents**3. Property, Plant and Equipment**

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

	September 30, 2013	December 31, 2012
Land	\$ 290	\$ 290
Building and improvements	3,961	3,713
Machinery, equipment, tools and dies	15,183	13,483
Furniture, fixtures and other	4,159	3,996
	23,593	21,482
Less accumulated depreciation	(13,944)	(12,851)
Property, Plant and Equipment, net	\$ 9,649	\$ 8,631

Depreciation expense was \$395,000 and \$255,000 for the quarters ended September 30, 2013 and 2012, respectively. Depreciation expense was \$1,059,000 and \$895,000 for the nine months ended September 30, 2013 and 2012, respectively.

**4. 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, 2013, 175,213 shares of unvested restricted stock were awarded at a market value of \$7.03. Of the restricted shares granted, 58,909 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 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, 2013:

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	<b>Number of Shares</b>
Outstanding at beginning of period	243,124
Granted	175,213
Forfeited	(3,181)
Vested	(143,266)
Outstanding at end of Period	271,890

For the quarters ended September 30, 2013 and 2012, stock compensation expense, net of forfeitures, of \$172,000 and \$160,000 was recorded, respectively. For the nine-months ended September 30, 2013 and 2012, stock compensation expense, net of forfeitures, of \$674,000 and \$446,000 was recorded, respectively.

On October 18, 2013, an additional 248,305 shares were awarded at a market value of \$8.23, to certain executives of the Company as a result of the acquisition of Globe Motors, Inc. The stock compensation expense will occur over the service period of 5 years, and will begin to be

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recognized in the fourth quarter of 2013. See Note 11, Subsequent Events, for additional details surrounding the acquisition.

## 5. Dividends per Share

The Company declared and paid a quarterly dividend of \$0.025 per share in each of the first three quarters of 2013 and 2012. Total dividends paid in the first nine months of 2013 and 2012 were \$646,000 and \$629,000, respectively.

## 6. Segment Information

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

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

The Company's wholly owned foreign subsidiaries, located in The Netherlands, Sweden, Canada, and Asia are included in the accompanying condensed consolidated financial statements. Financial information related to the foreign subsidiaries is summarized below (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Revenues derived from foreign subsidiaries	\$ 11,167	\$ 9,771	\$ 33,934	\$ 32,085
Identifiable assets as of September 30,	\$ 31,480	\$ 25,335		

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Sales to customers outside of the United States by all subsidiaries were \$11,491,000 and \$10,172,000 during the quarters ended September 30, 2013 and 2012, respectively, and \$35,504,000 and \$33,905,000 for the nine months ended September 30, 2013 and 2012, respectively.

During the quarters and nine months ended September 30, 2013 and 2012, no single customer accounted for more than 10% of total revenues.

Table of Contents**7. Intangible Assets**

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

	September 30, 2013		December 31, 2012	Estimated Life
Amortizable intangible assets				
Customer lists	\$ 4,421	\$	4,364	8-10 years
Trade name	946		946	10 years
Design and technologies	2,684		2,626	8-10 years
Patents	24		24	
Accumulated amortization	(5,848)		(5,529)	
Total intangible assets	\$ 2,227	\$	2,431	

Amortization expense for intangible assets was \$83,000 and \$126,000 for the quarters ended September 30, 2013 and 2012, respectively, and \$252,000 and \$466,000 for the nine months ended September 30, 2013 and 2012, respectively.

**8. Goodwill**

The change in the Company's goodwill during the nine months ended September 30, 2013 is summarized in the table below (in thousands):

Balance, December 31, 2012	\$ 5,782
Foreign currency translation	134
Balance, September 30, 2013	\$ 5,916

**9. Debt Obligations**

Debt obligations consisted of the following (in thousands):

	September 30, 2013		December 31, 2012
Credit Agreement, revolving line-of-credit	\$		\$
China Credit Facility, 6.2% at September 30, 2013	\$ 1,141	\$	397

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The Company's Prior Credit Agreement, was scheduled to mature on October 26, 2014, provided revolving credit up to \$4 million and 3 million. At September 30, 2013, approximately \$8,100,000 (\$4,000,000 and 3,000,000) was available under the Prior Credit Agreement. As a result of the acquisition of Globe Motors, Inc., the Company entered into a new Credit Agreement, thus terminating the Prior Credit Agreement. See further discussion in Note 11. Subsequent Events.

The Prior Credit Agreement contained certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the Company. The Company was in compliance with all covenants at September 30, 2013.

Approximately \$700,000 ( 300,000 and 2,100,000 Swedish Krona ( SEK )) was available under bank overdraft facilities in Europe.

The Company also has a Credit Facility in China providing credit of approximately \$1,600,000 (Chinese Renminbi ( RMB ) 9,500,000). This facility is used for working capital and capital equipment needs at the Company's China operations, and will mature in October 2014. At

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September 30, 2013, there was approximately \$400,000 (RMB 2,500,000) available under the facility.

**10. Business development costs**

The Company incurred approximately \$596,000 of business development costs in the quarter ended September 30, 2013 and \$1,235,000 for the nine months ended September 30, 2013 in conjunction with the acquisition of Globe Motors, Inc. ( Globe ).

**11. Subsequent Events**

On Friday, October 18, 2013, the Company completed the acquisition of Globe from Safran USA, Inc., on a cash free, debt free basis, for approximately \$90 million in cash.

The initial accounting for the business transaction is incomplete pending the determination of the fair value of the assets acquired and the liabilities assumed, pre-acquisition tax positions and the contractual working capital adjustment defined in the purchase agreement. The valuation is expected to be finalized in the fourth quarter of 2013. When the valuation is finalized, the excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired and the liabilities assumed will be allocated to goodwill.

In connection with the funding of the acquisition of Globe, the Company entered into a Credit Agreement dated as of October 18, 2013. The Credit Agreement provides for a \$15 million five-year revolving credit facility and a \$50 million five-year term loan (collectively the Senior Credit Facilities ).

Borrowings under the Senior Credit Facilities are subject to terms defined in the Credit Agreement. Borrowings will bear interest at either the Base Rate plus a margin of 0.25% to 2.00% (currently 1.50%) or the Eurocurrency Rate plus a margin of 1.25% to 3.00%, in each case depending on the Company's ratio of total funded indebtedness to Consolidated EBITDA (the Total Leverage Ratio ). In addition, the Company is required to pay a commitment fee of between 0.125% and 0.30% quarterly (currently 0.25%) on the unused portion of the Revolver, also based on the Company's Total Leverage Ratio. Principal installments are payable on the Term Loan in varying percentages quarterly through September 30, 2018 with a balloon payment at maturity and with mandatory prepayments being required in certain circumstances. The Senior Credit Facilities are secured by substantially all of the Company's assets and are fully and unconditionally guaranteed by certain of the Company's subsidiaries.

Financial covenants defined in the Credit Agreement require the Company to maintain a minimum fixed charge coverage ratio of at least 1.25:1.0 at the end of each fiscal quarter. In addition, the Company's Total Leverage Ratio at the end of any fiscal quarter shall not be greater than 4.0:1.0 through September 30, 2014, 3.0:1.0 through September 30, 2015, 2.5:1.0 through September 30, 2016 and 2.25:1.0 thereafter. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. These covenants are subject to certain exceptions provided in the Credit Agreement.



The Credit Agreement requires the Company to enter into derivative contracts for at least 50% of the balance of the Term Loan, as amortized. The Company has entered into these derivative contracts during October, and will be using Hedge Accounting with gains and losses on contracts being reflected in Other Comprehensive Income.

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Also in connection with funding the acquisition of Globe Motors, Inc., the Company entered into a Note Agreement, dated as of October 18, 2013 pursuant to which the Company sold \$30 million of 14.50% Senior Subordinated Notes due October 18, 2019 (the Notes ) to Prudential Capital Partners IV, L.P. and its affiliates in a private placement. The interest rate on the Notes is 14.50% with 13.00% payable in cash and 1.50% payable in-kind, quarterly in arrears and the outstanding principal amount of the Notes, together with any accrued and unpaid interest is due on October 18, 2019. The Company may prepay the Notes at any time after October 18, 2016, in whole or in part, at 100% of the principal amount. The Notes are unsecured obligations of the Company and are fully and unconditionally guaranteed by certain of the Company's subsidiaries.

The Note Agreement contains customary covenants that are substantially similar to the covenants in the Credit Agreement, however the financial covenants under the Note Agreement require the Company to maintain a minimum fixed charge coverage ratio of at least 1.05:1.0 at the end of each fiscal quarter and the Company's Total Leverage Ratio at the end of any fiscal quarter shall not be greater than 4.5:1.0 through September 30, 2014, 3.5:1.0 through September 30, 2015, 3.0:1.0 through September 30, 2016 and 2.75:1.0 thereafter.

The Note Agreement also includes customary events of default that are substantially similar to the events of default in the Credit Agreement. The amounts outstanding under the Notes may be accelerated upon certain events of default. A Yield Maintenance Amount may also be due if the acceleration of the principal amount due to an event of default occurs prior to October 18, 2016. The Yield Maintenance Amount is equal to the excess, if any, of the discounted value of the called principal with respect to the Notes over the sum of the called principal plus accrued interest as of the settlement date.

The Senior Credit Facilities replaced the Company's Prior Credit Agreement dated as of May 7, 2007, as amended, among the Company, JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto. The Prior Credit Agreement was scheduled to mature on October 26, 2014 and provided revolving credit up to \$4 million and 3 million. No amounts were outstanding under the Prior Credit Agreement at the time of termination.

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

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

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

**3rd Quarter Overview**

Revenues for the quarter ended September 30, 2013 were up 2% from the third quarter of 2012. The increase is primarily due to an increase in sales to our industrial and medical markets. Sales to Customers outside of the U.S. increased, while sales within the U.S. were down.

As we've stated previously, many of our orders are received as blanket orders covering 12 to 18 months of demand, and the timing of such impacts reported incoming levels. As such, we are no longer including the full value of the blanket orders when received and will only report them as bookings once a release date has been provided from the customer. With that said, bookings for the quarter ended September 30, 2013 were \$30.2 million compared to last year's bookings of \$20.2 million using the prior



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methodology and were \$25.0 million using the new methodology. Backlog as of September 30, 2013 was \$27.5 million using the new methodology and was \$37.6 million using the prior methodology compared to \$33.2 million as of September 30, 2012.

From a Cash Flow perspective, our cash net of debt position increased by \$1.2 million from December 31, 2012. We also continued a quarterly dividend program in 2013, providing \$0.10 per share in dividends to shareholders for the trailing twelve months, or a dividend payout ratio of 23% when compared to the earnings per share of \$0.43. The Company also continued to invest in capital equipment to expand production capacity in its China facilities, as well as to facilitate the transition to the Company's new ERP system.

**Operating Results***Quarter Ended September 30, 2013 compared to Quarter Ended September 30, 2012*

(in thousands)	For the three months ended		Increase (decrease)	
	2013	September 30, 2012	\$	%
Revenues	\$ 24,876	\$ 24,316	\$ 560	2%
Cost of products sold	17,638	17,217	421	2%
Gross margin	7,238	7,099	139	2%
Gross margin percentage	29%	29%		
Operating costs and expenses:				
Selling	1,132	1,143	(11)	(1)%
General and administrative	2,516	2,343	173	7%
Engineering and development	1,718	1,454	264	18%
Business development costs	596		596	100%
Amortization of intangible assets	83	126	(43)	(34)%
Total operating costs and expenses	6,045	5,066	979	19%
Operating income	1,193	2,033	(840)	(41)%
Interest expense	(13)	(2)	11	550%
Other expense, net	(38)	(89)	(51)	57%
Income before income taxes	1,142	1,942	(800)	(41)%
Provision for income taxes	(309)	(621)	(312)	(50)%
Net income	\$ 833	\$ 1,321	\$ (488)	(37)%

**NET INCOME AND ADJUSTED NET INCOME** The Company reported net income of \$833,000, or \$0.09 per diluted share for the quarter ended September 30, 2013, compared to \$1,321,000, or \$0.15 per diluted share for the same quarter last year.

Adjusted net income for the quarter ended September 30, 2013 and 2012, respectively, was \$1,239,000 and \$1,321,000. Adjusted diluted earnings per share for the third quarter of 2013 and 2012, was \$0.14 and \$0.15, respectively. Adjusted net income and adjusted diluted earnings per share are non-GAAP measurements. Adjusted net income excludes \$596,000 (\$406,000 net of tax) of business development costs. See information included in **Non - GAAP Measures** below for a reconciliation of net income to Adjusted net income.

EBITDA AND ADJUSTED EBITDA EBITDA was \$1,633,000 for the third quarter of 2013 compared to \$2,325,000 for the same quarter last year. Adjusted EBITDA was \$2,401,000 and \$2,485,000

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for the third quarter of 2013 and 2012, respectively. EBITDA and adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA excludes stock compensation expense and certain other items. See information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA and adjusted EBITDA.

**REVENUES** Revenues were \$24,876,000 for the quarter ended September 30, 2013 compared to \$24,316,000 for the quarter ended September 30, 2012. Overall, the Company experienced increases in the industrial, medical, and distribution markets partially offset by decreases in the aerospace and defense, vehicle and electronics markets.

Sales to U.S. customers accounted for 54% and 58% of our sales in the quarter ended September 30, 2013 and 2012, respectively, with the balance to customers primarily in Europe, Asia and Canada. Sales volumes for the quarter ended September 30, 2013 increased by 1% combined with a 1% increase due to the weakening of the dollar against the Euro.

**ORDER BACKLOG** Beginning in 2013, we are no longer including the full value of blanket purchase orders when received from customers and will only report them as bookings when they are released to production. To ensure an accurate comparison, we will also present bookings and backlog throughout 2013 in the same manner as the prior year. Bookings for the quarter ended September 30, 2013 were \$30.2 million compared to last year's bookings of \$20.2 million using the prior method and were \$25.0 million using the new method. Backlog as of September 30, 2013 was \$27.5 million using the new method and was \$37.6 million using the prior method compared to \$33.2 million as of September 30, 2012.

**GROSS MARGIN** Gross margin as a percentage of revenues was 29% for the quarters ended September 30, 2013 and 2012, respectively.

**SELLING EXPENSES** Selling expenses in the third quarter of \$1,132,000 were consistent with the \$1,143,000 for the third quarter of last year.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$2,516,000 in the quarter ended September 30, 2013 compared to \$2,343,000 in the quarter ended September 30, 2012. The 7% increase is primarily due to increased ERP costs and consulting fees.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$1,718,000 in the third quarter of 2013 and \$1,454,000 in the same quarter last year. The 18% increase over the same period of last year is primarily due to the transfer of certain personnel from selling to engineering, personnel additions and consulting costs.

**BUSINESS DEVELOPMENT COSTS** The Company incurred \$596,000 of business development costs during the third quarter of 2013 in conjunction with the acquisition of Globe Motors Inc. that was completed on October 18, 2013.

**AMORTIZATION OF INTANGIBLE ASSETS** Amortization of intangible assets expense was \$83,000 in the quarter ended September 30, 2013 and \$126,000 in the same quarter last year. Amortization expense decreased \$43,000, or 34%, as certain intangible assets became fully amortized in 2012.

**INCOME TAXES** Provision for income taxes was \$309,000 and \$621,000 for the third quarter of 2013 and 2012, respectively. The Company uses an estimate of the annual effective rate to calculate and record income taxes based on the projected results for the fiscal year and the facts and circumstances known at each interim period. The Company is subject to tax in the U.S. and multiple other tax jurisdictions. Judgment is required in determining the worldwide provision for income taxes and in recording the related tax assets and liabilities. The effective income tax rate as a percentage of income before income taxes was 27% and 32% for the quarters ended September 30, 2013 and 2012, respectively. The effective rate is lower than the same quarter of last year primarily due to changes in the income mix from jurisdictions with



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differences in tax rates. The effective tax rate is lower than the statutory rate for both periods primarily due to lower tax rates in foreign jurisdictions as well as certain permanent book tax differences.

*Nine Months Ended September 30, 2013 compared to Nine Months Ended September 30, 2012*

(in thousands)	For the nine months ended		Increase (decrease)	
	2013	September 30, 2012	\$	%
Revenues	\$ 75,371	\$ 77,999	\$ (2,628)	(3)%
Cost of products sold	53,075	55,112	(2,037)	(4)%
Gross margin	22,296	22,887	(591)	(3)%
Gross margin percentage	30%	29%		1%
Operating costs and expenses:				
Selling	3,640	3,798	(158)	(4)%
General and administrative	8,098	8,197	(99)	(1)%
Engineering and development	5,123	4,570	553	12%
Business development costs	1,235		1,235	100%
Relocation costs	234		234	100%
Amortization of intangible assets	252	466	(214)	(46)%
Total operating expenses	18,582	17,031	1,551	9%
Operating income	3,714	5,856	(2,142)	(38)%
Interest expense	(30)	(12)	(18)	(150)%
Other income, net	58	230	(172)	
Income before income taxes	3,742	6,074	(2,332)	(38)%
Provision for income taxes	(1,130)	(1,778)	648	36%
Net income	\$ 2,612	\$ 4,296	\$ (1,684)	(39)%

**NET INCOME AND ADJUSTED NET INCOME** The Company reported net income of \$2,612,000 or \$0.30 per diluted share for the nine months ended September 30, 2013, compared to \$4,296,000 or \$0.50 per diluted share for the nine months ended September 30, 2012.

Adjusted net income for the nine months ended September 30, 2013 and 2012 was \$3,611,000 and \$4,252,000, respectively. Adjusted diluted earnings per share for the first nine months of 2013 and 2012 respectively, was \$0.41 and \$0.49 respectively. Adjusted net income and adjusted diluted earnings per share are non-GAAP measurements. Adjusted net income excludes \$1,235,000 (\$840,000 net of tax) of business development costs and \$234,000 (\$159,000 net of tax) in expenses related to the move of our corporate offices (including staff) to Amherst, NY. Additionally, Adjusted net income for the first nine months of 2012 excludes \$301,000 (\$222,000 net of tax) received from a previous landlord to terminate a building lease early and \$238,000 (\$178,000 net of tax) of expense to replace an incorrect electronic component. See information included in **Non - GAAP Measures** below for a reconciliation of net income to Adjusted net income.

**EBITDA AND ADJUSTED EBITDA** EBITDA was \$5,083,000 for the nine months ended September 30, 2012 compared to a \$7,447,000 for the same period last year. Adjusted EBITDA was \$7,226,000 and \$7,830,000 for the nine months ended September 30, 2013 and 2012, respectively. EBITDA and Adjusted EBITDA are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA excludes stock compensation expense



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and certain other items. See information included in Non - GAAP Measures below for a reconciliation of net income to EBITDA and Adjusted EBITDA.

**REVENUES** Revenues were \$75,371,000 for the nine months ended September 30, 2013 compared to \$77,999,000 for the nine months ended September 30, 2012. Overall, the Company experienced decreases in nearly all markets, except for an increase in the industrial market, due to general economic conditions.

Sales to U.S. customers accounted for 53% and 56% of our sales in the first nine months of 2013 and 2012, respectively, with the balance to customers primarily in Europe, Canada and Asia. Sales volumes for the nine months ended September 30, 2013 decreased by 4%, but were offset 1% due to the weakening of the dollar against the Euro.

**GROSS MARGINS** Gross margin as a percentage of revenues was 30% and 29% for the nine months ended September 30, 2013 and 2012, respectively. The lower gross margins in 2012 were due to a one-time charge to cover the estimated cost of replacing products in the field due to an incorrect component used by one of the Company's suppliers.

**SELLING EXPENSES** Selling expenses were \$3,640,000 and \$3,798,000 for the nine months ended September 30, 2013 and 2012 respectively. The 4% decrease is due to a decrease in commissions based on the lower sales, as well as the transfer of certain personnel from selling to engineering.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were comparable at \$8,098,000 for the nine months ended September 30, 2013 and \$8,197,000 for the nine months ended September 30, 2012, respectively.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$5,123,000 for the nine months ended September 30, 2013 and \$4,570,000 for the same period last year. The 12% increase over the same period of last year is due to the transfer of certain personnel from selling to engineering, personnel additions and consulting costs.

**BUSINESS DEVELOPMENT COSTS** The Company incurred \$1,235,000 of business development costs related to the acquisition of Globe Motors Inc. that was completed on October 18, 2013.

**AMORTIZATION OF INTANGIBLE ASSETS** Amortization of intangible assets was \$252,000 for the nine months ended September 30, 2013 and \$466,000 for the same period last year. The 46% decrease is due to certain intangibles that were fully amortized in 2012.

**OTHER INCOME, NET** Other income was \$28,000 for the nine months ended September 30, 2013 compared to \$218,000 for the first nine months of 2012. The higher income in 2012 is primarily due to a payment received from a former landlord for early termination of the

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Company's building lease in Sweden, net of moving expenses.

**INCOME TAXES** Provision for income taxes was \$1,130,000 and \$1,778,000 for the nine months ended September 30, 2013 and 2012, respectively. The effective rate used to record income taxes is based on projected results for the fiscal year. The effective income tax rate as a percentage of income before income taxes was 30% and 29% for the nine months ended September 30, 2013 and 2012, respectively. The effective rate is higher for the first nine months of 2013 primarily due to changes in the income mix from jurisdictions with differences in tax rates. The effective tax rate is lower than the statutory rate for both periods primarily due to lower tax rates in foreign jurisdictions as well as certain permanent book tax differences.

### **Non-GAAP Measures**

EBITDA, Adjusted EBITDA, Adjusted net income and Adjusted diluted earnings per share are provided for information purposes only and are not measures of financial performance under generally

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

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

The Company also believes that Adjusted EBITDA provides helpful information about the operating performance of its business. Adjusted EBITDA excludes stock compensation expense, as well as certain income or expenses which are not indicative of the ongoing performance of the Company. EBITDA and Adjusted EBITDA do not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles. The Company's calculation of EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

	For the three months ended			For the nine months ended		
	2013	September 30, 2012	2012	2013	September 30, 2012	2012
Net income	\$ 833	\$ 1,321	\$ 2,612	\$ 4,296		
Interest expense	13	2	30	12		
Provision for income tax	309	621	1,130	1,778		
Depreciation and amortization	478	381	1,311	1,361		
EBITDA	1,633	2,325	5,083	7,447		
Stock compensation expense	172	160	674	446		
Relocation costs			234			
Business development costs	596		1,235			
Concession payment from former landlord						(301)
Non-recurring replacement costs						238
Adjusted EBITDA	\$ 2,401	\$ 2,485	\$ 7,226	\$ 7,830		

Allied Motion's management uses Adjusted net income to assess the Company's consolidated financial and operating performance. This measure helps management make decisions that are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. Adjusted net income provides management with a measure of financial performance of the Company based on operational factors, including the profitability of assets on an economic basis, net of operating expenses, and the capital costs of the business on a consistent basis as it removes the impact of certain non-routine items from the



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Company's operating results. Adjusted net income is a key metric used by senior management and the Company's board of directors to review the consolidated financial performance of the business. This measure, as used by Allied Motion in past quarters adjusts net income determined in accordance with GAAP to reflect changes in financial results associated with the highlighted charges and income items.

The Company's calculation of Adjusted net income and Adjusted diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$ 833	\$ 1,321	\$ 2,612	\$ 4,296
Non-GAAP adjustments, net of tax				
Relocation costs			159	
Business development costs	406		840	
Concession payment from landlord				(222)
Non-recurring replacement costs				178
Adjusted net income	\$ 1,239	\$ 1,321	\$ 3,611	\$ 4,252
<b>Per Share Amounts</b>				
Adjusted diluted earnings per share	\$ 0.14	\$ 0.15	\$ 0.41	\$ 0.49
Diluted weighted average common shares	8,807	8,673	8,778	8,637

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents increased \$1,926,000 to a balance of \$11,654,000 at September 30, 2013. This increase compares to a decrease of \$2,898,000 for the same period last year. During the first nine months of 2013, operations provided \$3,444,000 in cash compared to \$647,000 for the same period of 2012. The increase in cash provided from operations is primarily due to lower incentive bonus payments and lower tax payments in the current year when compared to the same period of last year.

Net cash used in investing activities was \$2,055,000 and \$3,371,000 for the first nine months of 2013 and 2012, respectively. The decrease is primarily due to the final portion of consideration for the Östergrens acquisition of \$1,350,000 being paid in the first quarter of 2012. In the nine months ended September 30, 2013, purchases of property and equipment were \$2,055,000 compared to \$2,021,000 for the same period of last year.

Net cash provided by financing activities was \$492,000 for the nine months ended September 30, 2013 compared to cash used of \$274,000 for the same period last year. The increase in 2013 is due to borrowings that have occurred in 2013, whereas there were no borrowings for the same period of last year.

The Prior Credit Agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the Company. The Company was in compliance with all covenants at September 30, 2013.

The Company also has a Credit Facility in China providing credit of approximately \$1,600,000 (RMB 9,500,000) to provide financing availability for working capital and capital equipment needs for the Company's subsidiaries in China. The average outstanding borrowings for the quarter ended September 30, 2013 was \$948,000. There is approximately \$400,000 (RMB 2,500,000) available under the facility at September 30, 2013.

As of September 30, 2013, the amount available to borrow under the Company's various lines-of-credit was approximately \$8,450,000.



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The Company also has bank overdraft facilities with foreign banks in Europe. The facilities had no outstanding balance as of September 30, 2013. The amount available under the overdraft facilities was approximately \$700,000 ( 300,000 and 2,100,000 SEK).

During the nine months ended September 30, 2013, the Company has paid dividends of \$0.075 per share. The Company's working capital, capital expenditure and dividend requirements are expected to be funded from cash provided by operations and amounts available under the Company's Credit Agreement.

Critical Accounting Policies

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company's significant accounting policies are discussed in Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2012. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

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

Inventory is valued at the lower of cost or market. The Company monitors and forecasts expected inventory needs based on sales forecasts. Inventory is written down or written off when it becomes obsolete or when it is deemed excess. These determinations involve the exercise of significant judgment by management. If actual market conditions are significantly different from those projected by management, the recorded reserve may be adjusted, and such adjustments may have a significant impact on the Company's results of operations. Demand for the Company's products can fluctuate significantly, and in the past the Company has recorded substantial charges for inventory obsolescence.

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

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The Company provides pension and postretirement benefits for certain domestic retirees and records the cost of the obligations based on estimates. The net periodic costs are recognized as employees render the services necessary to earn the benefits. Several assumptions are used to calculate the expense

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

**Item 4. Controls and Procedures**

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

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2013 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II.**

**OTHER INFORMATION**

**Item 6. Exhibits**

(a) Exhibits

2.1 Stock Purchase Agreement by and between Allied Motion Technologies Inc. and Safran USA, Inc. dated August 22, 2013 (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed August 28, 2013).

10.1 Credit Agreement, dated as of October 18, 2013, among Allied Motion Technologies Inc. and Allied Motions Technologies B.V., as borrowers, Bank of America, N.A., as administrative agent, HSBC Bank USA, National Association, as syndication agent and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed October 24, 2013).

10.2 Note Agreement, dated as of October 18, 2013, among Allied Motion Technologies Inc. and the purchasers of the notes party thereto (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed October 24, 2013).

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31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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101 The following materials from Allied Motion Technologies Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and comprehensive income, (iii) condensed consolidated statements of cash flows and (iv) the notes to the consolidated financial statements.\*

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\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

DATE: November 14, 2013

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ Robert P. Maida  
Robert P. Maida  
*Chief Financial Officer*