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, 2017

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)

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 x No o

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 x No o

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 o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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. o

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

Number of Shares of the only class of Common Stock outstanding: 9,452,969 as of November 1, 2017

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ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 17,600	$ 15,483
Trade receivables, net of allowance for doubtful accounts of $379 and $362 at September 30, 2017 and December 31, 2016, respectively	34,493	26,104
Inventories	32,779	31,098
Prepaid expenses and other assets	3,096	3,120
Total current assets	87,968	75,805
Property, plant and equipment, net	38,157	37,474
Deferred income taxes	492	923
Intangible assets, net	32,776	34,252
Goodwill	29,305	27,522
Other long term assets	4,343	3,943
Total assets	$ 193,041	$ 179,919
Liabilities and Stockholders Equity		
Current liabilities:		
Debt obligations	526	936
Accounts payable	17,156	13,204
Accrued liabilities	13,742	10,678
Total current liabilities	31,424	24,818
Long-term debt	61,995	70,483
Deferred income taxes	3,129	3,266
Pension and post-retirement obligations	4,403	4,381
Other long term liabilities	5,386	4,685
Total liabilities	106,337	107,633
Stockholders Equity:		
Common stock, no par value, authorized 50,000 shares; 9,453 and 9,374 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	31,244	29,503
Preferred stock, par value $1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	62,033	54,786
Accumulated other comprehensive loss	(6,573)	(12,003)
Total stockholders equity	86,704	72,286
Total Liabilities and Stockholders Equity	$ 193,041	$ 179,919

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,	
	2017	**2016**	**2017**	**2016**
Revenues	$ 64,968	$ 61,040	$ 186,657	$ 190,550
Cost of goods sold	45,422	43,133	131,529	134,274
Gross profit	19,546	17,907	55,128	56,276
Operating costs and expenses:				
Selling	2,822	2,431	8,135	7,490
General and administrative	6,255	5,264	17,985	17,551
Engineering and development	4,389	3,961	12,984	12,185
Business development		123		341
Amortization of intangible assets	813	802	2,405	2,409
Total operating costs and expenses	14,279	12,581	41,509	39,976
Operating income	5,267	5,326	13,619	16,300
Other expense (income):				
Interest expense	633	1,504	1,797	4,626
Other expense, net	65	(75)	135	(190)
Total other expense, net	698	1,429	1,932	4,436
Income before income taxes	4,569	3,897	11,687	11,864
Provision for income taxes	(1,512)	(1,076)	(3,746)	(3,495)
Net income	$ 3,057	$ 2,821	$ 7,941	$ 8,369
Basic earnings per share:				
Earnings per share	$ 0.33	$ 0.30	$ 0.87	$ 0.90
Basic weighted average common shares	9,173	9,350	9,137	9,325
Diluted earnings per share:				
Earnings per share	$ 0.33	$ 0.30	$ 0.86	$ 0.90
Diluted weighted average common shares	9,294	9,350	9,265	9,325
Net income	$ 3,057	$ 2,821	$ 7,941	$ 8,369
Foreign currency translation adjustment	1,829	383	5,608	1,346
Change in accumulated (loss) income on derivatives	45	66	(178)	(56)
Comprehensive income (loss)	$ 4,931	$ 3,270	$ 13,371	$ 9,659

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, 2017	2016
Cash Flows From Operating Activities:		
Net income	$ 7,941	$ 8,369
Adjustments to reconcile net income to net cash provided by operating activities (net of working capital acquired in 2016):		
Depreciation and amortization	7,590	7,309
Deferred income taxes	(99)	1,345
Stock compensation expense	1,473	1,370
Debt issue cost amortization recorded in interest expense	113	
Other	(26)	(455)
Changes in operating assets and liabilities:		
Trade receivables	(6,887)	(5,739)
Inventories	(379)	613
Prepaid expenses and other assets	17	1,252
Accounts payable	3,106	(525)
Accrued liabilities	2,464	(3,574)
Net cash provided by operating activities	15,313	9,965
Cash Flows From Investing Activities:		
Purchase of property and equipment	(4,220)	(3,694)
Consideration paid for acquisition, net of cash acquired ($2,329)		(16,049)
Net cash used in investing activities	(4,220)	(19,743)
Cash Flows From Financing Activities:		
Borrowings on lines-of-credit, net	(441)	6,802
Principal payments of long-term debt	(9,114)	(5,625)
Dividends paid to stockholders	(709)	(700)
Stock transactions under employee benefit stock plans	355	268
Net cash (used in) provided by financing activities	(9,909)	745
Effect of foreign exchange rate changes on cash	933	297
Net increase (decrease) in cash and cash equivalents	2,117	(8,736)
Cash and cash equivalents at beginning of period	15,483	21,278
Cash and cash equivalents at end of period	$ 17,600	$ 12,542

See accompanying notes to condensed consolidated financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

1. BASIS OF PREPARATION AND PRESENTATION

Allied Motion Technologies Inc. (Allied Motion or the Company) is engaged in the business of designing, manufacturing and selling motion control solutions, which include integrated system solutions as well as individual motion control products, to a broad spectrum of customers throughout the world primarily for the commercial motor, industrial motion, automotive control, medical, and aerospace and defense markets.

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

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

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

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

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, 2016 that was previously filed by the Company.

Error Correction

The Company s quarterly financial statements for each of the quarters included in its Form 10-Qs for the year ended December 31, 2016 contained an error related to the elimination of intercompany cost of sales. The error was corrected as of December 31, 2016, but since the adjustment was not material to any of the quarters the Form 10-Qs will not be amended. Management has determined the effects to be neither quantitatively or qualitatively material to the financial statements included in any of the Form 10-Qs filed during 2016.

The following table illustrates the correction of the error as shown in the statement of operations in Form 10-Q:

Year 2016		**First Quarter**		**Second Quarter**		**Third Quarter**
Net income as reported	$	2,127	$	2,942	$	2,520
Effect on cost of goods sold		(228)		(251)		(301)
Net income as revised	$	2,355	$	3,193	$	2,821

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

The following table illustrates the correction of the error as recorded in the Company s financial statements during the fourth quarter 2016:

Year 2016		**Fourth Quarter**
Net income as recorded	$	1,489
Effect on cost of goods sold		780
Net income as revised	$	709

The third quarter and year to date 2016 financial statements presented have been revised to reflect the error correction. The impact of the correction on basic and fully diluted earnings per share for the third quarter and year to date 2016 was an increase of $0.03 and $0.09, respectively.

Reclassifications

Certain items in the prior year s consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2017 presentation.

2. 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, 2017		**December 31, 2016**
Parts and raw materials	$	23,914	$	23,978
Work-in-progress		7,948		6,628
Finished goods		5,380		4,928
		37,242		35,534
Less reserves		(4,463)		(4,436)
Inventories	$	32,779	$	31,098

3. 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, 2017, 105,785 shares of unvested restricted stock were awarded at a weighted average market value of $22.56. Of the restricted shares granted, 28,025 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.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

The following is a summary of restricted stock activity for the nine months ended September 30, 2017:

	Number of shares
Outstanding at beginning of period	308,542
Awarded	105,785
Vested	(123,716)
Forfeited	(16,403)
Outstanding at end of period	274,208

Stock based compensation expense, net of forfeitures of $518 and $395 was recorded for the quarter ended September 30, 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, stock compensation expense, net of forfeitures, of $1,473 and $1,370 was recorded, respectively.

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Compensation and fringe benefits	$ 6,471	$ 7,379
Warranty reserve	924	830
Income taxes payable	2,470	183
Other accrued expenses	3,877	2,286
	$ 13,742	$ 10,678

5. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

		September 30, 2017		December 31, 2016
Current Borrowings				
China Credit Facility (5.0% at September 30, 2017)	$	526	$	936
Current borrowings	$	526	$	936
Long-term Debt				
Revolving Credit Facility, long term (1)	$	62,604	$	71,203
Unamortized debt issuance costs		(609)		(720)
Long-term debt	$	61,995	$	70,483

(1) The effective rate of the Revolver is 3.37% at September 30, 2017.

Credit Agreement

On October 28, 2016, the Company entered into a Credit Agreement (the Credit Agreement) for a $125,000 revolving credit facility (the Revolving Credit Facility). The Revolving Facility includes a $50,000 accordion amount and has an initial term of five years. HSBC Bank USA, National Association is the administrative agent, HSBC Securities (USA) Inc. is the sole lead arranger, and KeyBank National Association and Wells Fargo Bank, National Association are co-syndication agents.

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(In thousands, except per share data)

Borrowings under the Revolving Credit Facility are subject to terms defined in the Credit Agreement. Borrowings bear interest at the LIBOR Rate plus a margin of 1.00% to 2.25% or the Prime Rate plus a margin of 0% to 1.25%, in each case depending on the Company s ratio of total funded indebtedness to Consolidated EBITDA (the Total Leverage Ratio). At September 30, 2017, 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 Credit Facility, also based on the Company s Total Leverage Ratio.

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, consolidate or sell all or substantially all of its assets. The Company was in compliance with all covenants at September 30, 2017.

Other

The China Facility provides credit of approximately $1,503 (Chinese Renminbi (RMB) 10,000). The China Facility is used for working capital and capital equipment needs at the Company s China operations. The average balance for 2017 was $907 (RMB 6,167). At September 30, 2017, there was approximately $977 (RMB 6,500) available under the facility.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risk 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.

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. During October 2013, the

Company entered into two identical interest rate swaps with a combined notional of $25,000 that amortize quarterly to a notional of $6,673 at the September 2018 maturity. One of these interest rate swaps is currently active. The Company terminated the other interest rate swap during October 2016 as part of its debt refinancing. In February 2017, the Company entered into three interest rate swaps with a combined notional of $40,000 that matures 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 and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2017 and 2016, 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, 2017 and 2016.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. The Company estimates that an additional $211 will be reclassified as an increase to interest expense over the next year.

Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

The tables below present 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, 2017 and December 31, 2016 (in thousands):

		Fair Value	
Derivative Instruments	**Balance Sheet Classification**	**September 30, 2017**	**December 31, 2016**
Interest Rate Swaps	Other Liabilities	$ 208	$ 30

The effect of the Company s derivative financial instruments on the condensed consolidated statement of income and comprehensive income is as follows (in thousands):

	Net deferral in OCI of derivatives (effective portion)			
	For the quarter ended September 30,		**For the nine months ended September 30,**	
Derivative Instruments	**2017**	**2016**	**2017**	**2016**
Interest Rate Swaps	$ (34)	$ 39	$ (417)	$ (145)

	Net reclassification from AOCI into income (effective portion)			
	For the quarter ended September 30,		**For the nine months ended September 30,**	
Statement of earnings classification	**2017**	**2016**	**2017**	**2016**
Interest expense	$ 79	$ 27	$ 239	$ 89

7. 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 and foreign tax holidays, settlements with taxing authorities and foreign currency fluctuations.

The Company has net operating loss carryforwards in an international jurisdiction expiring in 2017. The Company evaluates the future realizability of the tax loss and credit carryforwards considering the anticipated future earnings and tax planning strategies in the international jurisdictions.

The effective income tax rate as a percentage of income before income taxes was 33.1% and 27.6% in the third quarter 2017 and 2016, respectively and 32.1% and 29.5% for the nine months ended September 30, 2017 and 2016, respectively. The 2016 effective tax rates are revised from 29.9% to 27.6% for the third quarter 2016 and from 31.5% to 29.5% for the nine months ended September 30, 2016 to reflect the revised income resulting from the error correction described in Note 1. The effective tax rates include a discrete tax (benefit) provision related to the recognition of the tax effect of share-based payment awards as follows: for the third quarter of 2017 a net discrete tax benefit of (0.2%) and for the third quarter of 2016 a net discrete tax provision 0.2%. For the nine months ended September 30, 2017 and 2016, a net discrete tax benefit of (1.2%) in each period.

The effective rate before discrete items varies from the statutory rate due to permanent differences in state taxes and the difference in US and foreign tax rates and the mix of foreign and domestic income.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated Other Comprehensive Income for the quarter ended September 30, 2017 and 2016 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2017	$ (822)	$ (253)	$ (7,372)	$ (8,447)
Unrealized loss on cash flow hedges		(34)		(34)
Amounts reclassified from AOCI		79		79
Foreign currency translation gain			1,829	1,829
At September 30, 2017	$ (822)	$ (208)	$ (5,543)	$ (6,573)

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2016	$ (688)	$ (149)	$ (8,199)	(9,036)
Unrealized loss on cash flow hedges		39		39
Amounts reclassified from AOCI		27		