

ALLIED MOTION TECHNOLOGIES INC
Form 10-Q
November 05, 2015
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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, 2015

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, Suite 3

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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
(Do not check if a
smaller reporting
company)

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: 9,293,396 as of November 5, 2015

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ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$ 17,896	\$ 13,113
Trade receivables, net of allowance for doubtful accounts of \$605 and \$367 at September 30, 2015 and December 31, 2014, respectively	31,315	27,745
Inventories, net	24,513	25,371
Deferred income taxes	1,477	1,888
Prepaid expenses and other assets	3,674	2,667
Total Current Assets	78,875	70,784
Property, plant and equipment, net	35,863	37,041
Deferred income taxes	1,608	2,723
Intangible assets, net	30,683	32,791
Goodwill	17,905	18,303
Other long term assets	4,106	3,998
Total Assets	\$ 169,040	\$ 165,640
Liabilities and Stockholders Equity		
Current Liabilities:		
Debt obligations	9,211	7,723
Accounts payable	15,324	15,510
Accrued liabilities	11,519	12,330
Income taxes payable	768	393
Total Current Liabilities	36,822	35,956
Long-term debt	61,500	67,125
Deferred income taxes	1,101	1,299
Deferred compensation arrangements	2,611	2,167
Pension and post-retirement obligations	3,078	3,142
Total Liabilities	105,112	109,689
Commitments and Contingencies		
Stockholders Equity:		
Common stock, no par value, authorized 50,000 shares; 9,293 and 9,213 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	26,731	25,129
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	46,188	36,505
Accumulated other comprehensive loss	(8,991)	(5,683)
Total Stockholders Equity	63,928	55,951
Total Liabilities and Stockholders Equity	\$ 169,040	\$ 165,640

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,	
	2015	2014	2015	2014
Revenues	\$ 61,534	\$ 65,280	\$ 181,593	\$ 187,784
Cost of goods sold	42,595	45,668	127,167	132,512
Gross margin	18,939	19,612	54,426	55,272
Operating costs and expenses:				
Selling	1,963	2,277	6,234	6,619
General and administrative	5,939	6,172	17,314	19,097
Engineering and development	3,345	3,204	10,498	10,193
Amortization of intangible assets	661	697	1,983	2,045
Total operating costs and expenses	11,908	12,350	36,029	37,954
Operating income	7,031	7,262	18,397	17,318
Other expense (income):				
Interest expense	1,504	1,607	4,530	4,895
Other expense, net	(115)	(368)	(400)	(668)
Total other expense, net	1,389	1,239	4,130	4,227
Income before income taxes	5,642	6,023	14,267	13,091
Provision for income taxes	(1,364)	(1,908)	(3,888)	(4,135)
Net income	\$ 4,278	\$ 4,115	\$ 10,379	\$ 8,956
Basic earnings per share:				
Earnings per share	\$ 0.46	\$ 0.45	\$ 1.12	\$ 0.98
Basic weighted average common shares	9,266	9,157	9,239	9,143
Diluted earnings per share:				
Earnings per share	\$ 0.46	\$ 0.45	\$ 1.12	\$ 0.98
Diluted weighted average common shares	9,266	9,157	9,239	9,143
Net income	\$ 4,278	\$ 4,115	\$ 10,379	\$ 8,956
Foreign currency translation adjustment	400	(3,214)	(3,162)	(325)
Change in accumulated (loss) income on derivatives	(87)	113	(146)	(98)
Comprehensive income	\$ 4,591	\$ 1,014	\$ 7,071	\$ 8,533

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,	
	2015	2014
Cash Flows From Operating Activities:		
Net income	\$ 10,379	\$ 8,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,552	5,382
Deferred income taxes	1,344	993
Stock compensation expense	1,345	1,137
Other	684	2,171
Changes in operating assets and liabilities:		
Trade receivables	(4,540)	(11,520)
Inventories, net	(138)	(3,259)
Prepaid expenses and other assets	(1,196)	(138)
Accounts payable	173	4,015
Accrued liabilities	124	115
Net cash provided by operating activities	13,727	7,852
Cash Flows From Investing Activities:		
Purchase of property and equipment	(3,693)	(3,153)
Proceeds related to working capital adjustment on acquisition		1,399
Net cash used in investing activities	(3,693)	(1,754)
Cash Flows From Financing Activities:		
Borrowings on lines-of-credit, net	422	(2,591)
Principal payments of long-term debt	(4,500)	(3,750)
Dividends paid to stockholders	(690)	(629)
Stock transactions under employee benefit stock plans	223	334
Net cash used in financing activities	(4,545)	(6,636)
Effect of foreign exchange rate changes on cash	(706)	(566)
Net increase (decrease) in cash and cash equivalents	4,783	(1,104)
Cash and cash equivalents at beginning of period	13,113	8,371
Cash and cash equivalents at end of period	\$ 17,896	\$ 7,267

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 share and 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, 2014 that was previously filed by the Company.

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 market, as follows (in thousands):

	September 30, 2015	December 31, 2014
Parts and raw materials	\$ 21,790	\$ 21,573
Work-in-process	2,741	2,924
Finished goods	3,646	4,403
	28,177	28,900
Less reserves	(3,664)	(3,529)
Inventories, net	\$ 24,513	\$ 25,371

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

3. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2015	December 31, 2014
Land	\$ 977	\$ 996
Building and improvements	9,520	9,324
Machinery, equipment, tools and dies	37,681	37,426
Furniture, fixtures and other	8,411	6,778
	56,589	54,524
Less accumulated depreciation	(20,726)	(17,483)
Property, plant and equipment, net	\$ 35,863	\$ 37,041

Depreciation expense was approximately \$1,226 and \$1,204 for the quarters ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, depreciation expense was \$3,569 and \$3,337, respectively.

4. GOODWILL

The change in the carrying amount of goodwill for the quarter ended September 30, 2015 and year ended December 31, 2014 is as follows (in thousands):

	September 30, 2015	December 31, 2014
Beginning balance	\$ 18,303	\$ 20,233
Acquisition adjustments		(1,223)
Effect of foreign currency translation	(398)	(707)
Ending balance	\$ 17,905	\$ 18,303

5. INTANGIBLE ASSETS

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

			September 30, 2015			December 31, 2014		
	Life	Gross Amount	Accumulated amortization	Net Book Value	Gross Amount	Accumulated amortization	Net Book Value	
Customer lists	8 - 15 years	\$ 34,211	\$ (7,295)	\$ 26,916	\$ 34,379	\$ (5,801)	\$ 28,578	
Trade name	10 years	4,775	(1,697)	3,078	4,775	(1,409)	3,366	
Design and technologies	8 - 10 years	2,253	(1,583)	670	2,425	(1,598)	827	
Patents		24	(5)	19	24	(4)	20	
Total		\$ 41,263	\$ (10,580)	\$ 30,683	\$ 41,603	\$ (8,812)	\$ 32,791	

Amortization expense for intangible assets was \$661 and \$697 for the quarters ending September 30, 2015 and 2014, respectively; and \$1,983 and \$2,045 for the nine months ended September 30, 2015 and 2014, respectively.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Estimated future intangible asset amortization expense as of September 30, 2015 is as follows (in thousands):

	Estimated Amortization Expense
Remainder of 2015	\$ 662
2016	2,648
2017	2,648
2018	2,649
2019	2,649
Thereafter	19,427
Total estimated amortization expense	\$ 30,683

6. 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, 2015, 76,714 shares of unvested restricted stock were awarded at a weighted average market value of \$27.37. Of the restricted shares granted, 41,792 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, 2015:

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	Number of shares
Outstanding at beginning of period	487,678
Awarded	76,714
Vested	(140,465)
Forfeited	(6,700)
Outstanding at end of period	417,227

Stock based compensation expense, net of forfeitures of \$410 and \$370 was recorded for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, stock compensation expense, net of forfeitures, of \$1,336 and \$1,137 was recorded, respectively.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Compensation and fringe benefits	\$ 8,036	\$ 9,696
Warranty reserve	762	786
Other accrued expenses	2,721	1,848
	\$ 11,519	\$ 12,330

8. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
Current Borrowings		
Revolving Credit Facility	\$	\$
China Credit Facility (6.4% at September 30, 2015)	1,711	1,348
Term Loan, current portion, (2.2% at September 30, 2015) (1)	7,500	6,375
Current borrowings	\$ 9,211	\$ 7,723
Long-term Debt		
Term Loan, noncurrent (2.2% at September 30, 2015) (1)	\$ 31,500	\$ 37,125
Subordinated Notes (14.5%, 13% Cash, 1.5% PIK)	30,000	30,000
Long-term debt	\$ 61,500	\$ 67,125

(1) The effective rate of the Term Loan including the impact of the related hedges is 2.66%.

Credit Agreement

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The Company's Credit Agreement provides for a \$15,000 five-year revolving credit facility and a \$50,000 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 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% (currently 2.0%), in each case depending on the Company's ratio of total funded indebtedness to Consolidated EBITDA (the 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. The Senior Credit Facilities are secured by substantially all of the Company's assets. The average outstanding borrowings for 2015 for the Senior Credit Facilities were \$41,733. At September 30, 2015, there was approximately \$15,000 available under the Senior Credit Facilities.

The Credit Agreement contains certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. The Company was in compliance with all covenants at September 30, 2015.

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(In thousands, except share and per share data)

Senior Subordinated Notes

Under the Company's Note Agreement, the Company sold \$30,000 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.

Other

The Company has a China Credit Facility that provides credit of approximately \$1,890 (Chinese Renminbi ("RMB") 12,000). The China Facility is used for working capital and capital equipment needs at the Company's China operations, and will mature in November, 2017. The average balance for 2015 was \$1,680 (RMB 10,140). At September 30, 2015, there was approximately \$180 (RMB 1,130) available under the facility.

Maturities of long-term debt as of September 30, 2015 are as follows (in thousands):

	Total
Remainder of 2015	\$ 3,586
2016	8,219
2017	10,374
2018	18,532
2019	30,000
Total	\$ 70,711

9. 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.

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

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable.
- Level 3: Significant inputs to the valuation model that are unobservable.

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

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

The following table presents the Company's financial assets that are accounted for at fair value on a recurring basis as of September 30, 2015 and December 31, 2014, respectively, by level within the fair value hierarchy (in thousands):

	September 30, 2015		
	Level 1	Level 2	Level 3
Assets			
Pension Plan Assets	\$ 4,831	\$	\$
Other long term assets	2,606		
Interest rate swaps		(148)	

	December 31, 2014		
	Level 1	Level 2	Level 3
Assets			
Pension Plan Assets	\$ 5,095	\$	\$
Other long term assets	2,162		
Interest rate swaps		(2)	

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's objective in using interest rate derivatives is 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 Interest Rate Swaps with a combined notional of \$25,000 (representing 50% of the Term Loan balance at that time) that amortize quarterly to a notional of \$6,673 at maturity. The notional amount changes over time as loan payments are made. As of September 30, 2015 the amount hedged was \$19,500.

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 the third quarter of 2015, 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 three and nine months ended September 30, 2015 and September 30, 2014, respectively.

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 \$133 will be reclassified as an increase to interest expense over the next year.

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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, 2015 (in thousands):

Derivative Instrument	Balance Sheet Location	Fair Value	
		September 30, 2015	December 31, 2014
Interest Rate Swaps	Accrued liabilities	\$ (148)	\$ (2)
	Total Liabilities	\$ (148)	\$ (2)

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

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

Derivative Instrument	Net deferral in OCI of derivatives (effective portion)							
	For the three months ended			For the nine months ended				
	September 30,			September 30,				
	2015	2014	2015	2014	2015	2014		
Interest Rate Swaps	\$	(135)	\$	57	\$	(295)	\$	(158)

Statement of earnings classification	Net reclassification from AOCI into income (effective portion)							
	For the three months ended			For the nine months ended				
	September 30,			September 30,				
	2015	2014	2015	2014	2015	2014		
Interest expense	\$	48	\$	56	\$	149	\$	173

Statement of earnings classification	Amount recognized in income (ineffective portion and amount excluded from effectiveness testing)							
	For the three months ended			For the nine months ended				
	September 30,			September 30,				
	2015	2014	2015	2014	2015	2014		
Other (expense)	\$		\$		\$		\$	

11. 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 and tax credit carryforwards in certain foreign jurisdictions expiring in 2015 through 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 foreign jurisdictions. During 2015 and 2014, the Company updated its estimates regarding the realizability of tax credit carryforwards and updated its effective tax rate accordingly. Also, during the quarter ended September 30, 2015, the Company recorded a discrete tax benefit of \$129 for the effect of a change in valuation allowance due to a change in judgement about the realizability of the related deferred tax asset in future years. For the nine months ended September 30, 2015, the total discrete benefit amount recorded was \$232.

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The effective income tax rate as a percentage of income before income taxes was 24.2% and 31.7% for the three months ended September 30, 2015 and 2014, respectively. The effective income tax rate as a percentage of income before income taxes was 27.3% and 31.6% for the nine months ended September 30, 2015 and 2014, respectively. The effective tax rate for the three and nine months of 2015 and the three and nine months of 2014 is lower than the statutory rate primarily due to differences in foreign tax rates and changes in the estimated valuation allowance.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

12. COMMITMENTS AND CONTINGENCIES***Warranty***

The Company offers warranty coverage for its products. The length of the warranty period for its products varies significantly based on the product being sold. The Company estimates the costs of repairing products under warranty based on the historical average cost of the repairs. The assumptions used to estimate warranty accruals are reevaluated periodically in light of actual experience and, when appropriate, the accruals are adjusted. Estimated warranty costs are recorded at the time of sale of the related product, and are considered a cost of sale. Changes in the Company's reserve for product warranty claims during 2015 and 2014 were as follows (in thousands):

	September 30, 2015	December 31, 2014
Warranty reserve at beginning of the year	\$ 786	\$ 629
Provision	42	234
Warranty expenditures	(48)	(40)
Effect of foreign currency translation	(18)	(37)
Warranty reserve at end of the period	\$ 762	\$ 786

Operating Leases

The Company is party to various operating leases for buildings, equipment and software. Estimated future operating lease expense is as follows (in thousands):

	Lease Expense
Remainder of 2015	\$ 398
2016	1,776
2017	1,245
2018	1,060
2019	731
Thereafter	2,391
Total	\$ 7,601

Litigation

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

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated Other Comprehensive Income for the three months ended September 30, 2015 and 2014 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2015	\$ (853)	\$ (61)	\$ (8,390)	\$ (9,304)
Unrealized loss on cash flow hedges		(135)		(135)
Amounts reclassified from AOCI		48		48
Foreign currency translation gain			400	400
At September 30, 2015	\$ (853)	\$ (148)	\$ (7,990)	\$ (8,991)

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At June 30, 2014	\$ (190)	\$ (57)	\$ 448	\$ 201
Unrealized loss on cash flow hedges		57		57
Amounts reclassified from AOCI		56		56
Foreign currency translation loss			(3,214)	(3,214)
At September 30, 2014	\$ (190)	\$ 56	\$ (2,766)	\$ (2,900)

Accumulated Other Comprehensive Income for the nine months ended September 30, 2015 and 2014 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2014	\$ (853)	\$ (2)	\$ (4,828)	\$ (5,683)
Unrealized loss on cash flow hedges		(295)		(295)
Amounts reclassified from AOCI		149		149
Foreign currency translation loss			(3,162)	(3,162)
At September 30, 2015	\$ (853)	\$ (148)	\$ (7,990)	\$ (8,991)

Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
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At December 31, 2013	\$	(190)	\$	41	\$	773	\$	624
Unrealized loss on cash flow hedges				(158)				(158)
Amounts reclassified from AOCI				173				173
Foreign currency translation loss						(3,539)		(3,539)
At September 30, 2014	\$	(190)	\$	56	\$	(2,766)	\$	(2,900)

The realized (gain) loss 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 Operations and Comprehensive Income.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

14. PENSION AND POSTRETIREMENT PLANS

The expenses that the Company records for its pension and other postretirement benefit pension plans depend on factors such as changes in market interest rates, the value of plan assets, mortality assumptions and health care trend rates. Significant unfavorable changes in these factors would increase its expenses. The Company's pension plan assets consist primarily of equity and fixed income securities. If the performance of investments in the plan does not meet the Company's assumptions, the excess obligation may increase and the Company may have to record additional costs and/or contribute additional funds to the pension plan. An increase in pension expenses and contributions could decrease the Company's cash available to pay its outstanding obligations as well as impact net income.

The Company's postretirement plan is unfunded. Expense is recorded as employees render the services necessary to earn the benefits. The expenses are based on estimates including health care cost increases, retirement and mortality. Actual results may vary materially from estimates which could result in an increase to the Company's expense and a decrease in its net income.

Pension Plan

Motor Products - Owosso has a defined benefit pension plan covering substantially all of its hourly union employees hired prior to April 10, 2002. The benefits are based on years of service, the employee's compensation during the last three years of employment, and accumulated employee contributions.

Components of net periodic pension expense included in the condensed consolidated statements of operations and comprehensive income for the three and nine months ending September 30, 2015 and 2014 are as follows (in thousands):

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
Service cost	\$ 27	\$ 21	\$ 80	\$ 63
Interest cost	68	66	204	199
Expected return on assets	(82)	(85)	(245)	(255)
Amortization of net loss	48	11	143	33
Net periodic pension expense	\$ 61	\$ 13	\$ 182	\$ 40

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The Company expects to contribute approximately \$204 to the Pension Plan during 2015. For the three and nine months ended September 30, 2015, \$48 and \$156, respectively of cash contributions were made to the plan. Benefits expected to be paid from the Pension Plan during 2015 are \$309. For the three and nine months ended September 30, 2015 there were benefit payments paid to participants of \$70 and \$210, respectively.

Post Retirement Welfare Plan

Motor Products-Owosso provides postretirement medical insurance and life insurance benefits to current and former employees hired before January 1, 1994 who retire from Motor Products. Employees who retire after January 1, 2005 must have twenty or more years of continuous service in order to be eligible for retiree medical benefits. Partial contributions from retirees are required for the medical insurance benefits. The Company's portion of the medical insurance premiums is funded from the general assets of the Company. The Company recognizes the expected cost of providing such post-retirement benefits during employees' active service periods.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Components of net periodic postretirement benefit income included in the condensed consolidated statements of operations and comprehensive income for the quarters ending September 30, 2015 and 2014 are as follows (in thousands):

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
Service cost	\$ 2	\$ 2	\$ 7	\$ 7
Interest cost	13	14	38	43
Amortization of net gain	(18)	(19)	(54)	(59)
Amortization of prior service cost	(3)	(3)	(9)	(9)
Net postretirement benefit	\$ (6)	\$ (6)	\$ (18)	\$ (18)

Benefit payments for the Post Retirement Welfare Plan during 2015 are expected to be \$51.

15. DIVIDENDS PER SHARE

The Company declared a quarterly dividend of \$0.025 per share in the each of the first, second and third quarters of 2015 and 2014. Total dividends declared in the first nine months of 2015 and 2014 were \$696 and \$690, respectively.

16. 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

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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, China, Portugal and Mexico 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 and as of September 30,		For the nine months ended and as of September 30,	
	2015	2014	2015	2014
Revenues derived from foreign subsidiaries	\$ 20,338	\$ 20,697	\$ 60,070	\$ 62,914

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

Identifiable foreign assets were \$59,001 and \$57,386 as of September 30, 2015 and December 31, 2014, 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 \$20,755 and \$20,735 during the quarters ended September 30, 2015 and 2014, respectively; and \$62,214 and \$64,650 for the nine months ended September 30, 2015 and 2014, respectively.

During the three and nine months ended September 30, 2015, two customers accounted for 36% and 34% of total revenues, respectively, and 37% of trade receivables. During the three and nine months ended September 30, 2014, three customers accounted for 38% and 35% of total revenues, respectively, and 46% of trade receivables.

17. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

Effective January 1, 2015, we adopted Accounting Standards Update (ASU) No. 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* which eliminates from GAAP the concept of extraordinary items. However, the presentation and disclosure guidance for items that are unusual in nature or infrequent in occurrence was retained. We adopted the updated guidance prospectively. The adoption of this update concerns presentation and disclosure only as it relates to the Company's condensed consolidated financial statements.

Effective January 1, 2015, we adopted ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. To qualify as a discontinued operation the standard requires a disposal to represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The standard also expands the disclosures for discontinued operations and requires new disclosures related to individually material dispositions that do not qualify as discontinued operations. The standard is effective prospectively for fiscal years beginning after December 15, 2014. The significance of this guidance for the

Company is dependent on any qualifying dispositions or disposals.

Recently issued accounting pronouncements

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. The standard applies to inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of the standard at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in ASU 2015-11 more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). The standard is effective for fiscal years beginning after December 15, 2016. ASU 2015-11 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. ASU 2015-03 is not expected to have a material impact on the Company's condensed consolidated financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance will be effective for the Company beginning in the first quarter of fiscal year 2018 using one of two prescribed retrospective methods. Early adoption is not permitted. The Company has not yet selected a transition method, or determined the effect of the standard on its ongoing financial reporting.

Table of Contents**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 and Asia, general business and economic conditions in the Company's motion markets, changes in foreign currency exchange rates, 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 regional manufacturing and component sourcing capabilities, the ability of the Company to control costs, including relocation costs, for the purpose of improving profitability and the additional risk factors discussed under Item 1A. Risk Factors in Part II of this report. 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.

Amounts in thousands, except per share data**3rd Quarter Overview**

The Company delivered earnings per share of \$0.46 for third quarter 2015 compared to \$0.45 per share for third quarter 2014 with a 6% decline in revenues. The strength of the U.S. dollar against foreign currencies continued to have an impact on the reported results of the third quarter as well as for the year. Without the strengthening of the US dollar, revenues for the third quarter of 2015 would have been consistent, and fully diluted earnings per share would have increased 11% compared to the same quarter in 2014, as measured in constant currency. Year to date, revenues would have increased 4% and fully diluted earnings per share would have increased 26% as compared to the same period in 2014. Refer to the information included in Constant Currency Presentation below for a reconciliation between sales, net income and earnings per share

reflected on a constant currency basis to amounts as reported.

For the third quarter 2015, we experienced growth in our Electronics and Medical markets. Our Aerospace and Defense, Industrial, Distribution and Vehicle markets were down. While the overall market has not met our improvement expectations during the year, we continue to focus on improving internal operations efficiencies through the utilization of our Allied Systematic Tools. With strong cash flows and a continually improving debt position, we believe we have the required resources to enhance our growth opportunities through strategic acquisitions in the future. The long term success of our

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Company will be further enhanced by executing our strategy and leveraging our full capabilities to design innovative Motion Solutions That Change the Game and meet the current and emerging needs of our customers in our served market segments.

Revenues for the quarter ended September 30, 2015 decreased 6% from September 30, 2014. The decrease in revenue was due to a 6% unfavorable currency impact with volume remaining consistent compared to the third quarter of 2014.

The strengthening of the U.S. dollar against foreign currencies during the third quarter of 2015 also continued to impact reported bookings when compared to the prior year. Bookings for the quarter ended September 30, 2015 of \$55,115 were 17% lower than the September 30, 2014 bookings of \$66,739. The decrease in bookings is comprised of 12% from reduced volume and 5% related to foreign currency. Backlog as of September 30, 2015 was \$67,820 compared to \$75,065 as of December 31, 2014.

From a Cash Flow perspective, our debt net of cash position decreased by \$8,920 to \$52,815 at September 30, 2015 from December 31, 2014. We declared and paid a dividend of \$0.025 per share pursuant to our quarterly dividend program during the third quarter of 2015. Dividends to shareholders for the trailing twelve months were \$0.10 per diluted share, or a dividend payout ratio of 6% when compared to the earnings per share of \$1.65.

Operating Results*Quarter ended September 30, 2015 compared to quarter ended September 30, 2014*

(in thousands)	For the quarter ended September 30,		Increase (decrease)	
	2015	2014	\$	%
Revenues	\$ 61,534	\$ 65,280	\$ (3,746)	(6)%
Cost of products sold	42,595	45,668	(3,073)	(7)%
Gross margin	18,939	19,612	(673)	(3)%
Gross margin percentage	31%	30%		
Operating costs and expenses:				
Selling	1,963	2,277	(314)	(14)%
General and administrative	5,939	6,172	(233)	(4)%
Engineering and development	3,345	3,204	141	4%
Amortization of intangible assets	661	697	(36)	(5)%
Total operating costs and expenses	11,908	12,350	(442)	(4)%
Operating income	7,031	7,262	(231)	(3)%
Interest expense	1,504	1,607	(103)	(6)%
Other income	(115)	(368)	253	(69)%
Total other expense	1,389	1,239	150	12%
Income before income taxes	5,642	6,023	(381)	(6)%
Provision for income taxes	(1,364)	(1,908)	544	(29)%
Net Income	\$ 4,278	\$ 4,115	\$ 163	4%

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NET INCOME: Net income increased in 2015 from 2014 primarily due to product mix and gross margin improvements and was offset by unfavorable currency exchange.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$9,033 for the third quarter of 2015 compared to \$9,531 for the same quarter last year. Adjusted EBITDA was \$9,443 and \$9,901 for the third quarter of 2015 and 2014, 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

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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, we experienced growth in our Electronics and Medical markets while our remaining markets were down.

The 6% decrease in sales in the third quarter of 2015 is primarily due to foreign currency. 66% of our sales for the quarter were to US customers with the remaining 34% of our sales to customers primarily in Europe, Canada and Asia. The 6% decrease in sales in the third quarter of 2015 reflected consistent volumes offset by a 6% unfavorable currency impact.

ORDER BACKLOG: Bookings for the quarter ended September 30, 2015 were \$55,115 compared to last year's bookings of \$66,739. Backlog as of September 30, 2015 was \$67,820, a 16% decline compared to \$80,878 as of September 30, 2014. The decrease in backlog was the result of reduced volume of 6% and foreign currency impacts of 10%.

GROSS MARGIN: Gross margin as a percentage of revenues was 31% for the quarter ended September 30, 2015 and 30% for the quarter ended September 30, 2014. The increase in margin is primarily due to changes in sales mix (increased portion of sales of higher margin business offset partially by a decreased proportion of sales in lower margin business) and improved operational effectiveness.

SELLING EXPENSES: Selling expenses decreased in the third quarter of 2015 compared to the same period in 2014 due to reduced headcount in 2015 compared to the prior year. Selling expenses as a percentage of revenues were 3% in the third quarter of 2015 and 2014.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses declined by 4% in the third quarter 2015 from the third quarter 2014 due to reserves made in 2014 related to a pricing dispute that was settled in the fourth quarter of 2014. Also, in 2015 there are reduced expenses for incentive compensation, legal and consulting costs. As a percentage of revenues, general and administrative expenses increased to 10% for the period ended September 30, 2015 compared to 9% for the same period in 2014.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 4% in the third quarter of 2015 compared to the same quarter last year. A significant development project to meet the future needs of a target market for Allied was only in the start-up phase in the third quarter of 2014. In 2015 there have been additional costs incurred for consultants, prototypes, tooling, etc. As a percentage of revenues, engineering and development expenses were 5% for both the third quarter of 2015 and 2014.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets expense was 5% lower in the third quarter of 2015 compared to the third quarter of 2014. The decline is the result of foreign currency impacts on amortization at our foreign locations.

INCOME TAXES: The effective income tax rate as a percentage of income before income taxes was 24.2% and 31.7% in the third quarter 2015 and 2014, respectively. The effective tax rate for the third quarter of 2015 and 2014 is lower than the statutory rate primarily due to differences foreign tax rates and changes in the estimated valuation allowance.

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(in thousands)	For the nine months ended September 30,		Increase (decrease)	
	2015	2014	\$	%
Revenues	\$ 181,593	\$ 187,784	\$ (6,191)	(3)%
Cost of products sold	127,167	132,512	(5,345)	(4)%
Gross margin	54,426	55,272	(846)	(2)%
Gross margin percentage	30%	29%		
Operating costs and expenses:				
Selling	6,234	6,619	(385)	(6)%
General and administrative	17,314	19,097	(1,783)	(9)%
Engineering and development	10,498	10,193	305	3%
Amortization of intangible assets	1,983	2,045	(62)	(3)%
Total operating costs and expenses	36,029	37,954	(1,925)	(5)%
Operating income	18,397	17,318	1,079	6%
Interest expense	4,530	4,895	(365)	(7)%
Other income	(400)	(668)	268	(40)%
Total other expense	4,130	4,227	(97)	(2)%
Income before income taxes	14,267	13,091	1,176	9%
Provision for income taxes	(3,888)	(4,135)	247	(6)%
Net Income	\$ 10,379	\$ 8,956	\$ 1,423	16%

NET INCOME: Net income increased in 2015 from 2014 primarily due to increased volume, improved product mix, lower G&A expense, offset by unfavorable currency exchange.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$24,349 for 2015 compared to \$23,368 for 2014. Adjusted EBITDA was \$25,685 and \$24,505 for 2015 and 2014, 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 year to date, we experienced growth in our Electronics and Medical markets. Our remaining markets were down.

The 3% decrease in sales in 2015 is primarily due to foreign currency. 66% of our sales for 2015 were to US customers with the remaining 34% of our sales to customers primarily in Europe, Canada and Asia. The overall decrease in revenue was due to 7% unfavorable currency impact, offset by a 4% volume increase.

ORDER BACKLOG: Bookings 2015 were \$177,781 compared to last year's bookings of \$194,607. The decrease in bookings of 9% was due to a 2% volume decrease and a 7% currency impact. As noted above, backlog as of September 30, 2015 was \$67,820 compared to \$80,878 as of September 30, 2014.

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GROSS MARGIN: Gross margin as a percentage of revenues was 30% and 29% for 2015 and 2014, respectively. The increase in margin is primarily due to changes in sales mix (increased portion of sales of higher margin business offset partially by a decreased proportion of sales in lower margin business).

SELLING EXPENSES: Selling expenses for 2015 decreased by 6% compared to the same period of 2014 due to reduced headcount in 2015. Selling expenses as a percentage of revenues were 3% in 2015 and 4% in 2014.

GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses decreased by 9% in 2015 from 2014 due to reserves made in 2014 related to a pricing dispute that was settled in the fourth quarter of 2014. Also, 2015

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expenditures for incentive compensation, consulting, business development and company meetings have been lower than in 2014. As a percentage of revenues, general and administrative expenses were 10% for 2015 and 2014.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses increased by 3% in 2015 compared to 2014 primarily due to the ramp up of a significant development project to meet the future needs of a target market for Allied. As a percentage of revenues, engineering and development expenses on a year to date basis were 6% for 2015 and 5% for 2014.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets expense was lower in 2015 compared to 2014 due to the impact of foreign currency on amortization expense at our foreign locations.

INCOME TAXES: The year to date effective income tax rate as a percentage of income before income taxes was 27.3% and 31.6% in 2015 and 2014, respectively. The year to date effective tax rate for 2015 and 2014 is lower than the statutory rate primarily due to differences foreign tax rates and changes in the estimated valuation allowance.

Non-GAAP Measures

EBITDA and Adjusted EBITDA are provided for information purposes only and are not measures of financial performance under generally 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.

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The Company's calculation of EBITDA and Adjusted EBITDA for the three months ended September 30, 2015 and 2014 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income as reported	\$ 4,278	\$ 4,115	\$ 10,379	\$ 8,956
Interest expense	1,504	1,607	4,530	4,895
Provision for income tax	1,364	1,908	3,888	4,135
Depreciation and amortization	1,887	1,901	5,552	5,382
EBITDA	9,033	9,531	24,349	23,368
Stock compensation expense	410	370	1,336	1,137
Adjusted EBITDA	\$ 9,443	\$ 9,901	\$ 25,685	\$ 24,505

Constant Currency Presentation

The Company believes constant currency information provides valuable supplemental information that facilitates period-to-period comparisons of the company's business performance. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates for entities reporting in currencies other than US dollars. Constant currency results are calculated by translating current period results in local currency using the prior year's currency conversion rate.

	For the three months ended September 30,		For the nine months ended September 30,		2014
	2015	2014	2015	2014	
	\$ in thousands	% increase (decrease) compared to prior year amounts	\$ in thousands	\$ in thousands	\$ in thousands
Revenues					
2015 revenues, as reported	\$ 61,534	-6%	\$ 65,280	\$ 181,593	\$ 187,784
Currency impact	3,866	6%		13,250	7%
2015 revenues, at 2014 exchange rates	\$ 65,400	0%	\$ 65,280	\$ 194,843	\$ 187,784
Net income					
2015 net income, as reported	\$ 4,278	4%	\$ 4,115	\$ 10,379	\$ 8,956
Currency impact	345	8%		1,017	11%
2015 net income, at 2014 exchange rates	\$ 4,623	12%	\$ 4,115	\$ 11,396	\$ 8,956
Earnings per share					
2015 earnings per share, as reported	\$ 0.46	2%	\$ 0.45	\$ 1.12	\$ 0.98
Currency impact	0.04	9%		0.11	12%
2015 earnings per share, at 2014 exchange rates	\$ 0.50	11%	\$ 0.45	\$ 1.23	\$ 0.98

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Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents increased by \$4,783, to a balance of \$17,896 at September 30, 2015 from December 31, 2014.

During the nine months ended September 30, 2015, operations provided \$13,733 in cash compared to \$7,953 of cash provided during the nine months ended September 30, 2014. The increase in cash provided is primarily due to a decrease in working capital needs, primarily trade receivables. The decrease in the use of cash for trade receivables in 2015 is primarily related to the reduced number of days needed for collection in 2015 compared to 2014.

Net cash used in investing activities was \$3,693 for 2015 compared to \$1,754 for 2014. The higher net cash used is primarily due to the receipt of a \$1,434 purchase price adjustment related to the Globe acquisition during the first quarter of 2014. During 2015, purchases of property and equipment were \$3,693 compared to \$3,153 for 2014.

Net cash used in financing activities was \$4,551 for 2015 compared to \$6,737 for 2014.

During the nine months ended September 30, 2015, we made payments of \$4,500 for our Term Loan obligation, and \$1,000 for our Revolving Credit Facility. At September 30, 2015, we had \$69,000 in obligations under the Credit Agreement and the Note Agreement. Refer to Note 6 of the *Unaudited Notes to Condensed Consolidated Financial Statements* for additional information regarding the Credit and Note Agreements.

The Credit Agreement contains certain financial covenants related to maximum leverage and minimum fixed charge coverage. The Credit Agreement also includes other covenants and restrictions, including limits on the amount of certain types of capital expenditures. The Company was in compliance with all covenants at September 30, 2015.

As of September 30, 2015, the amount available to borrow under the Credit Agreement was \$15,000.

The average China Facility balance for year to date 2015 was \$1,710 (RMB 10,900). There was \$430 (2,600 RMB) of additional borrowings during 2015. At September 30, 2015, there was approximately \$180 (RMB 1,130) available under the facility.

During the quarter ended September 30, 2015, the Company paid dividends of \$0.025 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 Credit Agreement.

Contractual Obligations

The following table summarizes contractual obligations and borrowings as of September 30, 2015 and the timing and effect that such commitments are expected to have on our liquidity and capital requirements in future periods. We expect to fund other commitments primarily with operating cash flows generated in the normal course of business.

	Total	Payments Due by Period *			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating leases	\$ 7,602	\$ 1,730	\$ 2,485	\$ 1,363	\$ 2,024
Debt Obligations					
(1)	70,711	9,211	20,747	40,753	
Interest on Debt (2)	20,467	5,265	9,754	5,448	
Total	\$ 98,780	\$ 16,206	\$ 32,986	\$ 47,564	\$ 2,024

(1) Amounts represent our debt obligations as of September 30, 2015. For more information on our debt obligations, refer to Note 8 of the *Notes to Condensed Consolidated Financial Statements* included in this Report under Item 1.

(2) Amounts represent the estimated interest payments based on the principal amounts and applicable interest rates on the debt at September 30, 2015.

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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, 2014. 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.

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 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 3. Qualitative and Quantitative Disclosures about Market Risk

Foreign Currency

We have foreign operations in The Netherlands, Sweden, China, Portugal, Canada and Mexico, which expose the Company to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Swedish Krona, Chinese Yuan 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 \$3,900 on our third quarter sales and \$5,500 on our year to date sales. This amount is not indicative of the hypothetical net earnings

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impact due to partially offsetting impacts on cost of sales and operating expenses in those currencies. We estimate that foreign currency exchange rate fluctuations during the three and nine months ended September 30, 2015 decreased sales in comparison to the same periods in 2014 by approximately \$3,900 and \$13,300, respectively.

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 gain of approximately \$400 for the third quarter 2015 and a loss of \$3,160 for the year to date 2015. The translation adjustment was a loss of \$3,214 for the third quarter 2014 and a loss of \$3,539 for the year to date 2014. 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 loss of \$94 and \$315 for the third quarter of 2015 and 2014, respectively. For the year to date 2015, a \$242 gain has been recognized in Other income, net compared to a \$275 gain for 2014. 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 \$4,400 on our foreign net assets as of September 30, 2015.

Interest Rates

Interest rates on our Credit Facility are based on 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% (currently 2.0%). The Company uses interest rate derivatives to add stability to interest expense and to manage its exposure to interest rate movements. 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 Interest Rate Swaps with a combined notional of \$25,000 that amortize quarterly to a notional of \$6,673 at maturity. This swap is accounted for as a cash flow hedge. Refer to Note 7 of the *Unaudited Notes to Condensed Consolidated Financial Statements* for information about our derivative financial instruments.

As of September 30, 2015, we had \$40,500 outstanding under the Term Loan, of which \$19,500 million is currently being hedged. Refer to Note 6 of the *Notes to 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 \$19,500 of unhedged floating rate debt outstanding at September 30, 2015 would have an impact of approximately \$52 on our interest expense for the third quarter and \$180 on our interest expense for the year to date.

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, 2015. 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, 2015, 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 three months ended September 30, 2015, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Transition of enterprise resource planning system

During the first quarter of 2015, the Company completed the process of installing an Enterprise Resource Planning (ERP) system at one of its locations the U.S. and one in Sweden as part of a phased implementation schedule. During the second quarter of 2015, the Company completed the process of installing an ERP system at one of its locations in China. During the third quarter of 2015, the Company completed the process of installing an ERP system at its U.S. Corporate office. The implementation of this ERP system involves changes in the Company s procedures for internal control over financial reporting. The Company follows a system implementation life cycle process that requires significant pre-implementation planning, design and testing. The Company also conducted and will continue to conduct extensive post-implementation monitoring and process modifications to ensure that internal controls over financial reporting are designed and operating effectively. The Company has not experienced any significant difficulties to date in connection with the implementation or the operation of this ERP system.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed by Company except to the extent factual information disclosed elsewhere in this Form 10-Q relates to such risk factors. For a full description of these risk factors, please refer to Item 1A. Risk Factors in the March 2015 Quarterly Report on Form 10-Q which are incorporated herein by reference and made a part hereof.

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

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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, 2015, 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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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 5, 2015

ALLIED MOTION TECHNOLOGIES INC.
By: /s/ Michael R. Leach
Michael R. Leach
Chief Financial Officer