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, 2018

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes 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	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: 9,476,382 as of October 31, 2018

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ALLIED MOTION TECHNOLOGIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

		September 30, 2018		December 31, 2017
Assets				
Current assets:				
Cash and cash equivalents	$	11,357	$	15,590
Trade receivables, net of allowance for doubtful accounts of $506 and $341 at September 30, 2018 and December 31, 2017, respectively		45,230		31,822
Inventories		44,887		32,568
Prepaid expenses and other assets		3,490		3,460
Total current assets		104,964		83,440
Property, plant and equipment, net		43,026		38,403
Deferred income taxes		129		14
Intangible assets, net		33,075		32,073
Goodwill		34,938		29,531
Other long-term assets		5,981		4,461
Total Assets	$	222,113	$	187,922
Liabilities and Stockholders Equity				
Current liabilities:				
Debt obligations	$	437	$	461
Accounts payable		24,587		15,351
Accrued liabilities		18,051		14,270
Total current liabilities		43,075		30,082
Long-term debt		62,021		52,694
Deferred income taxes		3,164		3,609
Pension and post-retirement obligations		4,238		4,667
Other long-term liabilities		9,132		9,523
Total liabilities		121,630		100,575
Stockholders Equity:				
Common stock, no par value, authorized 50,000 shares; 9,476 and 9,427 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively		32,867		31,051
Preferred stock, par value $1.00 per share, authorized 5,000 shares; no shares issued or outstanding				
Retained earnings		74,366		61,882
Accumulated other comprehensive loss		(6,750)		(5,586)
Total stockholders equity		100,483		87,347
Total Liabilities and Stockholders Equity	$	222,113	$	187,922

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, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Revenues	$ 80,092	$ 64,968	$ 236,649	$ 186,657
Cost of goods sold	56,330	45,422	166,816	131,529
Gross profit	23,762	19,546	69,833	55,128
Operating costs and expenses:				
Selling	2,762	2,822	8,402	8,135
General and administrative	8,210	6,255	24,318	17,985
Engineering and development	4,692	4,389	14,610	12,984
Amortization of intangible assets	872	813	2,634	2,405
Total operating costs and expenses	16,536	14,279	49,964	41,509
Operating income	7,226	5,267	19,869	13,619
Other expense (income):				
Interest expense	623	633	1,839	1,797
Other (income) expense, net	(24)	65	(118)	135
Total other expense, net	599	698	1,721	1,932
Income before income taxes	6,627	4,569	18,148	11,687
Provision for income taxes	(1,767)	(1,512)	(4,859)	(3,746)
Net income	$ 4,860	$ 3,057	$ 13,289	$ 7,941
Basic earnings per share:				
Earnings per share	$ 0.52	$ 0.33	$ 1.44	$ 0.87
Basic weighted average common shares	9,273	9,173	9,251	9,137
Diluted earnings per share:				
Earnings per share	$ 0.52	$ 0.33	$ 1.42	$ 0.86
Diluted weighted average common shares	9,371	9,294	9,337	9,265
Net income	$ 4,860	$ 3,057	$ 13,289	$ 7,941
Foreign currency translation adjustment	(307)	1,829	(2,152)	5,608
Income (loss) on derivatives	137	45	988	(178)
Comprehensive income	$ 4,690	$ 4,931	$ 12,125	$ 13,371

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, 2018	2017
Cash Flows From Operating Activities:		
Net income	$ 13,289	$ 7,941
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,454	7,590
Deferred income taxes	(484)	(99)
Stock compensation expense	1,787	1,473
Debt issue cost amortization recorded in interest expense	113	113
Other	521	(26)
Changes in operating assets and liabilities, net of acquisition:		
Trade receivables	(11,727)	(6,887)
Inventories	(11,067)	(379)
Prepaid expenses and other assets	(1,610)	17
Accounts payable	8,093	3,106
Accrued liabilities	3,917	2,464
Net cash provided by operating activities	11,286	15,313
Cash Flows From Investing Activities:		
Purchase of property and equipment	(10,581)	(4,220)
Cash paid for acquisition	(13,312)	
Net cash used in investing activities	(23,893)	(4,220)
Cash Flows From Financing Activities:		
Borrowings on long term debt	17,658	(441)
Principal payments of long-term debt	(8,350)	(9,114)
Dividends paid to stockholders	(800)	(709)
Stock transactions under employee benefit stock plans	262	355
Net cash provided by (used in) financing activities	8,770	(9,909)
Effect of foreign exchange rate changes on cash	(396)	933
Net (decrease) increase in cash and cash equivalents	(4,233)	2,117
Cash and cash equivalents at beginning of period	15,590	15,483
Cash and cash equivalents at end of period	$ 11,357	$ 17,600

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

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ 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, 2017 that was previously filed by the Company.

2. BUSINESS COMBINATION

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

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

		January 19, 2018
Intangible assets	$	3,870
Goodwill		5,921
Assets acquired (net of liabilities assumed)		3,521
Fair value of net assets acquired	$	13,312

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. None of the goodwill recognized is deductible for income tax purposes. The purchase price allocation is subject to

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

further adjustment to reflect, among other things, any adjustments in accordance with the Purchase Agreement and finalization of the opening balance sheet, including adjustments for final valuations, including intangible assets.

3. REVENUE RECOGNITION

Performance Obligations

Performance Obligations Satisfied at a Point in Time

The Company s standard delivery method is free on board shipping point. Consequently, the Company considers control of most products to transfer at a single point in time when control is transferred to the customer, generally when the products are shipped in accordance with an agreement and/or purchase order. Control is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of the product.

The Company satisfies its performance obligations under a contract with a customer by transferring goods and services in exchange for generally monetary consideration from the customer. The Company considers the customer s purchase order, and the Company s corresponding sales order acknowledgment as the contract with the customer. For some customers, control, and a sale, is transferred at a point in time when the product is delivered to a customer.

Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

Performance Obligations Satisfied Over Time

The Company has certain contracts that have performance obligations that are satisfied over periods exceeding one year. Determining a measure of progress requires management to make judgments that affect the timing of revenue recognized.

For a contract satisfied over time (greater than one year), revenue is recognized similarly to contracts satisfied at a point in time. The Company transfers control and recognizes a sale when the Company ships the product from a manufacturing facility to a customer. The only difference is that the shipments are not completed within a one-year timeframe. The revenue recognized for the contracts satisfied over time were immaterial for the quarter and nine months ended September 30, 2018.

The Company has determined that the above methods provide a faithful depiction of the transfer of goods to the customer.

Nature of Goods and Services

The Company sells component and integrated motion control solutions to end customers and original equipment manufacturers (OEM s) through the Company s own direct sales force and authorized manufacturers representatives and distributors. The Company s products include brush and brushless DC motors, brushless servo and torque motors, coreless DC motors, integrated brushless motor-drives, gearmotors, gearing, modular digital servo drives, motion controllers, incremental and absolute optical encoders, and other motion control-related products. The Company s target markets include Vehicle, Medical, Aerospace & Defense and Electronics/Industrial.

Determining the Transaction Price

The majority of the Company s contracts have an original duration of less than one year. For these contracts, the Company applies the practical expedient and therefore does not consider the effects of the time value of money. For multiyear contracts, the Company uses judgment to determine whether there is a significant financing component. These contracts are generally those in which the customer has made an up-front payment. Contracts that management determines to include a significant financing component are discounted at the Company s incremental borrowing rate. The Company incurs interest expense and accrues a contract liability. As the Company satisfies performance obligations and recognizes revenue from these contracts, interest expense is recognized simultaneously. Management does not have any contracts that include a significant financing component as of September 30, 2018.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

Disaggregation of Revenue

The Company disaggregates revenue from contracts with customers into geographical regions and target markets. The Company determines that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. As noted in the Segment Information footnote, the Company s business consists of one reportable segment. A reconciliation of disaggregated revenue to segment revenue as well as revenue by geographical regions is provided in *Note 16, Segment Information*.

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Target Market		
Vehicle	$ 31,717	$ 95,071
Industrial/Electronics	24,668	76,633
Medical	10,732	31,214
Aerospace & Defense	10,332	26,701
Other	2,643	7,030
Total	$ 80,092	$ 236,649

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Geography		
United States	$ 49,375	$ 140,031
Europe	29,975	94,754
Asia	742	1,864
Total	$ 80,092	$ 236,649

Contract Balances

When the timing of the Company s delivery of product is different from the timing of the payments made by customers, the Company recognizes either a contract asset (performance precedes customer payment) or a contract liability (customer payment precedes performance). Typically, contracts are paid in arrears and are recognized as receivables after the Company considers whether a significant financing component exists.

The opening and closing balances of the Company s receivables, contract asset, and contract liability are as follows (in thousands):

	Three months ended September 31, 2018			Nine months ended September 31, 2018		
	Receivables	Contract Asset	Contract Liability	Receivables	Contract Asset	Contract Liability
Opening balance	$	$	$ 623	$	$	$ 719
Closing balance			579			579
Decrease	$	$	$ (44)	$	$	$ (140)

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

Significant Payment Terms

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

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

Returns, Refunds, and Warranties

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

Practical Expedients

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

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

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

4. INVENTORIES

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

	September 30, 2018	December 31, 2017
Parts and raw materials	$ 28,195	$ 20,509

Work-in-process	7,263	5,984
Finished goods	9,429	6,075
	44,887	32,568

5. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2018	December 31, 2017
Land	$ 985	$ 993
Building and improvements	11,083	10,678
Machinery, equipment, tools and dies	57,213	49,083
Furniture, fixtures and other	14,162	12,931
	83,443	73,685
Less accumulated depreciation	(40,417)	(35,282)
Property, plant and equipment, net	$ 43,026	$ 38,403

Depreciation expense was approximately $1,960 and $1,817 for the quarters ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, depreciation expense was approximately $5,820 and $5,185, respectively.

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(In thousands, except per share data)

6. GOODWILL

The change in the carrying amount of goodwill for the nine months ended September 30, 2018 and year ended December 31, 2017 is as follows (in thousands):

	September 30, 2018	December 31, 2017
Beginning balance	$ 29,531	$ 27,522
Goodwill acquired (Note 2)	5,921	
Effect of foreign currency translation	(514)	2,009
Ending balance	$ 34,938	$ 29,531

7. INTANGIBLE ASSETS

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

		September 30, 2018			December 31, 2017		
	Life	Gross Amount	Accumulated amortization	Net Book Value	Gross Amount	Accumulated amortization	Net Book Value
Customer lists	8 - 17 years	$ 42,326	$ (14,623)	$ 27,703	$ 38,659	$ (12,721)	$ 25,938
Trade name	10 - 12 years	6,168	(3,165)	3,003	6,213	(2,798)	3,415
Design and technologies	10-12 years	4,991	(2,637)	2,354	5,147	(2,443)	2,704
Patents	17 years	24	(9)	15	24	(8)	16
Total		$ 53,509	$ (20,434)	$ 33,075	$ 50,043	$ (17,970)	$ 32,073

Intangible assets resulting from the acquisition of the Maval OE Steering business were approximately $3,870 (Note 2). The intangible assets acquired consist of customer lists (the valuation and useful life of which have not been finalized).

Amortization expense for intangible assets was $872 and $813 for the quarters ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, amortization expense was $2,634 and $2,405, respectively.

Estimated future intangible asset amortization expense as of September 30, 2018 is as follows (in thousands):

	Estimated Amortization Expense
Remainder of 2018	$ 883
2019	3,499
2020	3,499
2021	3,241
2022	3,241
2023	3,159
Thereafter	15,553
Total estimated amortization expense	$ 33,075

ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

8. STOCK-BASED COMPENSATION

Stock Incentive Plans

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

Restricted Stock

For the nine months ended September 30, 2018, 58,220 shares of unvested restricted stock were awarded at a weighted average market value of $34.25. Of the restricted shares granted, 30,603 shares have performance-based vesting conditions. The value of the shares is amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of unvested restricted stock are generally forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

The following is a summary of restricted stock activity for the nine months ended September 30, 2018:

	Number of shares
Outstanding at beginning of period	221,968
Awarded	58,220
Vested	(60,145)
Forfeited	(18,867)
Outstanding at end of period	201,176

Stock based compensation expense, net of forfeitures, of $694 and $519 was recorded for the quarters ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, stock compensation expense, net of forfeitures, of $1,787 and $1,473 was recorded, respectively.

9. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Compensation and fringe benefits	$ 9,715	$ 7,459
Warranty reserve	951	922
Income taxes payable	2,329	2,397
Other accrued expenses	5,056	3,492
	$ 18,051	$ 14,270

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

10. DEBT OBLIGATIONS

Debt obligations consisted of the following (in thousands):

	September 30, 2018		December 31, 2017	
Current Borrowings				
China Credit Facility (4.9% at September 30, 2018)	$	437	$	461
Current borrowings	$	437	$	461
Long-term Debt				
Revolving Credit Facility, long-term (1)	$	62,480	$	53,266
Unamortized debt issuance costs		(459)		(572)
Long-term debt	$	62,021	$	52,694

(1) The effective rate of the Revolver is 3.4% at September 30, 2018.

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), with an initial term of five years.

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, 2018, the applicable margin for LIBOR Rate borrowings was 1.50% and the applicable margin for Prime Rate borrowings was 0.5%. In addition, the Company is required to pay a commitment fee of between 0.10% and 0.25% quarterly (currently 0.15%) 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, 2018.

Other

The China Facility provides credit of approximately $1,456 (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 2018 was $460 (RMB 3,000). At September 30, 2018, there was approximately $1,019 (RMB 7,000) available under the facility.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing and duration of the Company s known or expected cash receipts and its known or expected cash payments principally related to the Company s investments and borrowings.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. 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 amortized quarterly to a notional of $6,673 at the September 2018 maturity. Neither of these interest rate swaps is currently active as the Company terminated one interest rate swap during October 2016 as part of its debt refinancing, and the second matured September 2018. 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 (Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2018 and 2017, 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, 2018 and 2017.

The Company estimates that an additional $252 will be reclassified as a decrease to interest expense over the next twelve months. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017 (in thousands):

		Asset Derivatives Fair value as of:			Liability Derivatives Fair value as of:	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**September 30, 2018**	**December 31, 2017**	**Balance Sheet Location**	**September 30, 2018**	**December 31, 2017**
Interest rate products	Other long-term assets	$ 1,184	$ 196	Other long-term liabilities	$	$

The tables below presents the effect of cash flow hedge accounting on other comprehensive income (loss) (OCI) for the quarter and nine months ended September 30, 2018 and 2017 (in thousands):

	Amount of gain (loss) recognized in OCI on derivative	Amount of gain (loss) recognized in OCI on derivative
Derivatives in cash flow	**Three months ended September 30,**	**Nine months ended September 30,**

hedging relationships	2018	2017	2018	2017
Interest rate products	$ 121	$ (34)	$ 936	$ (417)

Location of (gain) loss reclassified from accumulated OCI into income	Amount of (gain) loss reclassified from accumulated OCI into income Three months ended September 30, 2018	2017	Amount of (gain) loss reclassified from accumulated OCI into income Nine months ended September 30, 2018	2017
Interest expense	$ 16	$ 79	$ 52	$ 239

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

The tables below presents the effect of the Company s derivative financial instruments on the condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2018 and 2017:

Derivatives designated as hedging instruments	**Balance Sheet Location**	**Total amounts of income and expense line items presented that reflect the effects of cash flow hedges recorded Three months ended September 30, 2018**	**2017**	**Total amounts of income and expense line items presented that reflect the effects of cash flow hedges recorded Nine months ended September 30, 2018**	**2017**
Interest rate products	Other assets	$ 623	$ 633	$ 1,839	$ 1,797

The tables below present a gross presentation, the effects of offsetting, and a net presentation of the Company s derivatives as of September 30, 2018 and December 31, 2017. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the condensed consolidated balance sheets.

As of September 30, 2018	**Gross amounts of recognized assets**	**Gross amounts offset in the condensed consolidated balance sheets**	**Net amounts of assets presented in the condensed consolidated balance sheets**	**Gross amounts not offset in the condensed consolidated balance sheets: Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives	$ 1,184	$	$ 1,184	$	$	$ 1,184

As of December 31, 2017	**Gross amounts of recognized assets**	**Gross amounts offset in the condensed consolidated balance sheets**	**Net amounts of assets presented in the condensed consolidated balance sheets**	**Gross amounts not offset in the condensed consolidated balance sheets: Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives	$ 196	$	$ 196	$	$	$ 196

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

12. FAIR VALUE

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

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

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

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

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

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

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

The following table presents the Company s financial assets that are accounted for at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, respectively, by level within the fair value hierarchy (in thousands):

	September 30, 2018		
	Level 1	Level 2	Level 3
Assets			
Pension plan assets	$ 5,795	$	$
Other long-term assets	4,281		
Interest rate swaps		1,184	

	December 31, 2017		
	Level 1	Level 2	Level 3
Assets			
Pension plan assets	$ 5,362	$	$
Other long-term assets	3,929		
Interest rate swaps		196	

13. INCOME TAXES

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

The effective income tax rate as a percentage of income before income taxes was 26.7% and 33.1% in the third quarters 2018 and 2017, respectively. The effective tax rate is net of a discrete tax benefit of (0.6%) and (0.2%) for the third quarters of 2018 and 2017, respectively, related primarily to the recognition of excess tax benefits for share-based payment awards. For the nine months ended September 30, 2018 and 2017, the effective income tax rate as a percentage of income before income taxes was 26.8% and 32.1%, respectively. For the nine month periods ended September 30, 2018 and 2017, the effective rate is net of a discrete tax benefit of (1.1%), related primarily to the recognition of excess tax benefits for share-based payment awards.

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

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The provision of the Act reduces the US federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings.

The SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act. The Company is applying the guidance in SAB 118 when accounting for the enactment-date effects of the Act. At September 30, 2018, the Company has not completed the accounting for all of the tax effects of the Act; however, in certain cases, as described below, aspects of the accounting are complete. Additionally, the Company has made a reasonable estimate of other effects. In other cases, the Company has not been able to make a reasonable estimate and continues to account for those items based on existing accounting under Accounting Standards

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Codification (ASC) 740, *Income Taxes*, and the provisions of the tax laws that were in effect immediately prior to enactment. As further discussed below, during the nine-month period ended September 30, 2018, the Company did not recognize any adjustments to the provisional amounts recorded at December 31, 2017. In all cases, the Company will continue to make and refine our calculations as additional analysis is completed. Estimates may also be affected as we gain a more thorough understanding of the tax law. These changes could be material to income tax expense.

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The provisional amount of $(7) was recorded as of December 31, 2017 related to the remeasurement of certain deferred tax balances. Upon further analyses of certain aspects of the Act and refinement of the calculations during the nine months ended September 30, 2018, we have not adjusted the provisional amount. Aside from adjustments that may occur with the filing of the 2017 income tax return in the fourth quarter 2018, the Company considers the enactment-date remeasurement of all other deferred tax assets and liabilities to be complete.

The one-time transition tax is based on total post-1986 earnings and profits (E&P) which had been previously deferred from US income taxes under previous US law. The Company recorded a provisional amount for the one-time transition tax liability for foreign subsidiaries, resulting in a transition tax liability of $3,140 being recorded at December 31, 2017. Upon further analyses of certain aspects of the Act and refinement of calculations for foreign subsidiaries during the three and nine months ended September 30, 2018, we have not changed the provisional amount. The Company will continue to refine the E&P analysis and our calculations of the one-time transition tax, which could affect the measurement of this liability. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations outside the United States.

The Act subjects a US shareholder to tax on Global Intangible Low Taxed Income (GILTI) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and has not yet determined our accounting policy. At September 30, 2018, the Company has included GILTI related to current-year operations only in our annual effective tax rate and has not provided additional GILTI on deferred items.

Refer to Note 17 Recent Accounting Pronouncements for discussion of Accounting Standards Update (ASU) 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.*

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated Other Comprehensive Income (Loss) (AOCI) for the quarters ended September 30, 2018 and 2017 is comprised of the following (in thousands):

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

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	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)

Accumulated Other Comprehensive Income for the nine months ended September 30, 2018 and 2017 is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2017	$ (945)	$ 196	$ (4,837)	$ (5,586)
Unrealized gain on cash flow hedges		936		936
Amounts reclassified from AOCI		52		52
Foreign currency translation loss			(2,152)	(2,152)
At September 30, 2018	$ (945)	$ 1,184	$ (6,989)	$ (6,750)

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
At December 31, 2016	$ (822)	$ (30)	$ (11,151)	$ (12,003)
Unrealized loss on cash flow hedges		(417)		(417)
Amounts reclassified from AOCI		239		239
Foreign currency translation gain			5,608	5,608
At September 30, 2017	$ (822)	$ (208)	$ (5,543)	$ (6,573)

The realized gains relating to the Company s interest rate swap hedges were reclassified from accumulated other comprehensive income (loss) and included in interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income.

15. DIVIDENDS PER SHARE

The Company declared a quarterly dividend of $0.025 per share in the first quarter of 2018 and $0.030 per share in the second and third quarters of 2018. Dividends declared for the first three quarters of 2017 were at $0.025 per share. Total dividends declared in the first nine months of

2018 and 2017 were $805 and $709, respectively.

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16. EARNINGS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Basic weighted average shares outstanding	9,273	9,173		