

ALLIED MOTION TECHNOLOGIES INC
Form 10-Q
August 01, 2018
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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 June 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)

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(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, smaller reporting company, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Securities Exchange Act. (Check one):

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

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

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

Number of Shares of the only class of Common Stock outstanding: 9,475,078 as of August 1, 2018

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CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,329	\$ 15,590
Trade receivables, net of allowance for doubtful accounts of \$487 and \$341 at June 30, 2018 and December 31, 2017, respectively	41,267	31,822
Inventories	41,098	32,568
Prepaid expenses and other assets	3,590	3,460
Total current assets	101,284	83,440
Property, plant and equipment, net	40,115	38,403
Deferred income taxes	53	14
Intangible assets, net	33,828	32,073
Goodwill	35,121	29,531
Other long term assets	4,789	4,461
Total assets	\$ 215,190	\$ 187,922
Liabilities and Stockholders Equity		
Current liabilities:		
Debt obligations	453	461
Accounts payable	22,426	15,351
Accrued liabilities	15,030	14,270
Total current liabilities	37,909	30,082
Long-term debt	64,485	52,694
Deferred income taxes	3,305	3,609
Pension and post-retirement obligations	4,705	4,667
Other long term liabilities	9,261	9,523
Total liabilities	119,665	100,575
Stockholders Equity:		
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Common stock, no par value, authorized 50,000 shares; 9,475 and 9,427 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	32,315	31,051
Retained earnings	69,790	61,882
Accumulated other comprehensive loss	(6,580)	(5,586)
Total stockholders equity	95,525	87,347
Total Liabilities and Stockholders Equity	\$ 215,190	\$ 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 June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenues	\$ 79,981	\$ 60,335	\$ 156,557	\$ 121,689
Cost of goods sold	56,464	42,454	110,486	86,107
Gross profit	23,517	17,881	46,071	35,582
Operating costs and expenses:				
Selling	2,943	2,710	5,640	5,313
General and administrative	8,336	5,981	15,792	11,730
Engineering and development	4,963	4,404	9,918	8,595
Business development	165		316	
Amortization of intangible assets	878	799	1,762	1,592
Total operating costs and expenses	17,285	13,894	33,428	27,230
Operating income	6,232	3,987	12,643	8,352
Other expense (income):				
Interest expense	602	641	1,216	1,164
Other (income) expense, net	(200)	80	(94)	70
Total other expense, net	402	721	1,122	1,234
Income before income taxes	5,830	3,266	11,521	7,118
Provision for income taxes	(1,599)	(1,039)	(3,092)	(2,234)
Net income	\$ 4,231	\$ 2,227	\$ 8,429	\$ 4,884
Basic earnings per share:				
Earnings per share	\$ 0.46	\$ 0.24	\$ 0.91	\$ 0.54
Basic weighted average common shares	9,268	9,165	9,241	9,120
Diluted earnings per share:				
Earnings per share	\$ 0.45	\$ 0.24	\$ 0.90	\$ 0.53
Diluted weighted average common shares	9,356	9,265	9,321	9,250
Net income	\$ 4,231	\$ 2,227	\$ 8,429	\$ 4,884
Foreign currency translation adjustment	(3,532)	3,105	(1,845)	3,779
Change in accumulated income (loss) on derivatives	247	(137)	851	(223)
Comprehensive income	\$ 946	\$ 5,195	\$ 7,435	\$ 8,440

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 six months ended	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$ 8,429	\$ 4,884
Adjustments to reconcile net income to net cash provided by operating activities (net of working capital acquired in 2018):		
Depreciation and amortization	5,622	4,960
Deferred income taxes	(282)	14
Stock compensation expense	1,094	954
Debt issue cost amortization recorded in interest expense	74	99
Other	133	(40)
Changes in operating assets and liabilities:		
Trade receivables	(7,639)	(4,442)
Inventories	(6,840)	529
Prepaid expenses and other assets	(504)	93
Accounts payable	5,788	(360)
Accrued liabilities	1,511	692
Net cash provided by operating activities	7,386	7,383
Cash Flows From Investing Activities:		
Purchase of property and equipment	(5,555)	(2,677)
Cash paid for acquisition, net of cash acquired	(13,312)	
Net cash used in investing activities	(18,867)	(2,677)
Cash Flows From Financing Activities:		
Borrowings on lines-of-credit, net	14,252	
Principal payments of long-term debt	(2,500)	(6,000)
Dividends paid to stockholders	(522)	(473)
Stock transactions under employee benefit stock plans	261	355
Net cash provided by (used in) financing activities	11,491	(6,118)
Effect of foreign exchange rate changes on cash	(271)	662
Net decrease in cash and cash equivalents	(261)	(750)
Cash and cash equivalents at beginning of period	15,590	15,483
Cash and cash equivalents at end of period	\$ 15,329	\$ 14,733

See accompanying notes to condensed consolidated financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

1. BASIS OF PREPARATION AND PRESENTATION

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

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

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using end of period exchange rates. Changes in reported amounts of assets and liabilities of foreign subsidiaries that occur as a result of changes in exchange rates between foreign subsidiaries functional currencies and the U.S. dollar are included in foreign currency translation adjustment. Foreign currency translation adjustment is included in accumulated other comprehensive income, a component of stockholders' equity in the accompanying condensed consolidated balance sheets. Revenue and expense transactions use an average rate prevailing during the month of the related transaction. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency 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, 2017 that was previously filed by the Company.

Reclassifications

Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2018 presentation.

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 Company is currently in a transition services agreement with Maval and is completing the production carve-out/separation of the businesses. Once the carve-out is complete, the business will be located entirely within its own dedicated facility in Twinsburg, OH.

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UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

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

	January 19, 2018
Intangible assets	\$ 3,700
Goodwill	5,995
Assets acquired (net of liabilities assumed)	3,617
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 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 purchase order.

The Company satisfies its performance obligations under a contract with a customer by transferring goods and services in exchange for consideration from 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, 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 six months ended June 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.