
**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, 2024.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-04041

ALLIENT 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)

Securities registered pursuant to Section 12(b) of the Act:

| | | |
|----------------------------|-----------------------|--|
| Title of each class | Trading Symbol | Name of each exchange on which registered |
| Common stock | ALNT | NASDAQ |

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 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 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.

Large accelerated filer Accelerated filer Non-accelerated filer 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: 16,845,378 as of November 6, 2024

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ALLIENT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

| | September 30, 2024 | December 31, 2023 |
|---|-------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 37,118 | \$ 31,901 |
| Trade receivables, net of provision for credit losses of \$ 1,239 and \$1,240 at September 30, 2024 and December 31, 2023, respectively | 82,549 | 85,127 |
| Inventories | 117,605 | 117,686 |
| Prepaid expenses and other assets | 13,582 | 13,437 |
| Total current assets | 250,854 | 248,151 |
| Property, plant, and equipment, net | 68,396 | 67,463 |
| Deferred income taxes | 7,663 | 7,760 |
| Intangible assets, net | 104,593 | 111,373 |
| Goodwill | 134,390 | 131,338 |
| Operating lease assets | 23,627 | 24,032 |
| Other long-term assets | 6,912 | 7,425 |
| Total Assets | <u><u>\$ 596,435</u></u> | <u><u>\$ 597,542</u></u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 28,894 | \$ 39,129 |
| Accrued liabilities | 32,292 | 56,488 |
| Total current liabilities | 61,186 | 95,617 |
| Long-term debt | 231,415 | 218,402 |
| Deferred income taxes | 4,078 | 4,337 |
| Pension and post-retirement obligations | 2,735 | 2,679 |
| Operating lease liabilities | 19,343 | 19,532 |
| Other long-term liabilities | 4,811 | 5,400 |
| Total liabilities | 323,568 | 345,967 |
| Stockholders' Equity: | | |
| Common stock, no par value, authorized 50,000 shares; 16,840 and 16,308 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively | 110,278 | 95,937 |
| Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding | — | — |
| Retained earnings | 174,497 | 165,813 |
| Accumulated other comprehensive loss | (11,908) | (10,175) |
| Total stockholders' equity | <u><u>\$ 272,867</u></u> | <u><u>\$ 251,575</u></u> |
| Total Liabilities and Stockholders' Equity | <u><u>\$ 596,435</u></u> | <u><u>\$ 597,542</u></u> |

See accompanying notes to condensed consolidated financial statements.

ALLIENT INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 (In thousands, except per share data)
 (Unaudited)

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|------------|---------------------------|------------|
| | September 30, | | September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| Revenues | \$ 125,213 | \$ 145,319 | \$ 407,958 | \$ 437,637 |
| Cost of goods sold | 85,949 | 97,821 | 280,641 | 298,328 |
| Gross profit | 39,264 | 47,498 | 127,317 | 139,309 |
| Operating costs and expenses: | | | | |
| Selling | 6,323 | 6,021 | 19,283 | 18,354 |
| General and administrative | 13,856 | 14,642 | 42,438 | 43,624 |
| Engineering and development | 9,056 | 10,702 | 30,416 | 31,041 |
| Business development | 278 | 1,194 | 2,204 | 1,791 |
| Amortization of intangible assets | 3,135 | 3,075 | 9,381 | 9,226 |
| Total operating costs and expenses | 32,648 | 35,634 | 103,722 | 104,036 |
| Operating income | 6,616 | 11,864 | 23,595 | 35,273 |
| Other expense, net: | | | | |
| Interest expense | 3,435 | 3,164 | 10,207 | 9,309 |
| Other expense, net | 468 | 42 | 405 | 187 |
| Total other expense, net | 3,903 | 3,206 | 10,612 | 9,496 |
| Income before income taxes | 2,713 | 8,658 | 12,983 | 25,777 |
| Income tax provision | (612) | (1,992) | (2,830) | (6,027) |
| Net income | \$ 2,101 | \$ 6,666 | \$ 10,153 | \$ 19,750 |
| Basic earnings per share: | | | | |
| Earnings per share | \$ 0.13 | \$ 0.42 | \$ 0.61 | \$ 1.24 |
| Basic weighted average common shares | 16,574 | 15,979 | 16,513 | 15,940 |
| Diluted earnings per share: | | | | |
| Earnings per share | \$ 0.13 | \$ 0.41 | \$ 0.61 | \$ 1.22 |
| Diluted weighted average common shares | 16,605 | 16,237 | 16,581 | 16,198 |
| Net income | \$ 2,101 | \$ 6,666 | \$ 10,153 | \$ 19,750 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 5,821 | (2,923) | 235 | (1,995) |
| Loss on derivatives, net of tax | (1,379) | (170) | (1,968) | (596) |
| Comprehensive income | \$ 6,543 | \$ 3,573 | \$ 8,420 | \$ 17,159 |

See accompanying notes to condensed consolidated financial statements.

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ALLIENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share data)
(Uncaudited)

| (In thousands except per share data) | Common Stock | | Accumulated Other Comprehensive (Loss) Income | | | | | Total Stockholders' Equity |
|---|---------------|-------------------|---|--|--|---------------------|-------------------|----------------------------|
| | Shares | Amount | Retained Earnings | Foreign Currency Translation Adjustments | Accumulated income (loss) on derivatives | Pension adjustments | | |
| Balances, December 31, 2023 | 16,308 | \$ 95,937 | \$ 165,813 | \$ (13,256) | \$ 3,425 | \$ (344) | \$ 251,575 | |
| Stock transactions under employee benefit stock plans | 58 | 1,564 | | | | | | 1,564 |
| Issuance of restricted stock, net of forfeitures | 167 | (139) | | | | | | (139) |
| Share issuance in connection with acquisitions | 203 | 6,250 | | | | | | 6,250 |
| Share issuance to settle contingent consideration | 174 | 4,874 | | | | | | 4,874 |
| Stock-based compensation expense | | | 1,211 | | | | | 1,211 |
| Shares withheld for payment of employee payroll taxes | (4) | (121) | | | | | | (121) |
| Comprehensive loss | | | | (4,408) | (102) | | | (4,510) |
| Tax effect of derivative transactions | | | | | 24 | | | 24 |
| Net income | | | 6,902 | | | | | 6,902 |
| Dividends to stockholders - \$ 0.03 | | | (500) | | | | | (500) |
| Balances, March 31, 2024 | 16,906 | \$ 109,576 | \$ 172,215 | \$ (17,664) | \$ 3,347 | \$ (344) | \$ 267,130 | |
| Issuance of restricted stock, net of forfeitures | (23) | | | | | | | — |
| Stock-based compensation expense | | | 1,073 | | | | | 1,073 |
| Shares withheld for payment of employee payroll taxes | (42) | (1,446) | | | | | | (1,446) |
| Comprehensive loss | | | | (1,178) | (673) | | | (1,851) |
| Tax effect of derivative transactions | | | | | 162 | | | 162 |
| Net income | | | 1,150 | | | | | 1,150 |
| Dividends to stockholders - \$ 0.03 | | | (503) | | | | | (503) |
| Balances, June 30, 2024 | 16,841 | \$ 109,203 | \$ 172,862 | \$ (18,842) | \$ 2,836 | \$ (344) | \$ 265,715 | |
| Stock transactions under employee benefit stock plans | | | | | | | | — |
| Issuance of restricted stock, net of forfeitures | | | | | | | | — |
| Share issuance in connection with acquisitions | | | | | | | | — |
| Stock-based compensation expense | | | 1,098 | | | | | 1,098 |
| Shares withheld for payment of employee payroll taxes | (1) | (23) | | | | | | (23) |
| Comprehensive income (loss) | | | | 5,821 | (1,809) | | | 4,012 |
| Tax effect of derivative transactions | | | | | 430 | | | 430 |
| Net income | | | | 2,101 | | | | 2,101 |
| Dividends to stockholders - \$ 0.03 | | | (466) | | | | | (466) |
| Balances, September 30, 2024 | <u>16,840</u> | <u>\$ 110,278</u> | <u>\$ 174,497</u> | <u>\$ (13,021)</u> | <u>\$ 1,457</u> | <u>\$ (344)</u> | <u>\$ 272,867</u> | |
| (In thousands except per share data) | Common Stock | | Accumulated Other Comprehensive (Loss) Income | | | | | Total Stockholders' Equity |
| | Shares | Amount | Retained Earnings | Foreign Currency Translation Adjustments | Accumulated income (loss) on derivatives | Pension adjustments | | |
| Balances, December 31, 2022 | 15,978 | \$ 83,852 | \$ 143,576 | \$ (16,925) | \$ 5,556 | \$ (594) | \$ 215,465 | |
| Stock transactions under employee benefit stock plans | 31 | 1,246 | | | | | | 1,246 |
| Issuance of restricted stock, net of forfeitures | 103 | (34) | | | | | | (34) |
| Share issuance in connection with acquisition | 185 | 6,250 | | | | | | 6,250 |
| Stock-based compensation expense | | | 1,267 | | | | | 1,267 |
| Shares withheld for payment of employee payroll taxes | (4) | (146) | | | | | | (146) |
| Comprehensive income (loss) | | | | 1,354 | (1,565) | | | (211) |
| Tax effect of derivative transactions | | | | | 432 | | | 432 |
| Net income | | | 6,315 | | | | | 6,315 |
| Dividends to stockholders - \$ 0.025 | | | (403) | | | | | (403) |
| Balances, March 31, 2023 | <u>16,293</u> | <u>\$ 92,435</u> | <u>\$ 149,488</u> | <u>\$ (15,571)</u> | <u>\$ 4,423</u> | <u>\$ (594)</u> | <u>\$ 230,181</u> | |
| Issuance of restricted stock, net of forfeitures | 14 | 11 | | | | | | 11 |
| Stock-based compensation expense | | | 1,544 | | | | | 1,544 |
| Shares withheld for payment of employee payroll taxes | (39) | (1,507) | | | | | | (1,507) |
| Comprehensive (loss) income | | | | (426) | 930 | | | 504 |
| Tax effect of derivative transactions | | | | | (223) | | | (223) |
| Net income | | | 6,769 | | | | | 6,769 |
| Dividends to stockholders - \$ 0.03 | | | (485) | | | | | (485) |
| Balances, June 30, 2023 | <u>16,268</u> | <u>\$ 92,483</u> | <u>\$ 155,772</u> | <u>\$ (15,997)</u> | <u>\$ 5,130</u> | <u>\$ (594)</u> | <u>\$ 236,794</u> | |
| Issuance of restricted stock, net of forfeitures | (18) | — | | | | | | — |
| Share issuance in connection with acquisitions | 35 | 1,079 | | | | | | 1,079 |
| Stock-based compensation expense | | | 1,354 | | | | | 1,354 |
| Shares withheld for payment of employee payroll taxes | (5) | (174) | | | | | | (174) |
| Comprehensive (loss) income | | | | (2,923) | (224) | | | (3,147) |
| Tax effect of derivative transactions | | | | | 54 | | | 54 |
| Net income | | | 6,666 | | | | | 6,666 |
| Dividends to stockholders - \$ 0.03 | | | (485) | | | | | (485) |
| Balances, September 30, 2023 | <u>16,280</u> | <u>\$ 94,742</u> | <u>\$ 161,953</u> | <u>\$ (18,920)</u> | <u>\$ 4,960</u> | <u>\$ (594)</u> | <u>\$ 242,141</u> | |

See accompanying notes to condensed consolidated financial statements.
ALLIENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
(Unaudited)

| | For the nine months ended | |
|--|----------------------------------|-------------------------|
| | September 30, | |
| | 2024 | 2023 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 10,153 | \$ 19,750 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 19,248 | 18,956 |
| Deferred income taxes | (45) | 122 |
| Stock-based compensation expense | 3,382 | 4,165 |
| Debt issue cost amortization recorded in interest expense | 379 | 225 |
| Other | 3,248 | 987 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Trade receivables | 6,012 | (14,358) |
| Inventories | 5,500 | (1,344) |
| Prepaid expenses and other assets | 142 | (1,553) |
| Accounts payable | (12,259) | 2,871 |
| Accrued liabilities | (6,302) | (2,689) |
| Net cash provided by operating activities | <u>29,458</u> | <u>27,132</u> |
| Cash Flows From Investing Activities: | | |
| Consideration paid for acquisitions, net of cash acquired | (25,231) | (11,004) |
| Purchase of property and equipment | <u>(6,903)</u> | <u>(7,850)</u> |
| Net cash used in investing activities | <u>(32,134)</u> | <u>(18,854)</u> |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of long-term debt | 76,898 | 11,000 |
| Principal payments of long-term debt and finance lease obligations | (61,333) | (22,325) |
| Payment of contingent consideration | (2,450) | — |
| Payment of debt issuance costs | (2,329) | — |
| Dividends paid to stockholders | (1,505) | (1,348) |
| Tax withholdings related to net share settlements of restricted stock | (1,596) | (1,827) |
| Net cash provided by (used in) financing activities | <u>7,685</u> | <u>(14,500)</u> |
| Effect of foreign exchange rate changes on cash | 208 | (556) |
| Net increase (decrease) in cash and cash equivalents | <u>5,217</u> | <u>(6,778)</u> |
| Cash and cash equivalents at beginning of period | 31,901 | 30,614 |
| Cash and cash equivalents at end of period | <u><u>\$ 37,118</u></u> | <u><u>\$ 23,836</u></u> |
| Supplemental disclosure of cash flow information: | | |
| Stock issued for acquisitions | \$ 6,250 | \$ 7,329 |
| Stock issued to settle contingent consideration | \$ 4,874 | \$ — |
| Property, plant and equipment purchases in accounts payable or accrued expenses | \$ 952 | \$ 1,960 |
| Debt issuance costs in accounts payable or accrued expenses | \$ 568 | \$ 185 |

See accompanying notes to condensed consolidated financial statements.

ALLIENT INC.
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

1. BASIS OF PREPARATION AND PRESENTATION

Allient Inc. ("Allient") or ("The Company") is engaged in the business of designing, manufacturing, and selling precision motion, control, power and structural composites to provide integrated system solutions as well as individual products, to a broad spectrum of customers throughout the world primarily for the industrial, vehicle, medical, and aerospace and defense markets.

The accompanying unaudited condensed financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany 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 the 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 loss, a component of stockholders' equity in the accompanying condensed consolidated statements of stockholders' equity. 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 of the foreign subsidiaries are included in the results of operations as incurred in other expense, net.

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 materially 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, 2023 that was previously filed by the Company.

ALLIENT INC.
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

2. ACQUISITIONS

On January 11, 2024, the Company acquired 100% of the outstanding shares of SNC Manufacturing Co., Inc. (a Wisconsin corporation) and Acutran de Mexico, S.A. de C.V. (a Mexican corporation), (collectively "SNC"), a premier designer and global manufacturer of electrical transformers serving blue-chip customers in defense, industrial automation, alternative power generation and energy, including electric utilities and renewable energy.

The initial purchase price consisted of \$20.0 million in cash paid at closing, subject to customary post-closing working capital adjustments. The purchase price allocation is subject to adjustments based on a final determination of certain tax matters. Measurement period adjustments to the initial purchase price allocation were made during the second quarter of 2024 that resulted in a decrease of the purchase price of \$67 and a corresponding decrease to goodwill for \$67. Adjustments were made in the third quarter of 2024 that resulted in a decrease to inventory of \$500, as well as a decrease to deferred income tax liabilities of \$110 and an increase to goodwill of \$390.

The Company incurred \$313 of transaction costs related to the acquisition during the nine months ended September 30, 2024, which are included in business development on the condensed consolidated statements of income and comprehensive income.

The operating results of the acquisition are included in the condensed consolidated financial statements beginning on the date of the acquisition. Revenue of SNC included within the condensed consolidated statements of income and comprehensive income for the three months ended September 30, 2024 was \$9,602 and net income was \$1,140 in the three months ended September 30, 2024. Revenue of SNC included within the condensed consolidated statements of income and comprehensive income for the nine months ended September 30, 2024 was \$28,072 and net income was \$3,014 in the nine months ended September 30, 2024.

| | |
|-------------------------------------|-------------------------|
| Cash and cash equivalents | \$ 881 |
| Trade receivables | 3,467 |
| Inventories | 8,600 |
| Prepaid expenses and other assets | 496 |
| Property, plant, and equipment | 4,258 |
| Operating lease assets | 378 |
| Intangible assets | 2,900 |
| Goodwill | 3,075 |
| Other current liabilities | (3,188) |
| Deferred revenue | (55) |
| Operating lease liabilities | (378) |
| Net deferred income tax liabilities | (592) |
| Other noncurrent liabilities | (118) |
| Net purchase price | <u><u>\$ 19,724</u></u> |

ALLIENT INC.
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

The preliminary fair values of the assets acquired were determined using one of three valuation approaches: market, income or cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach estimates the value for a subject asset based on available market pricing for comparable assets. The income approach estimates the value for a subject asset based on the present value of cash flows projected to be generated by the asset. The projected cash flows were discounted at a required rate of return that reflects the relative risk of the asset and the time value of money. The projected cash flows for each asset considered multiple factors from the perspective of a marketplace participant including revenue projections from existing customers, attrition trends, technology life-cycle assumptions, marginal tax rates and expected profit margins considering historical and expected margins. The cost approach estimates the value for a subject asset based on the cost to replace the asset and reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated. These fair value measurement approaches are based on significant unobservable inputs, including management estimates and assumptions.

The intangible assets acquired consist of \$ 1,500 of customers lists, \$ 600 of trade name, and \$ 800 of technology, which are being amortized over 12, 10, and 10 years, respectively. Goodwill generated is related to the assembled workforce, synergies between Allient's other operations and SNC that are expected to occur as a result of the combined engineering knowledge, the ability of each of the operations to integrate each other's products into more fully integrated system solutions, and Allient's ability to utilize SNC's management knowledge in providing complementary product offerings to the Company's customers.

The goodwill resulting from the acquisition is not tax deductible.

On September 22, 2023, the Company acquired 100% of the ownership interest in Sierramotion Inc. ("Sierramotion"), a company headquartered in California, that specializes in designing and engineering turn-key motion components and mechatronic solutions for robotic, medical, industrial, defense, semiconductor, and other precision applications. The final purchase price for Sierramotion of \$8.4 million included contingent consideration payable which was paid in the first quarter of 2024 (see Note 12 for breakout of payment) and at closing consisted of a combination of cash and Company stock. The intangible assets and goodwill are expected to be deductible for tax purposes. The purchase price allocation is final for this acquisition. Transaction costs for the acquisition were not material. The operating results of this acquisition are included in the condensed consolidated financial statements beginning on the acquisition date and the revenue and earnings in the current year periods presented are not material.

On January 3, 2024, the final deferred acquisition payment for Spectrum of \$ 12,500 (comprised of 50% cash and 50% Company stock) was paid.

The following pro forma financial information presents the combined results of operations if the SNC acquisition had occurred as of January 1, 2023 and the Sierramotion acquisition had occurred as of January 1, 2022:

| | Three months ended | | Nine months ended | |
|----------------------------|-----------------------|--|-----------------------|-----------------------|
| | September 30, 2023 | | September 30, 2024 | September 30, 2023 |
| Revenues | \$ 156,797 | | \$ 409,252 | \$ 469,392 |
| Income before income taxes | \$ 9,261 | | \$ 13,702 | \$ 27,286 |

The pro forma information includes certain adjustments, including depreciation and amortization expense, interest expense, and certain other adjustments, together with related income tax effects. The pro forma amounts do not reflect adjustments for anticipated operating efficiencies that the Company expected to or has subsequently achieved as a result of these acquisitions. The pro forma financial information is for informational purposes only and does not purport to present what the Company's results would have been had these transactions occurred on the date presented or to project the combined company's results of operations or financial position for future periods.

ALLIENT INC.
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

3. REVENUE RECOGNITION

Performance Obligations

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 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. For a limited number of contracts, for which revenue derived is not material in the periods presented, the Company recognizes revenue over time in proportion to costs incurred.

Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

Nature of Goods and Services

The Company designs, manufactures, and sells precision motion, control, power, and structural components to provide integrated system solutions as well as individual products 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 brushed 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, active and passive filters for power quality and harmonic issues, transformers, and other controlled motion-related products. The Company's target markets include Industrial, Vehicle, Medical, and Aerospace & Defense.

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, 2024 and December 31, 2023.

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 below in Note 18, *Segment Information*, the Company's business consists of one reportable segment. Revenue by geographic region is based on point of shipment origin.

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A disaggregation of revenue by target market and geography is provided below:

| Target Market | Three months ended | | Nine months ended | |
|------------------------|-----------------------|-------------------|-----------------------|-------------------|
| | September 30, 2024 | 2023 | September 30, 2024 | 2023 |
| Industrial | \$ 59,152 | \$ 64,921 | \$ 192,230 | \$ 193,766 |
| Vehicle | 20,353 | 32,989 | 83,669 | 98,559 |
| Medical | 20,507 | 21,693 | 58,828 | 66,254 |
| Aerospace & Defense | 18,332 | 19,972 | 53,627 | 60,237 |
| Distribution and Other | 6,869 | 5,744 | 19,604 | 18,821 |
| Total | \$ 125,213 | \$ 145,319 | \$ 407,958 | \$ 437,637 |

| Geography | Three months ended | | Nine months ended | |
|--------------------------------|-----------------------|-------------------|-----------------------|-------------------|
| | September 30, 2024 | 2023 | September 30, 2024 | 2023 |
| North America (primarily U.S.) | \$ 85,263 | \$ 102,502 | \$ 276,886 | \$ 300,834 |
| Europe | 33,859 | 35,456 | 111,664 | 113,679 |
| Asia-Pacific | 6,091 | 7,361 | 19,408 | 23,124 |
| Total | \$ 125,213 | \$ 145,319 | \$ 407,958 | \$ 437,637 |

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 contract liabilities are as follows:

| | September 30, 2024 | December 31, 2023 |
|---|-----------------------|----------------------|
| Contract liabilities in accrued liabilities | \$ 1,853 | \$ 2,137 |
| Contract liabilities in other long-term liabilities | — | 8 |
| | \$ 1,853 | \$ 2,145 |

The difference between the opening and closing balances of the Company's contract liabilities primarily results from the timing difference between the Company's performance and the customer's payment. In the nine months ended September 30, 2024 and 2023, the Company recognized revenue of \$1,108 and \$4,053, respectively, that was included in the opening contract liabilities balance.

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.

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.

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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:

| | September 30, 2024 | December 31, 2023 |
|-------------------------|--------------------------|--------------------------|
| Parts and raw materials | \$ 85,670 | \$ 87,381 |
| Work-in-process | 11,897 | 11,456 |
| Finished goods | 20,038 | 18,849 |
| | <u><u>\$ 117,605</u></u> | <u><u>\$ 117,686</u></u> |

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment is classified as follows:

| | Useful lives | September 30, 2024 | December 31, 2023 |
|--------------------------------------|--------------|-------------------------|-------------------------|
| | | 2024 | 2023 |
| Land | | \$ 1,786 | \$ 973 |
| Building and improvements | 5 - 39 years | 29,090 | 26,201 |
| Machinery, equipment, tools and dies | 3 - 15 years | 107,222 | 99,711 |
| Construction in progress | | 8,138 | 9,300 |
| Furniture, fixtures and other | 3 - 10 years | 25,322 | 24,439 |
| | | <u>171,558</u> | <u>160,624</u> |
| Less accumulated depreciation | | <u>(103,162)</u> | <u>(93,161)</u> |
| Property, plant, and equipment, net | | <u><u>\$ 68,396</u></u> | <u><u>\$ 67,463</u></u> |

Depreciation expense was \$3,312 and \$3,346 for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, depreciation expense was approximately \$9,667 and \$9,730, respectively.

6. GOODWILL

The change in the carrying amount of goodwill for the nine months ended September 30, 2024 is as follows:

| | September 30, 2024 |
|---|--------------------------|
| Beginning balance | \$ 131,338 |
| Goodwill acquired | 2,752 |
| Impact of measurement period adjustments of acquisitions (Note 2) | 323 |
| Effect of foreign currency translation | (23) |
| Ending balance | <u><u>\$ 134,390</u></u> |

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7. INTANGIBLE ASSETS

Intangible assets on the Company's condensed consolidated balance sheets consist of the following:

| | Weighted Average Amortization Period | September 30, 2024 | | | December 31, 2023 | | |
|-------------------------|--|--------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | | Gross Amount | Accumulated Amortization | Net Book Value | Gross Amount | Accumulated Amortization | Net Book Value |
| Customer lists | 14.1 years | \$ 118,164 | \$ (48,641) | \$ 69,523 | \$ 116,831 | \$ (42,421) | \$ 74,410 |
| Trade name | 13.7 years | 16,186 | (8,496) | 7,690 | 15,572 | (7,916) | 7,656 |
| Design and technologies | 10.5 years | 42,245 | (14,865) | 27,380 | 41,480 | (12,173) | 29,307 |
| Total | | \$ 176,595 | \$ (72,002) | \$ 104,593 | \$ 173,883 | \$ (62,510) | \$ 111,373 |

Amortization expense for intangible assets was \$3,135 and \$3,075 for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, amortization expense was \$9,381 and \$9,226, respectively.

Estimated future intangible asset amortization expense as of September 30, 2024 is as follows:

| <u>Year ending December 31,</u> | <u>Total Estimated Amortization Expense</u> |
|---|---|
| Remainder of 2024 | \$ 3,305 |
| 2025 | 12,570 |
| 2026 | 12,472 |
| 2027 | 12,028 |
| 2028 | 11,280 |
| Thereafter | 52,938 |
| Total estimated amortization expense | \$ 104,593 |

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, 2024, 186,758 shares of unvested restricted stock were awarded at a weighted average market value of \$29.78. Of the restricted shares granted, 107,377 shares have performance-based vesting conditions. The value of the shares expected to vest 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, 2024:

| | Number of shares |
|-------------------------------------|---------------------|
| Outstanding at beginning of period | 254,110 |
| Awarded | 186,758 |
| Vested | (119,335) |
| Forfeited | (42,162) |
| Outstanding at end of period | 279,371 |

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Stock-based compensation expense, net of forfeitures, of \$ 1,098 and \$1,354 was recorded for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, stock based compensation expense, net of forfeitures, of \$3,382 and \$4,165 was recorded, respectively.

9. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | September 30, 2024 | December 31, 2023 |
|--|-------------------------|-------------------------|
| Compensation and fringe benefits | \$ 13,448 | \$ 17,251 |
| Accrued business acquisition consideration | — | 12,638 |
| Warranty reserve | 2,036 | 2,139 |
| Income taxes payable | 182 | 2,483 |
| Operating lease liabilities – current | 4,969 | 5,142 |
| Finance lease obligations – current | 439 | 412 |
| Contract liabilities | 1,853 | 2,137 |
| Contingent consideration – current | — | 7,720 |
| Restructuring related accruals | 922 | — |
| Other accrued expenses | 8,443 | 6,566 |
| | <u><u>\$ 32,292</u></u> | <u><u>\$ 56,488</u></u> |

In the second quarter of 2024, the Company began to implement the Simplify to Accelerate NOW program. This included initiatives to realign the Company's manufacturing footprint and streamline the organization to enhance operational efficiency and drive profitability. The costs associated with this program are expected to be between approximately \$1.9 million and \$2.4 million, primarily related to employee severance and related expenses.

The restructuring related accruals as of September 30, 2024 are expected to be substantially paid out by the end of 2024 and primarily relate to employee severance related expenses. Restructuring and business realignment costs of \$479 and \$1,948 are included within business development in the condensed consolidated statement of income and comprehensive income for the three and nine months ended September 30, 2024, respectively. For the nine months ended September 30, 2024, changes in restructuring related accruals are as follows (in thousands):

| | Nine months ended September 30, 2024 |
|-------------------|--|
| Beginning balance | \$ — |
| Expenses incurred | 1,948 |
| Payments | (1,026) |
| Ending balance | <u><u>\$ 922</u></u> |

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10. DEBT OBLIGATIONS

Debt obligations consisted of the following:

| | September 30, 2024 | December 31, 2023 |
|--|-------------------------------|------------------------------|
| Long-term Debt | | |
| Revolving Credit Facility, long-term (1) | \$ 175,962 | \$ 210,120 |
| Note Payable | 50,000 | — |
| Unamortized debt issuance costs | (2,820) | (325) |
| Finance lease obligations – noncurrent | 8,273 | 8,607 |
| Long-term debt | \$ 231,415 | \$ 218,402 |

(1) The effective interest rate on long-term debt obligations is 4.85% at September 30, 2024.

On March 1, 2024, the Company entered into a Third Amended and Restated Credit Agreement (the "2024 Amended Credit Agreement") for a \$280 million revolving credit facility (the "Revolving Facility"). The changes made to the Company's previous credit facility by the 2024 Amended Credit Agreement include: i) providing for a \$50 million accordion amount and ii) extending the term from February 12, 2025 to March 1, 2029. Additionally, the Company has entered into a \$150 million fixed-rate private shelf facility (the "2024 Note Payable Agreement") under which \$50.0 million of borrowings occurred on March 21, 2024. These agreements, collectively, are referred to as the "2024 Credit and Note Payable Agreements". Pursuant to the 2024 Note Payable Agreement, the Company may from time to time issue and sell, and the borrower may consider in its sole discretion the purchase of, in one or a series of transactions, senior notes of the Company in an aggregate principal amount of up to \$150 million ("Shelf Notes"). The Shelf Notes will have a maturity date of no more than 10.5 years after the date of original issuance and may be issued through March 1, 2027, unless either party terminates such issuance right. Debt issuance costs of \$2.9 million were incurred related to the 2024 Credit and Note Payable Agreements and are included within unamortized debt issuance costs noted above.

Borrowings under the Revolving Facility bear interest at the Term SOFR Rate (as defined in the 2024 Amended Credit Agreement) plus a margin of 1.25% to 2.50% or the Alternative Base Rate (as defined in the Amended Credit Agreement) plus a margin of 0.25% to 1.50%, in each case depending on the Company's ratio of Funded Indebtedness (as defined in the 2024 Amended Credit Agreement) to Consolidated EBITDA (the "Leverage Ratio"). In addition, the Company is required to pay a commitment fee of between 0.15% and 0.325% quarterly on the unused portion of the Revolving Facility, also based on the Company's Leverage Ratio.

Financial covenants under the 2024 Credit and Note Payable Agreements require the Company to maintain a minimum interest coverage ratio of at least 3.0:1.0 at the end of each fiscal quarter. In addition, the Company's Leverage Ratio at the end of any fiscal quarter shall not be greater than 4.25:1.0 through December 31, 2024 or greater than 3.75 to 1.0 as of the end of any fiscal quarter thereafter; provided that the Company may elect to temporarily increase the Leverage Ratio by 0.5:1.0 following a material acquisition under the 2024 Credit and Note Payable Agreements. The 2024 Credit and Note Payable Agreements also include covenants and restrictions that limit the Company's ability to incur additional indebtedness, merge, consolidate or sell all or substantially all of its assets and enter into transactions with an affiliate of the Company on other than an arms' length transaction. These covenants, which are described more fully in the 2024 Credit and Note Payable Agreements, to which reference is made for a complete statement of the covenants, are subject to certain exceptions. The Company was in compliance with all covenants as of September 30, 2024.

The 2024 Credit and Note Payable Agreements also include customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, if any representation or warranty made by the Company is false or misleading in any material respect, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, the occurrence of certain ERISA events, the invalidity of the loan documents or a change in control of the Company. The amounts outstanding under the Revolving Facility may be accelerated upon certain events of default.

The obligations under the 2024 Credit and Note Payable Agreements are secured by substantially all of the Company's non-realty assets and are fully and unconditionally guaranteed by certain of the Company's subsidiaries.

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On March 21, 2024, the Company issued and sold \$ 50.0 million in aggregate principal amount of the Series A Senior Notes due March 21, 2031 (the "Series A Notes"). The Series A Notes were issued pursuant to the 2024 Note Payable Agreement. The Series A Notes represent senior promissory notes of the Company and will bear interest at 5.96% and will mature on March 21, 2031. Interest on the Series A Notes will be payable quarterly on the 21st day of March, June, September and December in each year, commencing on June 21, 2024. Interest is computed on the basis of a 360-day year composed of twelve 30-day months. There are no separate covenants relating to the Series A Notes. All additional borrowings are subject to the leverage ratio compliance. The Series A Notes may be prepaid at the option of the Company, in accordance with the terms of the 2024 Note Payable Agreement, at 100% of the principal amount to be prepaid plus accrued interest plus the defined "Make-Whole Amount," if any. The Make-Whole Amount is an amount equal to the excess, if any, of the discounted value of the remaining schedule payments with respect to principal on the Series A Notes being prepaid over the amount of the prepaid principal.

As of September 30, 2024, the unused Revolving Facility was \$ 104,038. The amount available to borrow under the 2024 Credit and Note Payable Agreements may be limited by the Company's debt and EBITDA levels, which impacts its covenant calculations. There is \$568 of deferred financing fees accrued but not paid relating to the 2024 Credit and Note Payable Agreements as of September 30, 2024.

On October 22, 2024, the Company entered into a Second Amendment to the Third Amended and Restated Credit Agreement and a Second Amendment to the Note Purchase and Private Shelf Agreement (collectively, the "October 2024 Credit and Note Payable Amendments"). These amendments include provisions to increase the maximum Leverage Ratio to 4.5:1.0 for the quarters ending March 31, 2025 and June 30, 2025, 4.0:1.0 for the quarter ending September 30, 2025, and returning to 3.75:1.0 for the quarter ending December 31, 2025 and thereafter. From January 1, 2025 through September 30, 2025, borrowings under the Revolving Facility will bear interest at Term SOFR plus a margin of 2.50% and a commitment fee of 0.325% on the unused portion of the Revolving Facility. Also, from October 1, 2024 through September 30, 2025, the Series A Notes will bear interest at 6.46%.

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, and foreign exchange risk primarily through the use of derivative financial instruments.

The Company enters into foreign currency contracts with 30-day maturities to hedge its short-term balance sheet exposure, primarily intercompany, that are denominated in currencies (Euro, Mexican Peso, New Zealand Dollar, Chinese Renminbi, Swedish Krona, Canadian Dollar) other than the subsidiary's functional currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in other expense, net in the condensed consolidated statements of income and comprehensive (loss) income. To minimize foreign currency exposure, the Company had foreign currency contracts with notional amounts of \$24,438 and \$22,193 at September 30, 2024 and December 31, 2023, respectively. The foreign currency contracts are recorded in the condensed consolidated balance sheets at fair value and resulting gains or losses are recorded in other expense, net in the condensed consolidated statements of income and comprehensive (loss) income. During the three and nine months ended September 30, 2024, the Company had losses of \$461 and \$380, respectively, and during the three and nine months ended September 30, 2023, the Company had losses of \$174 and \$270, respectively, on foreign currency contracts which is included in other expense, net and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other expense, net.

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 on its variable-rate debt. 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. In March 2020, the Company entered into two interest rate swaps with a combined notional amount of \$20,000 that increased to \$60,000 in March 2022 and matures in December 2024. In March 2022 the Company entered into an additional interest rate swap with a notional amount of \$40,000 that matures in December 2026. In March 2023, the

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Company executed amendments to the existing swaps to amend the index on the interest rate derivatives from LIBOR to SOFR. These amendments had no material financial impact to the Company's operations or financial position. In September 2024, the Company entered into an additional interest rate swap with a notional amount of \$50,000 that matures in September 2027.

The changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2024 and 2023, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

As of September 30, 2024, the Company estimates that \$ 1,566 will be reclassified as a decrease to interest expense over the next twelve months related to its interest rate derivatives. The Company does not use derivatives for trading or speculative purposes.

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, 2024 and December 31, 2023:

| Derivatives designated as hedging instruments | Balance Sheet Location | Asset Derivatives | |
|---|-----------------------------------|-----------------------|-------------------|
| | | September 30, 2024 | December 31, 2023 |
| Foreign currency contracts | Prepaid expenses and other assets | \$ 27 | \$ 54 |
| Interest rate swaps | Prepaid expenses and other assets | 567 | 2,254 |
| Interest rate swaps | Other long-term assets | 1,348 | 2,177 |
| | | <u>\$ 1,942</u> | <u>\$ 4,485</u> |
| | | | |
| Derivatives designated as hedging instruments | Balance Sheet Location | Liability Derivatives | |
| | | September 30, 2024 | December 31, 2023 |
| Foreign currency contracts | Accrued liabilities | \$ 13 | \$ — |
| | | <u>\$ 13</u> | <u>\$ —</u> |

The tables below present the effect of cash flow hedge accounting on other comprehensive income (loss) ("OCI") for the three and nine months ended September 30, 2024 and 2023:

| Derivatives in cash flow hedging relationships | Amount of pre-tax (loss) gain recognized in OCI on derivatives | | Amount of pre-tax gain recognized in OCI on derivatives | |
|--|--|-----------------|--|-----------------|
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| Interest rate swaps | <u>\$ (745)</u> | <u>\$ 790</u> | <u>\$ 566</u> | <u>\$ 1,995</u> |
| | | | | |
| Location of gain reclassified from accumulated OCI into income | Amount of pre-tax gain reclassified from accumulated OCI into income | | Amount of pre-tax gain reclassified from accumulated OCI into income | |
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| Interest expense | <u>\$ 1,064</u> | <u>\$ 1,014</u> | <u>\$ 3,134</u> | <u>\$ 2,854</u> |

The table below presents the line items that reflect 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, 2024 and 2023:

| Derivatives designated as hedging instruments | Income Statement Location | Total amounts of income and expense line items presented that reflect the effects of cash flow hedges recorded | | Total amounts of income and expense line items presented that reflect the effects of cash flow hedges recorded | |
|---|---------------------------|--|-----------------|--|-----------------|
| | | Three months ended September 30, | | Nine months ended September 30, | |
| | | 2024 | 2023 | 2024 | 2023 |
| Interest rate swaps | Interest Expense | <u>\$ 3,435</u> | <u>\$ 3,164</u> | <u>\$ 10,207</u> | <u>\$ 9,309</u> |

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The tables below present a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of September 30, 2024 and December 31, 2023. 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 in the condensed consolidated balance sheets:

Derivative assets:

| As of September 30, 2024 | Gross amounts of recognized assets | Gross amounts offset in the consolidated balance sheets | Net amounts of assets presented in the consolidated balance sheets | Gross amounts not offset in the consolidated balance sheets | | |
|--------------------------------|--|--|--|--|-----------------------------|------------|
| | | | | Financial instruments | Cash collateral received | Net amount |
| Derivatives | \$ 1,942 | \$ — | \$ 1,942 | \$ — | \$ — | \$ 1,942 |

| As of December 31, 2023 | Gross amounts of recognized assets | Gross amounts offset in the consolidated balance sheets | Net amounts of assets presented in the consolidated balance sheets | Gross amounts not offset in the consolidated balance sheets | | |
|-------------------------------|--|--|--|--|-----------------------------|------------|
| | | | | Financial instruments | Cash collateral received | Net amount |
| Derivatives | \$ 4,485 | \$ — | \$ 4,485 | \$ — | \$ — | \$ 4,485 |

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.

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 and liabilities approximate their fair value because of the immediate or short-term maturities of these financial instruments.

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The following tables presents the Company's financial assets that are accounted for at fair value on a recurring basis as of September 30, 2024 and December 31, 2023, respectively, by level within the fair value hierarchy:

| | September 30, 2024 | | |
|---------------------------------------|---------------------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 |
| Assets (liabilities) | | | |
| Pension plan assets | \$ 6,399 | \$ — | \$ — |
| Deferred compensation plan assets | 4,747 | — | — |
| Foreign currency hedge contracts, net | — | 14 | — |
| Interest rate swaps, net | — | 1,915 | — |
| Contingent consideration | — | — | — |
| December 31, 2023 | | | |
| Assets (liabilities) | | | |
| Pension plan assets | \$ 5,859 | \$ — | \$ — |
| Deferred compensation plan assets | 4,305 | — | — |
| Foreign currency hedge contracts, net | — | 54 | — |
| Interest rate swaps, net | — | 4,431 | — |
| Contingent consideration | — | — | (7,990) |

The contingent consideration fair value measurement represents amounts in connection with the acquisitions of Sierramotion, which had a maximum amount of \$2,000, and ALIO Industries ("ALIO"), which does not have a maximum amount. The measurements are based on significant inputs not observable in the market and therefore constitute Level 3 inputs within the fair value hierarchy. The Company determines the initial fair value of contingent consideration liabilities using a Monte Carlo valuation model, which involves a simulation of future earnings generated during the earn-out period using management's best estimates, or a probability-weighted discounted cash flow analysis. The contingent consideration for the acquisition of Sierramotion consisted of Company stock and \$ 2,000 was earned and settled in the first quarter of 2024. The contingent consideration of ALIO is settled 50% in Company stock and 50% cash. \$5,747 was earned in 2023 and paid out in the first quarter of 2024, consisting of \$ 2,874 in Company stock and \$2,873 of cash (of which \$2,450 is included in financing activities and the remainder in operating activities on the condensed consolidated statement of cash flows for the nine months ended September 30, 2024). As of September 30, 2024, there is no remaining contingent consideration liability included on the condensed consolidated balance sheet. As of December 31, 2023, contingent consideration of \$7,720 is included in accrued liabilities and \$270 is included in other long-term liabilities on the condensed consolidated balance sheet.

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 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 was 22.6% and 23.0% for the three months ended September 30, 2024 and 2023, respectively. The effective tax rate for the three months ended September 30, 2024 includes net discrete tax costs of 1.2% primarily due to share based awards and provision to return adjustments. The effective tax rate for the three months ended September 30, 2023 does not include any discrete tax items that had a significant impact on tax rates. For the nine months ended September 30, 2024 and 2023, the effective income tax rate was 21.8% and 23.4%, respectively. The effective tax rate for the nine months ended September 30, 2024 includes net discrete tax costs of 1.2%, primarily related to share-based awards, provision to return adjustment, offset partially by the reversal of prior year uncertain tax positions. The effective tax rate for the nine months ended September 30, 2023 includes net discrete tax benefits of (1.5%), primarily related to share-based awards and the reversal of prior year uncertain tax positions.

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(In thousands, except per share data)

14. LEASES

The Company has operating leases for office space, manufacturing facilities and equipment, computer equipment and automobiles. Many leases include one or more options to renew, some of which include options to extend the leases for a long-term period, and some leases include options to terminate the leases within 30 days. In certain of the Company's lease agreements, the rental payments are adjusted periodically to reflect actual charges incurred for capital area maintenance, utilities, inflation and/or changes in other indexes.

Supplemental cash flow information related to the Company's operating and finance leases for the nine months ended September 30, 2024 and 2023 was as follows:

| | September 30, | |
|---|---------------|----------|
| | 2024 | 2023 |
| Cash paid for operating leases | \$ 4,791 | \$ 4,195 |
| Cash paid for interest on finance lease obligations | \$ 305 | \$ 318 |
| Assets acquired under operating leases | \$ 3,709 | \$ 6,578 |
| Operating lease assets obtained in acquisitions | \$ 378 | \$ 224 |

The Company's finance lease obligations relate to a manufacturing facility. Finance lease assets of \$7,734 and \$8,208 as of September 30, 2024 and December 31, 2023, respectively, are included in property, plant and equipment, net. As of September 30, 2024, finance lease obligations of \$439 are included in accrued liabilities and \$8,273 are included in long-term debt on the condensed consolidated balance sheet. As of December 31, 2023, finance lease obligations of \$412 are included in accrued liabilities and \$8,607 are included in long-term debt on the condensed consolidated balance sheet.

The following table presents the maturity of the Company's operating and finance lease liabilities as of September 30, 2024:

| | Operating Leases | Finance Leases |
|--------------------------------|------------------|-----------------|
| Remainder of 2024 | \$ 1,593 | \$ 204 |
| 2025 | 5,681 | 831 |
| 2026 | 4,958 | 848 |
| 2027 | 4,203 | 867 |
| 2028 | 3,259 | 886 |
| Thereafter | 8,001 | 7,884 |
| Total undiscounted cash flows | \$ 27,695 | \$ 11,520 |
| Less: present value discount | (3,383) | (2,809) |
| Total lease liabilities | \$ 24,312 | \$ 8,711 |

As of September 30, 2024, the Company has entered into building lease renewals with future minimum lease payments of \$ 1,720 that have not yet commenced.

The Company has operating leases for certain facilities from companies for which a member of management is a part owner. In connection with such leases, the Company made fixed minimum lease payments to the lessor of \$242 and \$726 during the three and nine months ended September 30, 2024 and \$242 and \$706 during the three and nine months ended September 30, 2023, respectively, and is obligated to make payments of \$202 during the remainder of 2024. Future fixed minimum lease payments under these leases as of September 30, 2024 are \$5,783.

ALLIENT INC.
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated Other Comprehensive (Loss) Income ("AOCI") for the three months ended September 30, 2024 and 2023 is comprised of the following:

| | Defined Benefit Plan Liability | Cash Flow Hedges | Tax Effect of Cash Flow Hedges | Foreign Currency Translation Adjustment | Total |
|--|---|-------------------------|---|--|--------------------|
| At June 30, 2024 | \$ (344) | \$ 3,656 | \$ (820) | \$ (18,842) | \$ (16,350) |
| Unrealized gain (loss) on cash flow hedges | — | (745) | 175 | — | (570) |
| Amounts reclassified from AOCI | — | (1,064) | 255 | — | (809) |
| Foreign currency translation gain | — | — | — | 5,821 | 5,821 |
| At September 30, 2024 | <u>\$ (344)</u> | <u>\$ 1,847</u> | <u>\$ (390)</u> | <u>\$ (13,021)</u> | <u>\$ (11,908)</u> |

| | Defined Benefit Plan Liability | Cash Flow Hedges | Tax Effect of Cash Flow Hedges | Foreign Currency Translation Adjustment | Total |
|--|---|-------------------------|---|--|--------------------|
| At June 30, 2023 | \$ (594) | \$ 6,675 | \$ (1,545) | \$ (15,997) | \$ (11,461) |
| Unrealized gain (loss) on cash flow hedges | — | 790 | (189) | — | 601 |
| Amounts reclassified from AOCI | — | (1,014) | 243 | — | (771) |
| Foreign currency translation loss | — | — | — | (2,923) | (2,923) |
| At September 30, 2023 | <u>\$ (594)</u> | <u>\$ 6,451</u> | <u>\$ (1,491)</u> | <u>\$ (18,920)</u> | <u>\$ (14,554)</u> |

AOCI for the nine months ended September 30, 2024 and 2023 is comprised of the following:

| | Defined Benefit Plan Liability | Cash Flow Hedges | Tax Effect of Cash Flow Hedges | Foreign Currency Translation Adjustment | Total |
|--|---|-------------------------|---|--|--------------------|
| At December 31, 2023 | \$ (344) | \$ 4,431 | \$ (1,006) | \$ (13,256) | \$ (10,175) |
| Unrealized gain (loss) on cash flow hedges | — | 550 | (136) | — | 414 |
| Amounts reclassified from AOCI | — | (3,134) | 752 | — | (2,382) |
| Foreign currency translation gain | — | — | — | 235 | 235 |
| At September 30, 2024 | <u>\$ (344)</u> | <u>\$ 1,847</u> | <u>\$ (390)</u> | <u>\$ (13,021)</u> | <u>\$ (11,908)</u> |

| | Defined Benefit Plan Liability | Cash Flow Hedges | Tax Effect of Cash Flow Hedges | Foreign Currency Translation Adjustment | Total |
|--|---|-------------------------|---|--|--------------------|
| At December 31, 2022 | \$ (594) | \$ 7,310 | \$ (1,754) | \$ (16,925) | \$ (11,963) |
| Unrealized gain (loss) on cash flow hedges | — | 1,995 | (455) | — | 1,540 |
| Amounts reclassified from AOCI | — | (2,854) | 718 | — | (2,136) |
| Foreign currency translation gain | — | — | — | (1,995) | (1,995) |
| At September 30, 2023 | <u>\$ (594)</u> | <u>\$ 6,451</u> | <u>\$ (1,491)</u> | <u>\$ (18,920)</u> | <u>\$ (14,554)</u> |

The realized gains and losses relating to the Company's interest rate swap hedges were reclassified from AOCI and included in interest expense in the condensed consolidated statements of income and comprehensive (loss) income.

16. DIVIDENDS PER SHARE

The Company declared a quarterly dividend of \$ 0.03 per share in the first, second, and third quarters of 2024 as well as in the second and third quarters of 2023 and \$0.025 in the first quarter of 2023.

ALLIENT INC.
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)

17. EARNINGS PER SHARE

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

| | Three months ended | | Nine months ended | |
|---|-----------------------|---------------|-----------------------|---------------|
| | September 30, 2024 | 2023 | September 30, 2024 | 2023 |
| Basic weighted average shares outstanding | 16,574 | 15,979 | 16,513 | 15,940 |
| Dilutive effect of potential common shares | 31 | 258 | 68 | 258 |
| Diluted weighted average shares outstanding | <u>16,605</u> | <u>16,237</u> | <u>16,581</u> | <u>16,198</u> |

For the three and nine months ended September 30, 2024, the anti-dilutive common shares excluded from the calculation of diluted earnings per share were 128,000 and 74,000, respectively. For the three and nine months ended September 30, 2023, the anti-dilutive common shares excluded from the calculation of diluted earnings per share were immaterial.

18. SEGMENT INFORMATION

The Company operates in one segment for the manufacture and marketing of specialty-controlled motion products and solutions for end user and OEM applications. The Company's chief operating decision maker is the Chief Executive Officer, 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 in which the entity holds material assets and reports revenue.

Revenue for the three months ended September 30, 2024 and 2023 was comprised of 56% and 61%, respectively, shipped to U.S. customers. For the nine months ended September 30, 2024 and 2023, revenue was comprised of 55% and 58%, respectively, shipped to U.S. customers. The remainder of revenues for all periods were shipped to foreign customers, primarily in Europe, Canada, and Asia-Pacific.

Identifiable foreign fixed assets were \$33,893 and \$35,751 as of September 30, 2024 and December 31, 2023, respectively. Identifiable assets outside of the U.S. are attributable to Europe, China, Mexico, and Asia-Pacific.

For the three and nine months ended September 30, 2024, no customers individually accounted for a material concentration of revenue nor accounts receivable. For the three months ended September 30, 2023, one customer accounted for 14% of revenues. For the nine months ended September 30, 2023, this customer accounted for 11% of revenues. This customer accounted for 15% of accounts receivable as of December 31, 2023.

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 to differ materially from the expected results described in the forward-looking statements. The risks and uncertainties include those associated with: the domestic and foreign general business and economic conditions in the markets we serve, including political and currency risks and adverse changes in local legal and regulatory environments; the severity, magnitude and duration of the impact of global pandemics, including impacts from businesses' and governments' responses to the impact on our operations and personnel, and on commercial activity and demand across our and our customers' businesses, and on global supply chains; our inability to predict the extent to which global pandemic impacts will adversely impact our business operations, financial performance, results of operations, financial position, the prices of our securities and the achievement of our strategic objectives; the geopolitical conflicts and their ability to create instability and economic uncertainty; the introduction of new technologies and the impact of competitive products; the ability to protect the Company's intellectual property; our ability to sustain, manage or forecast our growth and product acceptance to accurately align capacity with demand; the continued success of our customers and the ability to realize the full amounts reflected in our order backlog as revenue; the loss of significant customers or the enforceability of the Company's contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise; our ability to meet the technical specifications of our customers; the performance of subcontractors or suppliers and the continued availability of parts and components; failure of a key information technology system, process or site or a breach of information security, including a cybersecurity breach, ransomware, or failure of one or more key information technology systems, networks, processes, associated sites or service providers; changes in government regulations; the availability of financing and our access to capital markets, borrowings, or financial transactions to hedge certain risks; the ability to attract and retain qualified personnel, and in particular those who can design new applications and products for the motion industry; the ability to implement our corporate strategies designed for growth and improvement in profits including to identify and consummate favorable acquisitions to support external growth and the development of new technologies; the ability to successfully integrate an acquired business into our business model without substantial costs, delays, or problems; our ability to control costs, including the establishment and operation of low cost region manufacturing and component sourcing capabilities; and in the Company's Annual Report in Form 10-K. Actual results, events and performance may differ materially from the Company's forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements as a prediction of actual results. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. 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 believed to have a reasonable basis; however, the Company makes no assurance that expectations, beliefs, or projections will be achieved.

Overview

We are a global company that is engaged in the business of designing, manufacturing, and selling precision motion, control, power and structural composites to provide integrated system solutions as well as individual products, to a broad spectrum of customers throughout the world primarily for the industrial, vehicle, medical, and aerospace and defense markets. We are headquartered in Amherst, NY, and have operations in the United States, Canada, Mexico, Europe, and Asia-Pacific. We are known worldwide for our expertise in electro-magnetic, mechanical, and electronic motion technology. We sell component and integrated controlled motion solutions to end customers and OEMs through our own direct sales force and authorized manufacturers' representatives and distributors. Our products include nano precision positioning systems, servo control systems, motion controllers, digital servo amplifiers and drives, brushless servo, torque, and coreless motors, brush motors, integrated motor-drives, gear motors, gearing, incremental and absolute optical encoders, active (electronic) and passive (magnetic) filters for power quality and harmonic issues, Industrial safety rated input/output Modules, Universal Industrial Communications Gateways, light-weighting technologies, transformers, and other controlled motion-related products.

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Business Environment

Recent Events

Beginning in 2022 and continuing through 2023 and through most of 2024, inflation negatively impacted our input costs and pricing, primarily for labor and materials. We, our customers, and our suppliers also experienced the effect of a higher interest rate environment in those periods. Gross domestic product growth slowed throughout 2022 largely due to the widespread impacts of inflation, increasing interest rates, and more restrictive financial conditions. While gross domestic product began to rebound in 2023, the factors contributing to supply chain disruptions, labor shortages, and global inflation remained persistent into 2023, along with elevated geopolitical uncertainty. There were varying degrees of impact on our customers, and thus our business around the world, with Europe experiencing the greatest amount of stress in 2023 and into 2024.

The current geopolitical conflicts, the condition of sovereign finances, and the outcome of the U.S. Presidential election are creating higher levels of economic uncertainty and increased volatility with respect to energy prices, interest rates, our supply chain, and certain customer ordering patterns. We have been closely monitoring the developments and continue to adjust our production platform to react to changing customer ordering patterns and realize efficiencies. The ordering patterns of our aerospace and defense customers have been particularly impacted by changes in sovereign governments priorities and budgets. The impact of the conflicts on our operational and financial performance will depend on future developments that cannot be predicted.

Changing order patterns, supply chain disruptions, and the evolution of our business required us to carry larger inventories in 2024 and 2023 to meet the needs of our customers, especially as they began to return to a new normal after the disruptions caused by the COVID-19 pandemic. Starting in the second quarter of 2024, there were more abrupt and larger changes to order patterns as our customers reacted to elevated inventory levels and slowing customer demand. Several customers, particularly in the Vehicle and Industrial markets, reduced demand or pushed out delivery dates for their orders, and we experienced an acceleration of these customers' actions starting in the second quarter of 2024, and continuing through the third quarter of 2024.

As the pace of our customers' actions increased, we recently advanced our "Simplify to Accelerate NOW" strategy. This strategy is being implemented to reduce costs and help create earnings momentum as the Company seeks to enhance efficiency, reduce working capital requirements and strengthen cash flow through realignment and rationalization of our resources.

The Simplify to Accelerate NOW strategy is centered on three high-level strategic initiatives:

1. Realign and right-size the Company's footprint to better align with its markets and customers. Initiatives are already underway and are expected to continue with earnest throughout 2024 and beyond.
2. Reinforce lean manufacturing disciplines throughout the Company to accelerate margin expansion.
3. Focus on working capital reduction to drive additional cash generation and de-lever the balance sheet.

Beginning in the second quarter and continuing into the third quarter of 2024, we began to implement our Simplify to Accelerate NOW strategy. We executed certain actions that streamline our operations to enhance efficiency as well as drive profitability. Expected cost savings of this initiative are anticipated to be approximately \$10 million annually. As part of this program, the Company will continue to realign production and rationalize our footprint through the remainder of 2024. In addition, the Company has implemented reductions to its workforce in many operations throughout the world, to reflect the reduction in sales it is forecasting for the remainder of 2024. The costs associated with this program are expected to be between approximately \$1.9 million and \$2.4 million, primarily related to severance and related expenses.

The Company completed the acquisition of SNC in the first quarter of 2024 and the acquisition of Sierramotion in the third quarter of 2023. These acquisitions are important to executing on the Company's strategic plan, and we remain focused in the near term on successfully integrating these acquisitions and leveraging the synergies that will be important drivers of our future growth and profitability.

Operating Results

Three months ended September 30, 2024 compared to three months ended September 30, 2023

| (Dollars in thousands, except per share data) | For the three months ended September 30, | | 2024 vs. 2023 Variance | |
|---|--|------------|------------------------|---------|
| | 2024 | 2023 | \$ | % |
| Revenues | \$ 125,213 | \$ 145,319 | \$ (20,106) | (14)% |
| Cost of goods sold | 85,949 | 97,821 | (11,872) | (12)% |
| Gross profit | 39,264 | 47,498 | (8,234) | (17)% |
| Gross margin percentage | 31.4 % | 32.7 % | | |
| Operating costs and expenses: | | | | |
| Selling | 6,323 | 6,021 | 302 | 5 % |
| General and administrative | 13,856 | 14,642 | (786) | (5)% |
| Engineering and development | 9,056 | 10,702 | (1,646) | (15)% |
| Business development | 278 | 1,194 | (916) | (77)% |
| Amortization of intangible assets | 3,135 | 3,075 | 60 | 2 % |
| Total operating costs and expenses | 32,648 | 35,634 | (2,986) | (8)% |
| Operating income | 6,616 | 11,864 | (5,248) | (44)% |
| Interest expense | 3,435 | 3,164 | 271 | 9 % |
| Other expense, net | 468 | 42 | 426 | 1,014 % |
| Total other expense | 3,903 | 3,206 | 697 | 22 % |
| Income before income taxes | 2,713 | 8,658 | (5,945) | (69)% |
| Income tax provision | (612) | (1,992) | 1,380 | (69)% |
| Net income | \$ 2,101 | \$ 6,666 | \$ (4,565) | (68)% |
| Effective tax rate | 22.6 % | 23.0 % | | |
| Diluted earnings per share | \$ 0.13 | \$ 0.41 | \$ (0.28) | (68)% |
| Bookings | \$ 102,631 | \$ 154,908 | \$ (52,277) | (34)% |
| Backlog | \$ 238,492 | \$ 309,636 | \$ (71,144) | (23)% |

REVENUES: The decrease in revenues during the third quarter 2024 reflects decreases in each of the target markets, most significantly within Vehicle and Industrial markets. Decreases in revenues compared to the prior year period are largely impacted by elevated shipments during the prior year period as supply chains normalized, combined with elevated inventory levels and slowing demand at our customers which began in the second quarter of 2024 and continued into the current period, partially offset by revenue contributed from the 2023 and 2024 acquisitions. Our revenue for the third quarter of 2024 was comprised of 56% to U.S. customers and 44% to customers primarily in Europe, Canada, and Asia-Pacific. The overall decrease in revenue was primarily due to a 14.3% volume decrease slightly offset by a foreign currency increase of 0.4%. The acquisitions completed in 2023 and 2024 contributed an incremental \$10,473 of revenue in the three months ended September 30, 2024. Organic revenue decreased 21.5% during the third quarter 2024.

ORDER BOOKINGS AND BACKLOG: Bookings decreased in the third quarter 2024 compared to 2023, due primarily to a 34.2% decrease in volume slightly offset by a 0.5% increase in foreign currency impact. The decrease in bookings from the prior year quarter is in large part due to a large \$31 million order in the defense market received during the third quarter of 2023, as well as continued impacts of changes in customer order patterns in reacting to elevated inventory levels and customer demand.

GROSS PROFIT AND GROSS MARGIN: Gross profit decreased to \$39,264 in the third quarter of 2024 from \$47,498 in the third quarter of 2023 driven by lower sales volume, and gross margins decreased to 31.4% for 2024, compared to 32.7% for 2023. The decrease in gross margin percentage was driven by lower fixed cost absorption on lower sales volumes, as well as the gross margin impact of our most recent acquisition.

SELLING EXPENSES: Selling expenses increased 5% during the third quarter of 2024 compared to 2023 primarily due to increased costs in connection with our recently completed acquisitions and to the mix of sales with commissions. Selling expenses as a percentage of revenues were 5% and 4% in the three months ended September 30, 2024 and 2023, respectively.

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GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses decreased 5% during the third quarter 2024 compared to 2023 due primarily to lower incentive compensation as well as cost reduction actions taken reflecting our Simplify to Accelerate NOW strategy. As a percentage of revenues, general and administrative expenses were 11% and 10% in the three months ended September 30, 2024 and 2023, respectively.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses decreased by 15% in the third quarter of 2024 compared to 2023. The decrease reflects the cost reduction actions taken as part of our Simplify to Accelerate NOW strategy. As a percentage of revenues, engineering and development expenses were 7% for each of the three months ended September 30, 2024 and 2023.

BUSINESS DEVELOPMENT COSTS: Business development costs include acquisition and integration related costs as well as restructuring and business realignment costs. The decrease in business development costs in the third quarter of 2024 compared to 2023 primarily reflects a decrease in fair value measurement of contingent consideration liabilities, offset by current year restructuring-related costs associated with our Simplify to Accelerate NOW strategy.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets remained consistent compared to the prior year period.

INTEREST EXPENSE: Interest expense increased in the third quarter of 2024 compared to 2023 due to higher average debt balances and, to a lesser extent, higher interest rates compared to the prior year period. The increase in interest expense is partially offset by reductions to interest expense realized through our interest rate swaps.

INCOME TAXES: The effective income tax rate was 22.6% and 23.0% for the three months ended September 30, 2024 and 2023, respectively. The effective tax rate for the three months ended September 30, 2024 includes net discrete tax costs of 1.2%, primarily due to share based awards and provision to return adjustments. The tax rate for the three months ended September 30, 2023 does not include any discrete tax items that had a significant impact on tax rates. The lower effective tax rate in the third quarter of 2024 as compared to the third quarter of 2023 is primarily due to the realization of certain deferred income tax assets that had been reserved in prior years and estimates of tax credits. The Company expects its income tax rate for the full year 2024 to be approximately 21% to 23%.

NET INCOME AND ADJUSTED NET INCOME: Net income decreased during the third quarter of 2024 compared to 2023, primarily relating to lower sales volume, including a decrease in organic revenue, partially offset by a decrease in operating expenses, reflecting the actions in our Simplify to Accelerate NOW strategy. Adjusted net income for the quarters ended September 30, 2024 and 2023 was \$5,068 and \$9,980, respectively. Adjusted diluted earnings per share for the third quarter of 2024 and 2023 were \$0.31 and \$0.61, respectively. Adjusted net income and adjusted diluted earnings per share are non-GAAP measures. See information included in "Non-GAAP Measures" below for a discussion of the non-GAAP measure and reconciliation of net income to adjusted net income and diluted earnings per share to adjusted diluted earnings per share.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$12,595 for the third quarter of 2024 compared to \$18,243 for the third quarter of 2023. Adjusted EBITDA was \$14,432 and \$20,849 for the third quarters of 2024 and 2023, respectively. EBITDA and Adjusted EBITDA are non-GAAP measures. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock-based compensation expense, foreign currency gain/loss and certain other items. Refer to information included in "Non-GAAP Measures" below for a discussion of the non-GAAP measure and a reconciliation of net income to EBITDA and Adjusted EBITDA.

Nine months ended September 30, 2024 compared to nine months ended September 30, 2023

| (Dollars in thousands, except per share data) | For the nine months ended September 30, | | 2024 vs. 2023 Variance | |
|---|--|-------------------|---------------------------|--------------|
| | 2024 | 2023 | \$ | % |
| Revenues | \$ 407,958 | \$ 437,637 | \$ (29,679) | (7)% |
| Cost of goods sold | 280,641 | 298,328 | (17,687) | (6)% |
| Gross profit | 127,317 | 139,309 | (11,992) | (9)% |
| Gross margin percentage | 31.2 % | 31.8 % | | |
| Operating costs and expenses: | | | | |
| Selling | 19,283 | 18,354 | 929 | 5 % |
| General and administrative | 42,438 | 43,624 | (1,186) | (3)% |
| Engineering and development | 30,416 | 31,041 | (625) | (2)% |
| Business development | 2,204 | 1,791 | 413 | 23 % |
| Amortization of intangible assets | 9,381 | 9,226 | 155 | 2 % |
| Total operating costs and expenses | <u>103,722</u> | <u>104,036</u> | <u>(314)</u> | <u>(0)%</u> |
| Operating income | 23,595 | 35,273 | (11,678) | (33)% |
| Interest expense | 10,207 | 9,309 | 898 | 10 % |
| Other expense, net | 405 | 187 | 218 | 117 % |
| Total other expense, net | <u>10,612</u> | <u>9,496</u> | <u>1,116</u> | <u>12 %</u> |
| Income before income taxes | 12,983 | 25,777 | (12,794) | (50)% |
| Income tax provision | (2,830) | (6,027) | 3,197 | (53)% |
| Net income | <u>\$ 10,153</u> | <u>\$ 19,750</u> | <u>\$ (9,597)</u> | <u>(49)%</u> |
| Effective tax rate | 21.8 % | 23.4 % | | |
| Diluted earnings per share | <u>\$ 0.61</u> | <u>\$ 1.22</u> | <u>\$ (0.61)</u> | <u>(50)%</u> |
| Bookings | <u>\$ 362,131</u> | <u>\$ 415,113</u> | <u>\$ (52,982)</u> | <u>(13)%</u> |
| Backlog | <u>\$ 238,492</u> | <u>\$ 309,636</u> | <u>\$ (71,144)</u> | <u>(23)%</u> |

REVENUES: The decrease in revenues for the year to date 2024 reflects decreases within each of the target markets, most significantly in Vehicle. Decreases in revenues compared to the prior year period are largely impacted by elevated shipments during the prior year period as supply chains normalized, combined with elevated inventory levels and slowing demand at our customers in the current period, partially offset by revenue contributes from the 2023 and 2024 acquisitions. Our revenues for the period ended September 30, 2024 was comprised of 55% to U.S. customers and 45% to customers primarily in Europe, Canada and Asia-Pacific. The overall decrease in revenue was due to a 6.8% volume decrease offset slightly by an insignificant favorable currency impact. The acquisitions completed in 2023 and 2024 contributed an incremental \$30,856 of revenue in the nine months ended September 30, 2024. Organic revenue decreased 13.9% during the year to date 2024.

ORDER BOOKINGS AND BACKLOG: Orders decreased for the year to date 2024 compared to 2023, and included a 12.8% decrease in volume slightly offset by an insignificant increase in foreign exchange impact. The decrease in bookings from the prior year quarter is in large part due to a large \$31 million order in the defense market received during the third quarter of 2023, as well as continued impacts of changes in customer order patterns in reacting to elevated inventory levels and customer demand.

GROSS PROFIT AND GROSS MARGIN: Gross profit decreased to \$127,317 for year to date 2024 from \$139,309 in 2023 driven by lower sales volume, and gross margins decreased to 31.2% for 2024, compared to 31.8% for 2023. The decrease in gross margin percentage was driven by lower fixed cost absorption on lower sales volumes, as well as the unfavorable gross margin impact of our most recent acquisition.

SELLING EXPENSES: Selling expenses increased 5% during year to date 2024 compared to 2023 primarily due to increased costs in connection with our recently completed acquisitions and to the mix of sales with commissions. Selling expenses as a percentage of revenues were comparable at 5% and 4% during year to date 2024 and 2023, respectively.

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GENERAL AND ADMINISTRATIVE EXPENSES: General and administrative expenses decreased by 3% during the nine months ended September 30, 2024 compared to the same period of 2023 due primarily to a decrease in incentive compensation as well as cost reduction actions taken reflecting our Simplify to Accelerate NOW strategy. As a percentage of revenues, general and administrative expenses were 10% in each of 2024 and 2023.

ENGINEERING AND DEVELOPMENT EXPENSES: Engineering and development expenses decreased by 2% during the year to date 2024 compared to 2023. The decrease is due primarily to cost saving actions taken in connection with our Simplify to Accelerate NOW strategy. As a percentage of revenues, engineering and development expenses were 7% for each of the nine months ended September 30, 2024 and 2023.

BUSINESS DEVELOPMENT COSTS: Business development costs include acquisition and integration related costs as well as restructuring and business realignment costs. The increase in business development costs for year to date 2024 compared to 2023 primarily reflects restructuring-related costs associated with our Simplify to Accelerate NOW strategy, which contributed \$1,863 of the increase over the prior year period, offset by lower acquisition and integration related costs and a decrease in the fair value measurement of contingent consideration liabilities.

AMORTIZATION OF INTANGIBLE ASSETS: Amortization of intangible assets increased for year to date 2024 compared to 2023 due to incremental intangible amortization attributable to the 2023 and 2024 acquisitions.

INTEREST EXPENSE: Interest expense increased by 10% for the year to date 2024 compared to 2023 primarily due to an increase in interest rates, as well as an increase in average debt levels to fund acquisitions and capital expenditures. The increase in interest expense is partially offset in part by interest rate swaps.

INCOME TAXES: For the nine months ended September 30, 2024 and 2023, the effective income tax rate was 21.8% and 23.4%, respectively. The effective tax rate for the nine months ended September 30, 2024 includes net discrete tax costs of 1.2%, primarily related to share-based awards, provision to return adjustment, offset partially by the reversal of prior year uncertain tax positions. The effective tax rate for the nine months ended September 30, 2023 includes net discrete tax benefits of (1.5%), primarily related to share-based awards and the reversal of prior year uncertain tax positions.

NET INCOME AND ADJUSTED NET INCOME: Net income decreased during year to date 2024 compared to 2023, primarily relating to lower sales volume, including a decrease in organic revenue, as well as an increase in business development costs, relating to the restructuring costs incurred, offset partially by reductions in other operating expenses. Adjusted net income for the nine month periods ended September 30, 2024 and 2023 was \$19,471 and \$28,386, respectively. Adjusted diluted earnings per share for year to date 2024 and 2023 were \$1.17 and \$1.75, respectively. Adjusted net income and adjusted diluted earnings per share are non-GAAP measures. See information included in "Non-GAAP Measures" below for a discussion of the non-GAAP measure and reconciliation of net income to Adjusted net income and diluted earnings per share to Adjusted diluted earnings per share.

EBITDA AND ADJUSTED EBITDA: EBITDA was \$42,438 for year to date 2024 compared to \$54,042 for year to date 2023. Adjusted EBITDA was \$48,404 and \$60,255 for year to date 2024 and 2023, respectively. EBITDA and Adjusted EBITDA are non-GAAP measures. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. Adjusted EBITDA also excludes stock-based compensation expense, foreign currency gain/loss and certain other items. Refer to information included in "Non-GAAP Measures" below for a discussion of the non-GAAP measure and a reconciliation of net income to EBITDA and Adjusted EBITDA.

Non-GAAP Measures

Organic revenue, EBITDA, Adjusted EBITDA, Adjusted net income and Adjusted diluted earnings per share are provided for information purposes only and are not measures of financial performance under GAAP. Management believes the presentation of these financial measures reflecting non-GAAP adjustments provides important supplemental information to investors and other users of our financial statements 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. These non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for revenue and 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, the 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. Organic revenue is reported revenues adjusted for the impact of foreign currency and the revenue contribution from acquisitions.

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The Company believes that revenue excluding foreign currency exchange impacts is a useful measure in analyzing sales results. The Company excludes the effect of currency translation from revenue for this measure because currency translation is not fully under management's control, is subject to volatility and can obscure underlying business trends. The portion of revenue attributable to currency translation is calculated as the difference between the current period revenue and the current period revenue after applying foreign exchange rates from the prior period.

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, acquisitions, 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-based compensation expense, as well as business development costs, foreign currency gains/losses on short-term assets and liabilities, and other items that are not indicative of the Company's core operating performance. 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 GAAP.

Management uses Adjusted net income and Adjusted diluted earnings per share to assess the Company's consolidated financial and operating performance. Adjusted net income and Adjusted diluted earnings per share are provided for informational purposes only and are not a measure of financial performance under GAAP. These measures help management make decisions that are expected to facilitate meeting current financial goals as well as achieving optimal financial performance. Adjusted net income provides management with a measure of financial performance of the Company based on operational factors as it removes the impact of certain non-routine items from the Company's operating results. Adjusted diluted earnings per share provides management with an indication of how Adjusted net income would be reflected on a per share basis for comparison to the GAAP diluted earnings per share measure. Adjusted net income is a key metric used by senior management and the Company's board of directors to review the consolidated financial performance of the business. This measure adjusts net income determined in accordance with GAAP to reflect changes in financial results associated with the highlighted expense and income items.

The Company's calculation of organic revenue for the three and nine months ended September 30, 2024 is as follows:

| | Three months ended September 30, 2024 | Nine months ended September 30, 2024 |
|---|--|---|
| Revenue change over prior year | (13.8) % | (6.8) % |
| Less: Impact of acquisitions and foreign currency | 7.7 | 7.1 |
| Organic revenue | (21.5) % | (13.9) % |

The Company's calculation of EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2024 and 2023 is as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2024 | 2023 | 2024 | 2023 |
| Net income as reported | \$ 2,101 | \$ 6,666 | \$ 10,153 | \$ 19,750 |
| Interest expense | 3,435 | 3,164 | 10,207 | 9,309 |
| Provision for income tax | 612 | 1,992 | 2,830 | 6,027 |
| Depreciation and amortization | 6,447 | 6,421 | 19,248 | 18,956 |
| EBITDA | 12,595 | 18,243 | 42,438 | 54,042 |
| Stock-based compensation expense | 1,098 | 1,354 | 3,382 | 4,165 |
| Acquisition and integration-related costs (1) | (201) | 389 | 256 | 686 |
| Restructuring and business realignment costs | 479 | 805 | 1,948 | 1,105 |
| Foreign currency loss | 461 | 58 | 380 | 257 |
| Adjusted EBITDA | \$ 14,432 | \$ 20,849 | \$ 48,404 | \$ 60,255 |

(1) Includes a Q3 2024 fair value measurement reduction of \$270 due to acquisition-related contingent consideration.

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The Company's calculation of Adjusted net income and Adjusted diluted earnings per share for the three and nine months ended September 30, 2024 and 2023 is as follows (in thousands except per share amounts):

| | For the three months ended September 30, | | | |
|--|---|---------|----------|----------------------|
| | Per diluted share | | 2023 | Per diluted share |
| | 2024 | 2023 | 2023 | 2024 |
| Net income as reported | \$ 2,101 | \$ 0.13 | \$ 6,666 | \$ 0.41 |
| Non-GAAP adjustments, net of tax (1) | | | | |
| Amortization of intangible assets – net | 2,401 | 0.14 | 2,355 | 0.15 |
| Foreign currency loss – net | 353 | 0.02 | 44 | — |
| Acquisition and integration-related costs – net (2) | (154) | (0.01) | 298 | 0.02 |
| Restructuring and business realignment costs – net | 367 | 0.02 | 617 | 0.04 |
| Non-GAAP adjusted net income and adjusted diluted earnings per share | \$ 5,068 | \$ 0.31 | \$ 9,980 | \$ 0.61 |

(1) Applies a blended federal, state, and foreign tax rate of approximately 23% applicable to the non-GAAP adjustments.

(2) Includes a Q3 2024 fair value measurement reduction of \$270 due to acquisition-related contingent consideration.

| | For the nine months ended September 30, | | | |
|--|--|---------|-----------|----------------------|
| | Per diluted share | | 2023 | Per diluted share |
| | 2024 | 2023 | 2023 | 2024 |
| Net income as reported | \$ 10,153 | \$ 0.61 | \$ 19,750 | \$ 1.22 |
| Non-GAAP adjustments, net of tax (1) | | | | |
| Amortization of intangible assets – net | 7,339 | 0.44 | 7,067 | 0.44 |
| Foreign currency loss – net | 291 | 0.02 | 197 | 0.01 |
| Acquisition and integration-related costs – net | 196 | 0.01 | 525 | 0.03 |
| Restructuring and business realignment costs – net | 1,492 | 0.09 | 847 | 0.05 |
| Non-GAAP adjusted net income and adjusted diluted earnings per share | \$ 19,471 | \$ 1.17 | \$ 28,386 | \$ 1.75 |

(1) Applies a blended federal, state, and foreign tax rate of approximately 23% applicable to the non-GAAP adjustments.

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents increased by \$5,217 to a balance of \$37,118 at September 30, 2024 from December 31, 2023.

| (in thousands): | Nine Months Ended September 30, | | 2024 vs. |
|--|------------------------------------|------------|-----------|
| | | | 2023 |
| | 2024 | 2023 | Variance |
| Net cash provided by operating activities | \$ 29,458 | \$ 27,132 | \$ 2,326 |
| Net cash used in investing activities | (32,134) | (18,854) | (13,280) |
| Net cash provided by (used in) financing activities | 7,685 | (14,500) | 22,185 |
| Effect of foreign exchange rates on cash | 208 | (556) | 764 |
| Net increase (decrease) in cash and cash equivalents | \$ 5,217 | \$ (6,778) | \$ 11,995 |

Of the \$37,118 of cash and cash equivalents at September 30, 2024, \$27,224 was located at our foreign subsidiaries and may be subject to withholding tax if repatriated back to the U.S.

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During the nine months ended September 30, 2024, the increase in cash provided by operating activities is due to improved cash inflows on collections on accounts receivable, and cash used/provided by inventory, offset by increase in cash used in accounts payable and accrued liabilities, as well as lower net income.

The increase in cash used in investing activities in the nine months ended September 30, 2024 relates to \$20 million in cash paid for the acquisition of SNC. For the year to date 2024 and 2023, \$6,250 of cash was paid relating to the 2022 Spectrum acquisition. Cash used in investing activities in the nine months ended September 30, 2024 includes \$6,903 for purchases of property and equipment compared to \$7,850 during the nine months ended September 30, 2023. Capital expenditures are expected to be between \$8,000 and \$11,000 for the full year 2024.

The increase in cash provided by financing activities during the nine months ended September 30, 2024 is primarily due to borrowings of \$20,000 to fund the SNC acquisition. Debt payments of \$9,500 were made during the nine months ended September 30, 2023. The \$50,000 Notes issued in March 2024 were used to pay down the Revolving Facility. As of September 30, 2024, we had \$175,962 of obligations under the Revolving Facility, excluding deferred financing costs.

Financial covenants under the 2024 Credit and Note Payable Agreements require the Company to maintain a minimum interest coverage ratio of at least 3.0:1.0 at the end of each fiscal quarter. In addition, the Company's Leverage Ratio at the end of any fiscal quarter shall not be greater than 4.25:1.0 through December 31, 2024 or greater than 3.75 to 1.0 as of the end of any fiscal quarter thereafter; provided that the Company may elect to temporarily increase the Leverage Ratio to by 0.5:1.0 following a material acquisition under the 2024 Credit and Note Payable Agreements. The 2024 Credit and Note Payable Agreements also include covenants and restrictions that limit the Company's ability to incur additional indebtedness, merge, consolidate or sell all or substantially all of its assets and enter into transactions with an affiliate of the Company on other than an arms' length transaction. These covenants, which are described more fully in the 2024 Credit and Note Payable Agreements, to which reference is made for a complete statement of the covenants, were modified as of October 22, 2024, and are subject to certain exceptions. The Company was in compliance with all covenants as of September 30, 2024.

As of September 30, 2024, the unused Revolving Facility was \$104,038. The amount available to borrow may be limited by our debt and EBITDA levels, which impacts our covenant calculations. The Revolving Facility matures March 1, 2029. The Series A Senior Notes, under the 2024 Note Payable Agreement, are due March 21, 2031.

On October 22, 2024, the Company entered into a Second Amendment to the Third Amended and Restated Credit Agreement and a Second Amendment to the Note Purchase and Private Shelf Agreement (collectively, the "October 2024 Credit and Note Payable Amendments"). These amendments include provisions to increase the maximum Leverage Ratio to 4.5:1.0 for the quarters ending March 31, 2025 and June 30, 2025, 4.0:1.0 for the quarter ending September 30, 2025, and returning to 3.75:1.0 for the quarter ending December 31, 2025 and thereafter. From January 1, 2025 through September 30, 2025, borrowings under the Revolving Facility will bear interest at Term SOFR plus a margin of 2.50% and a commitment fee of 0.325% on the unused portion of the Revolving Facility. Also, from October 1, 2024 through September 30, 2025, the Series A Notes will bear interest at 6.46%.

The Company declared dividends of \$0.09 per share during the nine months ended September 30, 2024 and \$0.085 per share during the nine months ended September 30, 2023. 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 Amended Credit Agreement.

We believe our diverse markets, our strong market position in many of our businesses, and the steps we have taken to strengthen our balance sheet, such as retaining cash to support shorter term needs and amending our revolving credit facility leaves us well-positioned to manage our business. We continually assess our liquidity and cash positions taking geopolitical and other market uncertainties into consideration. Based on our analysis, we believe our existing balances of cash, our currently anticipated operating cash flows, and our available financing under agreements in place will be more than sufficient to meet our cash needs arising in the ordinary course of business for the next twelve months.

Item 3. Qualitative and Quantitative Disclosures about Market Risk

Foreign Currency

We have international operations in The Netherlands, Sweden, Germany, China, Portugal, Canada, Czech Republic, Mexico, the United Kingdom, and New Zealand which expose us to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Swedish Krona, Chinese Renminbi, Canadian dollar, Czech Krona, Mexican pesos, British Pound Sterling, and New Zealand

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dollar, respectively. We continuously evaluate our foreign currency risk, and we 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 \$4,213 on our sales for the nine months ended September 30, 2024. This amount is not indicative of the hypothetical net earnings 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 months ended September 30, 2024 increased revenues in comparison to the three months ended September 30, 2023 by \$641. For the nine months ended September 30, 2024, we estimate that foreign currency exchange rate fluctuations increased revenue by \$155 in 2024 compared to 2023.

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 adjustments were a gain of \$5,805 and a loss of \$2,923 for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, the translation adjustments were a gain of \$235 and a loss of \$1,995, respectively. Translation adjustments are not adjusted for income taxes as they relate to permanent investments in our foreign subsidiaries. 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 \$17,152 on our foreign net assets as of September 30, 2024.

We have contracts to hedge our short-term balance sheet exposure, primarily intercompany, that are denominated in currencies (Euro, Mexican Peso, New Zealand Dollar, Chinese Renminbi, Swedish Krona) other than the subsidiary's functional currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in other expense, net in the consolidated statements of income and comprehensive income. To minimize foreign currency exposure, the Company had foreign currency contracts with notional amounts of \$24,438 at September 30, 2024. The foreign currency contracts are recorded in the condensed consolidated balance sheets at fair value and resulting gains or losses are recorded in other expense, net in the condensed consolidated statements of income and comprehensive income. During the three and nine months ended September 30, 2024, we recorded losses of \$461 and \$380 on foreign currency contracts which are included in other expense, net and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other expense, net. Net foreign currency transaction gains and losses included in other expense, net amounted to losses of \$1,388 and a loss of \$257 for the nine months ended September 30, 2024 and 2023, respectively.

Interest Rates

The Series A Notes under our 2024 Note Payable Agreement will bear interest at a fixed rate 5.96% and will mature on March 21, 2031. Interest on the Notes will be payable quarterly on the 21st day of March, June, September and December in each year, commencing on June 21, 2024. As amended on October 22, 2024, the Series A Notes will bear interest at 6.46% from October 1, 2024 through September 30, 2025. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

Interest rates on our Credit Facility are based on Term SOFR plus a margin of 1.25% to 2.50% (2.125% at September 30, 2024), depending on the Company's ratio of total funded indebtedness to consolidated EBITDA. As amended on October 22, 2024, borrowings under the Credit Facility will bear interest at Term SOFR plus a margin of 2.50% from January 1, 2025 through September 30, 2025. We use interest rate derivatives to add stability to interest expense and to manage our exposure to interest rate movements. We primarily use interest rate swaps as part of our 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. In March 2020, the Company entered into two interest rate swaps with a combined notional amount of \$20,000 that increased to \$60,000 in March 2022 and matures in December 2024. In March 2022 the Company entered into an additional interest rate swap with a notional amount of \$40,000 that matures in December 2026. In September 2024, the Company entered into an additional interest rate swap with a notional amount of \$50,000 that matures in September 2027.

As of September 30, 2024, we had \$175,962 outstanding under the Revolving Facility (excluding deferred financing fees), of which \$150,000 is currently being hedged. Refer to Note 10, Debt Obligations, of the notes to 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 \$25,962 of unhedged floating rate debt outstanding at September 30, 2024 would have approximately a \$200 impact on our interest expense for the nine months ended September 30, 2024.

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, 2024. 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, 2024, 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 quarter ended September 30, 2024, there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Form 10-K for the year ended December 31, 2023, except to the extent factual information disclosed elsewhere in this Form 10-Q relates to such risk factors. For a full discussion of these risk factors, please refer to "Item 1A. Risk Factors" in the 2023 Annual Report and 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

| Period | Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------------|---|------------------------------|--|--|
| 07/01/24 to 07/31/24 | — | \$ — | — | — |
| 08/01/24 to 08/31/24 | — | — | — | — |
| 09/01/24 to 09/30/24 | 1,102 | 21.24 | — | — |
| Total | 1,102 | \$ 21.24 | — | — |

⁽¹⁾ As permitted under the Company's equity compensation plan, these shares were withheld by the Company to satisfy tax withholding obligations in connection with the vesting of stock. Shares withheld for tax withholding obligations do not affect the total number of shares available for repurchase under any approved common stock repurchase plan. At September 30, 2024, the Company did not have an authorized stock repurchase plan in place.

Item 5. Other Information

None of the Company's directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (each as defined in Item 408(a) of Regulation S-K) during the quarter ended September 30, 2024.

Item 6. Exhibits

| | |
|--------------|--|
| (a) Exhibits | |
| 10.1 | First Amendment, dated as of July 30, 2024, to Third Amended and Restated Credit Agreement dated as of March 1, 2024, among Allient Inc. and Allied Motion Technologies B.V. as Borrowers, HSBC Bank USA, National Association, as Administrative Agent, and the other financial institutions signatory thereto. (Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed October 25, 2024). |
| 10.2 | Second Amendment, dated as of October 22, 2024, to Third Amended and Restated Credit Agreement dated as of March 1, 2024, among Allient Inc. and Allied Motion Technologies B.V. as Borrowers, HSBC Bank USA, National Association, as Administrative Agent, and the other financial institutions signatory thereto. (Incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed October 25, 2024). |
| 10.3 | First Amendment, dated as of July 30, 2024, to Note Purchase and Private Shelf Agreement dated as of March 1, 2024, among Allient Inc. and each of the holders of the Notes signatory thereto. (Incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed October 25, 2024). |
| 10.4 | Second Amendment, dated as of October 22, 2024, to Note Purchase and Private Shelf Agreement dated as of March 1, 2024, among Allient Inc. and each of the holders of the Notes signatory thereto. (Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K filed October 25, 2024). |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.1 SCH | Inline XBRL Taxonomy Extension Schema Document (<i>filed herewith</i>). |
| 101.2 CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document (<i>filed herewith</i>). |
| 101.3 DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document (<i>filed herewith</i>). |
| 101.4 LAB | Inline XBRL Taxonomy Extension Label Linkbase Document (<i>filed herewith</i>). |
| 101.5 PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document (<i>filed herewith</i>). |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in exhibits 101.) (<i>filed herewith</i>). |

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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 6, 2024

ALLIENT INC.

By: /s/ James A. Michaud

James A. Michaud

Senior Vice President & Chief Financial Officer

CERTIFICATION

I, Richard S. Warzala, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allient Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's other verifying officer, the auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: November 6, 2024

/s/ Richard S. Warzala
 Richard S. Warzala
Chief Executive Officer

CERTIFICATION

I, James A. Michaud, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allient Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's other certifying officer, the auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: November 6, 2024

/s/ James A. Michaud

James A. Michaud
Chief Financial Officer

EXHIBIT 32.1

Certification of Periodic Financial Reports
Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Allient Inc. (the "Company") certifies to his knowledge that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2024 fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2024

/s/ Richard S. Warzala
Richard S. Warzala
Chief Executive Officer

EXHIBIT 32.2

Certification of Periodic Financial Reports
Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Allient Inc. (the "Company") certifies to his knowledge that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2024 fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2024

/s/ James A. Michaud

James A. Michaud

Chief Financial Officer
